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Rising costs send firms to group captive insurance

By JOANNE M. HAAS
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The rising cost of business insurance has some companies trying out a relatively new idea in Wisconsin - group captive insurance.

Miller Brands-Milwaukee LLC made the jump to a captive plan in 1998. Three years later, the company's bills for property, casualty and workers' compensation insurance have remained flat while rates many other companies pay have increased sharply - 15% to 25% in the Midwest.

"We are convinced that we made the right decision," said Paul Roller, president of the Milwaukee-based beer distributorship. "Our costs reflect that."

Miller Brands, with 175 employees, is one of 65 businesses in Churchill Casualty Ltd., a member-owned group captive.

Paying own way

In such a group, companies put up their own funding, determined by an actuary, to cover a portion of the risk, then buy policies through reinsurance companies to cover claims above certain amounts.

In the Churchill group, each member company makes a one-time cash capitalization, earning investment income while the funds are held. Each member also posts a letter of credit to collateralize any possible assessment in the program, as well as to provide additional capital in the captive group.

The goal is for each member company to pay its own losses up to a certain level. The captive then buys reinsurance, which limits any single claim to $300,000. Claims between $300,001 and $1 million are covered by the reinsurer, and Zurich U.S., a large insurance company based in Schaumburg, Ill., provides policy issuance services, said Sam Meccia, a senior vice president of Captive Resources Inc., the Schaumburg, Ill., firm that administers the Churchill plan.

An added incentive is the possibility of investment income. Funding put up to cover losses by member companies is invested, and deducted from a member's loss allocation when claims are paid. Dividends are primarily paid based on the results of each individual member company. If the group doesn't have many large claims, dividends are paid.

"It is designed so those unrelated companies, by sharing limited risk, have created an insurance company, but have done so by selecting who their partners are," Meccia said. "They know who they are sharing the risk with."

Another advantage: The elements of buying insurance are unbundled, which gives members more control, Roller said. Owners of the captive, for example, decide which administrator will be right for them.

Company gained control

Roller said that before joining the Churchill captive, Miller Brands was struggling with increasing premiums. "To a large extent, we felt we were helpless to do anything about it," he said.

Miller Brands had been courted by an agent from Brookfield-based Wellington Insurance Services Inc., a broker for Churchill Casualty. But it was easy to put the idea of joining a captive aside while the insurance market was soft and rates were low, he said.

"But when the rates started to go up, we owed it to ourselves to look at other opportunities," Roller said. "We took a close look at this, talked with people in the program and we made a leap of faith."

Roger Peterson, an insurance examiner with the state Office of the Commissioner of Insurance in Madison, said such concerns over high premiums have become more common in recent years.

"There is some talk that the insurance market is becoming harder and premium rates are less likely to be attractive," he said. "That may well cause an increase in the captives."

Member-owned captives got started in the mid-1970s when Chicago-based manufacturer Karl von Heimburg decided he shouldn't have to pay skyrocketing insurance premiums to cover someone else's bad luck.

So he rounded up other businesses in similar situations. Together, the group created the first member-owned group captive insurance company. By 1984, von Heimburg had sold his manufacturing business and joined with insurance professional George Rusu to create Raffles Insurance Ltd., a group captive insurance company.

They then incorporated their company as Captive Resources Inc., which administers 25 member-owned captives, including Churchill. Churchill's premium size now exceeds $32 million.

"The idea behind the captive is (that) it is a vehicle where they can gain more control, but it is primarily based upon each individual member, and on their own losses," Meccia said.

Emphasizing safety

Companies joining a group captive must control losses, be financially sound and have a culture that emphasizes safety, says Kathleen K. Myers, vice president of Wellington Insurance Services in Brookfield. Wellington has been marketing the Churchill captive since January 1997.

"They know that they are doing better than their peers, and that they are paying far more in insurance premiums than their insurers are paying out in losses," Myers said.

Myers said the captive allows companies to "self-determine their insurance premiums." The premium for each member is based on five years of loss history. The captive's actuary uses the history to develop a business forecast. That forecast is the basis for the individual company member's premium. The members' premiums, or loss funds, are credited to their own accounts to pay their individual claims.

That creates an incentive to cut costs by emphasizing safety.

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