



Discovery: Considering Captives

What is a Group Captive?

At P&J we define group captives as independently owned and operated insurance companies that provide insurance to, and are controlled by, their owners. A captive insurance company analyzes and insures the specific risks of its owners, typically reducing operating costs, and returns underwriting profits and investment income to them in the form of dividends. Captives are often incorporated and conduct business under the jurisdiction of an offshore domicile.

- **Homogeneous captives** are those whose members who represent the same industry (e.g. building contractors, trucking companies, electrical products distributors, temporary employments, etc.
- **Heterogeneous captives** refer to those groups whose members are from diverse industries.

Both types share the common objective of seeking better control of their insurance objectives.

Why Should You Consider a Captive?

- **Lower Costs**
 - The price of insurance coverage purchased in the conventional market can oftentimes include mark-ups to pay for the insurer's acquisition costs, marketing expenses, administration and overhead. Such pricing is specifically designed to deliver profit to the insurer's bottom line. In a captive, the goal is to minimize those costs and enhance your bottom line.
- **Better Services and Better Management**
 - Loss control, safety and claims management are an integral part of group captive success. Service providers work for captive members to reduce the frequency and severity of losses. When a loss occurs, claim management focuses on managing the claim to the best possible outcome. Lowering loss costs increases the potential return to the member.
- **Insurance Coverage**
 - Members of a group captive have the buying power to negotiate consistently broad insurance coverage terms and the ability to insure operations in all 50 states, regardless of market cycles. "A" rated insurance carriers are used for reinsurance and policy issuance.
- **Enhanced Profit Potential**
 - As a member of a group captive, you are rewarded for risk control by receiving dividends that are directly related to loss performance, while investment income accumulates to your benefit. That's more money in

your pocket to invest in whatever way your business needs it most.

- Long-term Control of your Insurance Destiny
 - Group captives afford their members the ability to customize insurance programs that are tailored to their specific needs. Also, as a captive grows so does its risk tolerance and ability to negotiate favorably with reinsurers.

Who Should Consider a Captive?

A member-owned group captive is an ideal form of alternative insurance for companies or organizations that share such qualities as:

- Long-term financial strength and stability;
- Management teams committed to safety, with solid safety programs in place;
- Loss histories that are average or better than average for their respective industries; and
- Minimum casualty (Workers' Compensation, General Liability and Automobile Liability) premiums of \$250,000 and up. Private and publically held companies can benefit from a captive structure.

Are Captives Here to Stay?

A.M. Best has reported that the alternative marketplace, including captives, is larger by premium volume than the traditional marketplace. Companies that can control losses are moving out of the traditional insurance marketplace and finding alternatives that will return profits. Those companies that remain in the traditional insurance marketplace are subsidizing the losses of poorly performing companies.

How Can You Get Started?

- Pritchard & Jerden partners with Captive Resources, LLC, one of the country's largest captive consultants, to guide companies through the group captive analysis process.
- Pritchard & Jerden will meet with you to describe the captive program in more detail, outline the underwriting and member selection process, and determine if the group captive is right for your company.