

Captive insurance has some advantages

BY MICHAEL WOSICK, *for SBT*

The captive insurance market is alive and well in Milwaukee and other parts of the country. The market has demonstrated steady growth, because captive programs provide innovative, tax-favored ways of risk financing for companies of most sizes.

Many of the best companies in the country are leaving the standard insurance marketplace and are choosing captive insurance or other methods of alternative risk financing.

Unlike state-regulated, self-insured companies that can only deduct from their taxes the costs of the claims that they pay out, captive program members can deduct premiums they pay into their captive insurance company. Self-insurance programs primarily provide workers' compensation insurance, but captive programs can include general liability and automobile insurance, along with worker's compensation.

If you are considering joining a captive program, there are some things you should know.

A pure captive (single-parent captive) insures the loss exposure of that parent company. A group captive has two or more parent companies. For example, one large captive company we represent shares the risks of more than 90 businesses that make up its owners, and the premium dollars of the captive is more than \$75 million.

The group captive insurance concept has been around for about 25 years. A number of the major law firms in the

country established one of the largest and most viable captives to provide professional liability and legal malpractice insurance for the owners.

Other group captives can be "heterogeneous," insuring companies in varying types of industries, or "homogeneous," insuring companies in the same industry.

Why is the concept successful? Most corporations today are facing more risk, either voluntarily, as they seek to avoid more expensive premiums, or involuntarily, as the insurance market forces them.

The primary benefits are financial. A captive allows its member-owners to capture the underwriting profits of a program when losses are lower than anticipated. The member-owner also earns investment income on the tax-deductible premiums from the time they are paid into the captive until they are paid out to claimants.

With captive ownership, a member company makes a one-time cash capitalization as stock purchase and earns investment income while the funds are being held.

A captive typically serves as a formal funding mechanism. By placing business risks such as automobile liability, general liability and worker's compensation in a captive, a company can achieve predictability of insurance costs.

Premium is largely determined by the five-year loss experience of the participating company. With captive ownership, a business can potentially enhance both cash flow and earnings impact.

Captives also offer greater control to their members. Captive owners can control services which are typically provided

to them when commercial insurance is purchased.

Services such as claims handling and safety and loss control are "unbundled," and the captive member companies choose the service provider which will be best for the group.

These services are no longer controlled by the insurance company, as the control is in the hands of the captive member companies. These companies also control pricing, because their insurance costs are based primarily on their own claims. The funding of those claims is the basis of their premiums.

Companies, whether they are privately or publicly held, can find it advantageous to participate in a captive program. Those companies that are well-run and safety-conscious, outperform their peers and pay \$300,000 or more in premiums each year for their workers' compensation and possibly auto and general liability coverage, may all realize the advantages of captive programs.

A desire for ownership and greater control are two of the top reasons for going into a captive program. Good companies want to save money. Good companies want to manage their futures and know where they're heading concerning pricing, funding, expenses and safety. If your company falls into any of these categories, a captive insurance program may be for you.

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