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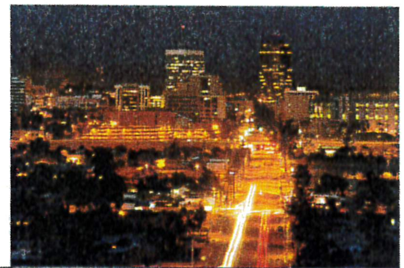

Captive Insurance Companies ...

What Are They? Why Should I Consider Them?

Many businesses are faced with rising insurance costs and an increased amount of risk that is self-insured, either by choice or by necessity. Depending on the nature of the business, adequately insuring risk can be one of the most costly expenses a company is faced with. Self-insurance is one way to mitigate that expense, that is, until there are significant claims which deplete the company's ability to fund its regular operations.

An increasing number of companies, large and small, are implementing captive insurance programs to address these serious insurance concerns. A captive insurance company is a corporation formed either in the United States or in a foreign jurisdiction for the purpose of writing the desired type of insurance to a small (and usually related) group of insureds.

There are many benefits to forming a captive insurance company. They include:

1. To lower the cost of insurance
2. To obtain insurance not otherwise available
3. To custom design the type and level of coverage to fit the exact needs of the company
4. To control the claims process, particularly in litigation with third party insurance companies
5. To have access to the reinsurance market, where typical cost ratios are far less than conventional primary insurers and where a wider array of insurance products are available at more effective rates
6. To benefit from good claims experience and provide an incentive for improved risk management
7. To have investment control over the captives assets (reserves and free surplus), which can be retained in anticipation of future losses or to fund shareholder distributions

While the benefits of a captive insurance company may be many, the primary goal is to retain the profit that would have been made by an outside third-party insurance company or to provide coverage where coverage would not be available.

A feasibility study is necessary to determine if a captive insurance company is right for you or your clients.

Captive Insurance

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Captive Insurance Companies ...

Frequently Asked Questions

What is an Alternative Risk Financing Program?
Alternative risk financing programs are ways in which a Company can take control of their insurance needs outside of traditional third-party insurers. They include self-insurance programs and captive insurance companies.

What is a Captive Insurance Company?
A captive insurance company is a corporation formed either in the United States or in a foreign jurisdiction for the purpose of writing one or more lines of insurance to a small (and usually related) group of insureds. Captives are usually formed by companies when business insurance for a certain commercial risk cannot be obtained through traditional insurance markets.

What is a Self-Insurance Program?
Self insurance is an alternative risk financing method whereby an eligible risk is retained by a company and funds are formally reserved to cover future losses. The amount reserved is calculated using actuarial and insurance information and, similar to an insurance premium, should be adequate to cover projected future losses. Organizations can gain more control over the cost of risk by retaining a share of their loss exposure. In addition, they may be able to improve coverages and limits, enhance claims management and loss control, and gain cash flow advantages.

What are the Advantages and Benefits of using a Captive Insurance Company?
The advantages and benefits of creating a captive include 1) affordability, 2) availability, 3) stability, 4) coverage flexibility, 5) direct access to reinsurance, 6) claims handling control, 7) underwriting control, 8) sharing in underwriting results, and 9) improved cash flow benefits.

How do I know if an Alternative Risk Financing program is right for me?
If you are finding that traditional insurance is unaffordable or specific coverage is difficult to obtain then you should explore alternative risk financing programs. A Captive Feasibility Study will assist you with evaluating the potential benefits and costs associated with this type of program.

What is a Captive Feasibility Study?
This term refers to an in-depth analysis to explore the merits of employing the captive insurance concept to manage and control your insurance risk. In short, this study allows you to determine if utilizing a captive is right for you.

What is my next step?
You should contact GPW and Associates, Inc. (GPWA), an Arizona-based risk management firm, whose Principals have over 125 years combined experience in the actuarial and insurance consulting field. GPWA offers a full range of services including the Feasibility Study, the determination of the proper domicile, the formation of the captive and the ongoing accounting and administration of the captive.

For more information, please contact one of the following GPW colleagues:

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