Captive Insurers Are Capturing Attention, Triple-I Paper Finds

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NEW YORK, April 6, 2021— Interest in captives, a form of self-insurance, flourishes when commercial insurance becomes more expensive and less available, according to the Insurance Information Institute's (Triple-I) just-released paper, *A Comprehensive Evaluation of the Member-Owned Group Captive Option*.

Captives are created and wholly owned by one or more non-insurers to provide its owners with coverage. Written by Triple-I non-resident scholar Dr. Patricia Born, Midyette Eminent Scholar of Insurance at Florida State University, the paper highlights the financial costs and benefits of forming a member-owned group captive insurer, as well as an overview of the captive form of risk management.

"The Triple-I's non-resident scholar network is helping us build greater awareness of captives, which were created to provide insurance solutions not readily available in the regular market, to develop flexible risk coverage, and to assume a portion of the captive insurer ownership group's risks," said Sean Kevelighan, CEO, Triple-I.

As of 2020, there were more than 6,000 captives worldwide. They were most often used for conventional property/casualty insurance coverage, such as general liability, product liability, professional liability, commercial auto, and workers compensation. Because a captive insurer can provide specialized coverage, some cover nontraditional risks, including pollution liability, asbestos liability, terrorism, cybersecurity, credit risk, and employee benefits.

The Triple-I's latest paper includes information on the types of companies who use member-owned group captives; the various types of captive arrangements; how they are currently used; and where they are located. It provides a more detailed discussion of how member-owned group captives operate as well as the benefits to forming or joining a member-owned group captive. In addition, the paper addresses legal and regulatory compliance concerns surrounding member-owned group captives and offers several case studies.

"While captives can allow companies a means for managing risks that cannot be placed with commercial insurers, the risks that are reasonably retained by companies in captives have some distinctive characteristics," the paper notes. For example, the frequency and severity of losses for risks transferred to the captive should be well understood by the company. Also, a company should have adequate experience with the risk to appreciate fully the actuarially estimated expected losses associated with the exposure. The expected losses also should not be catastrophic in nature. Since these losses are infrequent, they can be more effectively pooled by an insurer who has more capacity and more opportunities to diversify its risks.

"Group captives have become an attractive risk management option for a growing number and type of companies," the paper concludes. "The current hardening in the traditional insurance market makes captives even more enticing and suggests the captive industry will see more growth in the form of new captive formations and increasing group captive membership." A hard market, known in the insurance industry as a seller's market, describes situations when insurance is expensive and in short supply.

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