

How To Turn Low Claims History Into Increased Profits For Your Business



BENEFITS TO YOUR ORGANIZATION

Captive members enjoy the following key benefits:

- Shift of insurance premiums from an expense to an investment
- Annual refund of unused premium dollars
- Access to coverage/limits not available in the market, like credit risk and terrorism
- Sharing best practices on loss control and safety with other like-minded companies who see their premiums as investments worth protecting

CAPTIVE LINGO

Homogenous Captives:

Consist of companies in the same industry – like construction or transportation.

Heterogenous Captives:

Captives made up of businesses from a variety of different industries.

The common thread across each type is that the owners share a common goal of managing risk since they share both in the costs of claims, as well as the rewards of low claims history.

From Expense To Investment

While the word “captive” may carry a negative connotation, in the context of insurance, it can mean exactly the opposite. For organizations that chose to insure their risks through a “Captive” insurance company, the word represents freedom from the confines of traditional insurance rate structures, and a shift from insurance as an expense to an investment.

A captive insurance company is an insurance program owned by a group of businesses for the purpose of gaining the benefits of controlling their insurance costs. Captive participants’ premium dollars go toward funding their own claims, or are returned in the form of annual dividends. They range in size, and type of member companies.

Practically every risk underwritten by a commercial insurer can be provided by a captive. Once established, captives operate like any commercial insurance company and are subject to state regulatory requirements including reporting, capital and reserve requirements. Premiums paid into captives also typically enjoy the same tax benefits afforded traditional insurance premiums.

Broader Application

Originally largely a Fortune 500 practice, middle-market businesses are utilizing captives with as low as \$100,000 in general liability, auto and workers’ compensation coverages depending on the type of business. There were more than 7,000 captives globally in 2016 compared to roughly 1,000 in 1980 according to AM Best Captive Center. They are typically managed by a professional captive management company that ensures compliance with rules, manages claims and provides financial management and reporting.

Captives can write coverage for more predictable risks as well as high severity, infrequent risks like natural disasters. This is because they are able to access reinsurance markets to cover less predictable risks like extreme environmental events that are uninsurable or difficult to insure on the commercial market.

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Furthermore, captive members may choose to allocate capital as risk financing vehicles to pay for more catastrophic, hard-to-insure risks such as hurricanes and earthquakes.

If you continually pay out more in premiums than the insurance company has paid in claims for you, then a captive may be the solution you need.

Determining Fit for Your Organization

If the concept of shifting your insurance costs from an expense to an investment is of interest to you, here are a few screeners to help determine if your business is ready for a captive:

- Do you want more control in claim handling and overall insurance costs?
- Do you pay \$100,000 in combined annual General Liability, Auto and Workers' Comp premiums?
- Have you paid more in premiums than your coverage has paid out in losses for 4 out of the past 5 years?
- Do you have a culture of continuous safety improvement and claims management?
- Is your organization financially stable?

If you answered yes to each of these questions, chances are your business is an excellent candidate for a captive.

A Difference In Mindset

Perhaps what makes captives most different is the psychology and culture of sharing amongst member companies. Since captive rates are set by the claims history of the members, the mindset of captive members is much different than typical businesses with no mutual benefit in claims reduction. As all members share in the profits of the captive they share a vested interest in

1. reducing risk and
2. reducing claims.

And since companies attracted to captives typically are those who are weary of paying out far more dollars in premiums than they see in claims, they tend to have lower-than-average claims history to begin with.

Experts In Captive Alignment

Always on the cutting edge of cost reduction solutions, Alper Services has 30+ years' experience helping Clients find the right captive for their needs, and all are placed with A-rated insurance companies by AM Best Rating Services, the industry quality rating service.

We created a successful captive in 1994, which dramatically reduces the cost of insurance for more than 190 best-in-class businesses today.

Additionally, we have placed Clients in the manufacturing, energy, transportation and health care sectors into a wide range of existing captives with great benefit. Above all, we provide the knowledge and expertise to help your business form, or join, the RIGHT captive structure, so you can enhance your coverage and transform a traditional expense into a valuable investment.

To discuss the option of a captive program for your business, please contact Chris Beck at CBreck@AlperServices.com or 312-867-7359.