NATIONAL NETWORK OF ACCOUNTANTS
Asset, Tax & Risk Control
Our Companies
Independent Captive Associates, LLC
Private Insurance Management, Inc.
DWG Consulting, Inc.

Captive Insurance

What is Captive Insurance?

Captive insurance is a risk management strategy wherein a company or group establishes its own insurance company to manage specific types of risks it faces. Unlike traditional insurance, where businesses purchase policies from external issuers, captive insurance allows organizations to retain and handle their risks internally. The captive insurance company operates as a subsidiary or affiliated entity, providing coverage exclusively to its parent organization and related entities.

The primary purpose of captive insurance is to provide customized coverage that aligns with the unique risks and needs of the company. By establishing a legitimate captive, organizations gain greater control over their insurance program, enabling them to tailor policy terms, coverage limits, and pricing structures to better reflect their risk profile and risk management goals.

Captive insurance can offer flexibility in underwriting standards, claims handling, and risk mitigation strategies, as they are designed specifically for the company's requirements.

Companies that form a compliant and legitimate captive insurance company can transform their previous cost center of traditional insurance into a dynamic profit center within captive insurance. This is achieved by tailoring an entity's coverage, setting appropriate premiums, and managing claims effectively. In addition, these premiums can be reinvested into company ventures that previously would be paid to external issuers. The investment criteria of a captive can be fitted to the company's risk appetite and investment objectives, potentially yielding greater returns than relying solely on traditional insurance arrangements.

Captives enable companies to exercise greater control over risk management. By gaining a deeper understanding of their risks, implementing proactive loss prevention measures, and employing targeted risk mitigation strategies, companies can reduce overall losses and associated costs. This improved risk management directly impacts the profitability of the captive insurance program.

By integrating risk management and insurance functions, captives promote a more holistic approach to managing organizational risks. Captive insurance companies can build monetary reserves by leveraging the premiums paid by their parent companies and related entities. When an organization establishes a captive, it assumes the role of both the insured and insurer, allowing it to retain and manage the risks internally. The captive ensures that parent companies have sufficient funds to pay claims as they arise, providing stability and security.
As the parent company pays premiums to the captive, these funds are accumulated within the captive insurance company. In contrast to traditional insurance arrangements where premiums are paid to external issuers, captives retain the premiums within their own reserves. This creates an opportunity for the captive to accumulate a pool of reserves over time. Accordingly, companies can access their captive's reserves during periods of financial need, serving as a potential source of liquidity. This liquidity can be used for various purposes, such as funding growth initiatives, reinvesting in the business, or managing unforeseen financial challenges. In effect, this comprehensive perspective enhances operational efficiency, reduces redundancies, and optimizes risk transfer strategies.