Captives And Other Alternative Markets

Self Insurance, Captives And Other Alternative Risk Mechanisms

Traditionally, businesses have handled risk by transferring it to an insurance company through the purchase of an insurance policy, or alternatively, by retaining the risk and setting aside funds to meet expected losses through an arrangement known as "self insurance." A company might use a combination of traditional and self insurance. For instance, it might decide to establish a special self insurance fund to cover a substantial first layer, or amount, of any loss, with insurance coverage to pay for losses in excess of that layer.

Over the years, a number of alternatives to traditional commercial insurance have emerged to respond to fluctuations in the marketplace. Captives?a special type of insurance company set up by a parent company, trade association or group of companies to insure the risks of its owner or owners?emerged during the 1980s, when businesses had trouble obtaining some types of commercial insurance coverage. Today alternative risk transfer (ART) arrangements include self insurance, risk retention groups and risk purchasing groups, as well as more recent innovations such as catastrophe bonds and microinsurance.

The chart below shows the most popular domiciles for captives.

Leading Captive Domiciles, 2015-2016

		Number of captives	
Rank	**Domicile**	**2015**	**2016**
1	Bermuda	797	776
2	Cayman Islands	708	711
3	Vermont	596	593
4	Utah	440 (1)	462
5	Delaware	323	385
6	Guernsey	319	321
7	Anguilla	319	287 (2)
8	Nevis	268	285
9	Barbados	236	246
10	Luxembourg	217	208
11	Nevada	202	207
11	Hawaii	197	207
13	North Carolina	94	190
14	Montana	196	184
15	South Carolina	167	164
16	Tennessee	127	160
17	British Virgin Islands	142	137
18	Puerto Rico	186 (1)	128 (2)
18	Arizona	110	113
20	Isle of Man	115	110
	Total, top 20	**4,962**	**5,098**
	Total, all captives	**6,851 (1)**	**7,006**

(1) Restated.
(2) Estimate.
Source: Business Insurance (www.businessinsurance.com [1]), March 2017.

View Archived Tables [2]

Alternative Risk Products: Capital Markets

Alternative risk transfer (ART) products, such as catastrophe bonds and weather derivatives, which transfer risk to investors via the capital markets, are also emerging as an alternative to traditional insurance and reinsurance products. One such product -- catastrophe bonds (risk-based securities sold through the capital markets) -- developed in the wake of Hurricanes Andrew and Iniki in 1992 and the Northridge earthquake in 1994. Tapping into the capital markets allows insurers to diversify their risk and expand the amount of insurance available to individuals and businesses in catastrophe prone areas.

Just as catastrophe bonds help insurers manage risk, another capital markets product, weather derivatives, can help such weather sensitive businesses as ski resorts, oil and propane gas distributors, and others that may experience large swings in annual sales due to weather conditions, to hedge their weather-related risk.

The chart below shows the types of industries that use weather risk products, based on a survey conducted by Pricewaterhouse Coopers for the Weather Risk Management Association (WRMA).

Participants In The 2008 Weather Risk Management Association Survey (1)

Participation by main line of business		Participation by location of respondent	
Banking	1	Asia	1
Energy	4	Europe	5
Insurance	5	North America	6
Other	2		
Total	**12**	**Total**	**12**

(1) Based on companies responding to a survey conducted by PricewaterhouseCoopers for the Weather Risk Management Association; excludes Chicago Mercantile Exchange trades.

Source: PricewaterhouseCoopers.

I.I.I. Features

- Facts+Statistics
- Issues Updates
- Latest Studies
- Presentations
- Videos
- White Papers
