

CAPTIVE AUDIENCE

A Tool To Better Manage Risk

Alternative Insurance financing vehicles, such as captives, have been a tool to help organizations lower insurance costs and better manage risk for a long time. For the most part, however, they have been available only to large organizations with the depth of capital and other resources necessary to take advantage of them. The Council of Industry has, for many years, worked to change that – attempting to make the benefits of an insurance captive accessible to our small and mid-sized manufacturing members. We now believe we have found the right resource to make this happen in the form of a heterogeneous captive provided to our members by The Reis Group.

Since our founding in 1910 the Council of Industry has strived to provide the depth and resources typically only available to larger organizations, to our small manufacturing businesses also. Our core programs of advocacy, training, networking, and group discounts all leverage our members to a common purpose. Having this insurance captive available to our members is one more such program, one that will help them manage costs, manage risks, and better compete in the global economy.

What is a Captive?

A captive insurer is generally defined as an insurance company that is wholly owned and controlled by its insureds. Its primary purpose is to insure the risks of its owners, and its owner/insureds benefit from the captive insurer's underwriting profits. Any insured who purchases captive insurance must be willing and able to invest its own resources. The insured in a captive insurance company not only has ownership in, and control of, the company but also benefits from its profitability. Insureds in a captive choose to put their own capital at risk by working outside of the traditionally regulated commercial insurance marketplace. They then have a powerful incentive to manage and control risk.

Pure captives are 100 percent owned, directly or indirectly, by their insureds. A subcategory of pure captives are group



captives. Group captives, as the name implies, are made up of multiple insureds. Group captives can be further defined as either homogeneous or heterogeneous (multiple industries.)

A group captive is organized like most companies. The insureds are the stockholders/owners that elect a Board of Directors. In most cases these captives select a Third Party Administrator (TPA) to manage the captive. Management includes all statutory and regulatory compliance, setting underwriting criteria, securing the appropriate reinsurance, and developing risk management programs and strategies. Reinsurance is necessary to limit the amount of any claims the captive will pay. A captive may, for example, pay claims up to \$50,000 itself while claims above that amount will be paid by a reinsurance company. Investing in risk management services is also key to the success of any group captive. Safety management programs, OSHA benchmarking, risk summaries, return to work programs, modification reduction and management fraud reduction program, and business continuity planning are all activities that the captive might insist its member insureds participate in.

Benefits of the Group Heterogeneous Captive:

While not for everyone, the benefits to participating companies can be profound. *First*, premiums are primarily based on member's loss experience and are insulated from market conditions. *Second*, administration of an insurance company are included in the premiums along with other costs. These costs can be much reduced in the captive model. *Third*, only best in

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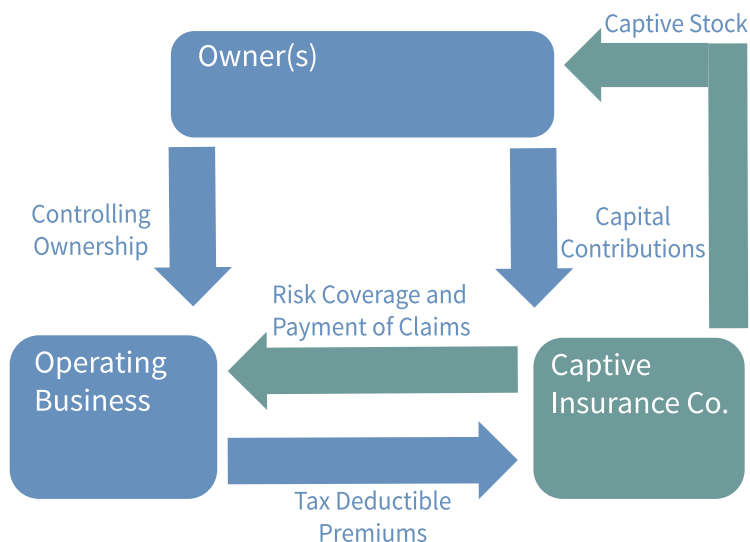
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class risks are accepted into the captive which translates into fewer claims for the entire captive membership. *Fourth*, because reducing claims and losses goes right to the member's bottom line by lowering the total cost of risk, investing in enhanced risk management, loss prevention, and claims management makes

good sense and is a priority. *Fifth*, loss funds and investment income that are not spent are returned to the owner /insured members.

In short, the member is the owner and has all the incentives any owner would have – basically a seat at the table. This enables the captive owner/insured to have direct influence on a major cost items that affect their organization.

Simplified Ownership Structure For a Captive Insurance Company



What is the Council's Captive Option and is it right for my company?

With the help of The Reis Group, the Council of Industry has endorsed a group heterogeneous manufacturing Captive that is managed by a major Chicago-based firm that specializes in managing captives across the United States. The owner/insureds of this Captive, about 70 small and mid-sized companies from around the nation have experienced great results translating into a 98% retention rate. Council of Industry member firms will have the opportunity to join if they meet the (rather strict) underwriting requirements. In general, these requirements include an acceptable claims history for workers compensation, general liability, and auto insurance. Total premium paid should be more than \$100,000 and companies should have a proven commitment to safety and risk management. Companies must also be on solid financial footing.

This program is not a good fit for all of our manufacturing members. Some are too small, some too big. Some have not yet reached the level of safety to make them eligible. For the latter, the Council of Industry and the Reis Group have resources to help you improve your safety programs and experience. For the members where there is a fit, however, this Captive could be a tool to lower costs and better manage risk.



Whichever the case, simply by looking into this program you will learn a great deal about captives, get a benchmark on your commitment to safety and risk management and find out if this is a good fit for your organization.

GET STARTED

Interested firms can reach out to the Council of Industry or The Reis Group for more information but the following is information that will be required if you want to be considered for membership in the Captive:

- 1: Carrier loss runs for FIVE (5) years: current and prior 4-years. Must be CURRENTLY VALUED within 120 days of effective date.
- 2: Experience MOD worksheets for current and prior year.
- 3: 2017 sales and projected 2018 sales.
- 4: Two most recent years of annual financial statements: if older than 6 months, also include most recent interim statements.
- 5: Copies of current policies for ALL policies.
- 6: Copy of insured's safety manual and relevant safety information



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