

# READY TO SET SAIL WITH A GROUP CAPTIVE?

Carol Frey of Great American Insurance Group Alternative Markets and Robert Eastham of Artex Risk Solutions, discuss the benefits of group captives and why you should jump aboard the ship

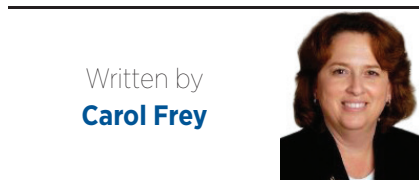
**G**roup captives account for more than \$2.5bn annually of P&C premiums and have held their place in the alternative market segment in both hard and soft cycles. Given their growth and popularity, group captives remain a viable risk-sharing alternative for thousands of insureds ready to take risk in a closely held risk-sharing vessel.

The options are abundant with respect to size, purpose, risk retention, governance and services. Similar to planning a world cruise, the decision making process can be overwhelming given the itineraries available in the marketplace. Before purchasing the ticket, the prospective group captive member needs to understand what is included versus what is excluded, and whether or not there is sustainable long-term value.

Firstly, the potential member needs to understand if its business is a good fit for a group captive and whether or not a group captive complements long-term business and risk management objectives. Then, the potential member will need to take a deep dive into unfamiliar waters to learn what group captives are available in the marketplace, how they differ from one another and which of them will provide the best design, relationships, services and projected profit to make the trip worthwhile.

## Everyone is climbing aboard: How do I know if I am ready?

Before potential members climb aboard, they will need to prepare their organisation



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for risk taking, assess risk tolerance and pack accordingly. The best way to determine if your business is ready for a group captive is to prepare an objective evaluation. This starts with the packing list:

- **Control:** Do you want to stabilise premiums, avoid market cycle swings and control losses?
- **Profitability:** Do you have favourable loss history? Is there an opportunity to share in underwriting profits?
- **Risk Management:** Does your company have a focus on both safety and dedicated

staff to proactively manage loss prevention?

- **Ownership:** Are you ready to own the process instead of letting someone else steer the ship?
- **Long-Term Strategy:** Does the value proposition of underwriting profit outpace the need for short-term commodity-driven decisions?
- **Financial Commitment:** Is your company prepared to invest in the needed capital requirements?

During this self-evaluation process, there are generally other options that might be available, such as a small deductible/SIR or retrospective rating plan. For some buyers, these options do not generate material savings on a single risk basis, and therefore the exposure to savings ratio is perhaps beyond the firm's risk tolerance. These other options typically focus on one line of coverage and will not create the same benefits in terms of purchasing power, pricing credibility, service provider selection or the double-hulled insulation and protection that a group captive aggregate and basket/clash coverage provides.

"When looking at all the options available to them, prospective members often select group captives because they are able to take a quantified amount of risk and drive down the cost of insurance over time," states Chad Kunkel, executive vice president of the Captive Division, Artex Risk Solutions. "Insurance market fluctuations are reduced as the insurance carrier usually accounts for approximately 20-30% of the total premium."



### Selecting the right voyage

Once a prospective insured is confident that a group captive is the right business solution, now the question is, “on which ship shall you sail?” Group captives are plentiful and new groups form all the time. All group captives are not the same and are not intended to be. The challenge is to learn how each group is designed in terms of their features and benefits. Before you can make an educated choice, you will need to compare them and identify those features that are going to present the greatest value, purpose and benefit.

- Structure: Risk retention and aggregate
- Vision: Lines of coverage, size, underwriting, risk management and investment goals
- Travel Agent: Agent/broker/member/consultant relationship(s)
- Capital and collateral requirements
- Venue: Offshore or onshore
- Status and Size: Start-up or existing
- Focus: Homogeneous or heterogeneous
- Results: Historical underwriting results
- Security: Rating of front (issuing carrier)
- Risk Selection Process: Qualification and monitoring
- Investment Strategy: Preservation of capital with a modest rate of return
- Crew: Service provider qualifications and carrier commitment
- Governance, participation and distribution

Carol Frey, divisional vice president, Great American Insurance Group Alternative Markets, suggests: “Choosing a high quality, experienced, committed and financially strong carrier will assure that the group sets sail on the right course. A premiere carrier will work with the consultant and/or membership with risk selection, offer in-depth underwriting expertise and be willing to contribute to the captive’s governance with respect to claims and loss prevention workshops.”

### Travel agents can play an important role

With a cruise, examining all of the available options is an extensive process, and you often need a travel agent to provide the necessary expertise to explain the options and provide guidance. With a group captive there is a similar challenge. Prospective members often look to their agent, or frequently a captive consultant, to assist with this analysis. This can help them reach a clear understanding of how each of these features match up to their needs, and help them assess both their risk tolerance and identify their overall risk management objectives.

For example, joining an existing large group captive may work well for an insured that is not interested in participating in the governance of the captive and believes the structure and size is right. A different prospective member may want to be a navigator and be intimately involved with the design, risk selection, domicile selection and provider selection process. For those clients, a start-up group captive or a recently launched group captive may offer a more intimate and participative proposition.

For other prospective members, the availability of working capital may be a limiting factor, especially when you consider that collateral funding increases often span over three underwriting years. For these prospects, a detailed comparison of the initial and continuing capital commitment combined with the potential of upward premium adjustments is key and would likely be an important consideration when selecting the best group captive.

### Full Steam Ahead

As with a cruise, the final decision will be made based upon a combination of qualitative and quantitative assessments. In reaching your decision, you need to

avoid rough seas and ensure that you sail in crystal waters with a strong crew and good companions.

Group captives are a long-term strategy, and the right selection can be rewarding and become the core of your risk management programme. Robert Eastham, managing director of Artex Risk Solutions in Bermuda, explains the group purchasing benefits: “When group captives select like-minded new members focused on safety, this allows the captive to access more favourable services and pricing from third-parties. Not only are members able to collaborate and share best practices with their peers, the fixed expenses of the programme are driven down because the service providers are looking at the entire group versus a single account.”

Deciding which group captive to climb aboard with is not a casual decision. Prospective members need to engage with a variety of internal stakeholders such as accounting, legal, tax, business owners, investors and risk management to assure that the decision is in full alignment with their long-term business goals and risk management culture. Working with specialists will assure that you examine all the features and offerings. Otherwise you will find yourself in uncharted territory and likely to drown in the flood of information.

When you are ready to invest your business into a group captive enterprise, you are making a decision that is long-term and strategic in nature, and will set the course for your future approach to insurance. Having a full understanding of who you are sharing risk with, how you are sharing risk and why a group captive is the best option for your risk management and business objectives will set the course for a profitable and pleasurable journey. Bon Voyage! 