Captive Overview

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What is a Captive Insurance Company?

A company created to insure the risks of **its owners.**

This structure is called a **single parent or pure captive.**

A company created to insure the risks of **third parties.**

This structure is called a **group captive.**

Both structures are licensed as an **insurance company.**

Why would I use a Captive over Traditional Insurance?

FLEXIBILITY
Flexibility in achieving specific risk-financing objectives.

CUSTOMIZABLE
Can be customized beyond the offerings of the traditional insurance marketplace.

PROFITS
Allows owners to benefit from underwriting profits normally held by traditional insurers.

ACCESS
Access to a reinsurance market that typically would not be available.

CONTROL
Captives are not penalized for poor industry underwriting performance, and owners can instead focus on the performance of their own risk portfolio.

How do I form a Captive?

1

CAPTIVE MANAGER

The first step is the selection of a captive manager, whose role is to manage the flow of information between service providers and captive owners.

2

PRELIMINARY RESEARCH

The next step is to conduct preliminary research into:

- Captive Domiciles (Onshore vs Offshore)
- Captive Structures (Pure Captives vs Group Captives)
- Startup Costs
  - Capital Requirements
  - Taxes
  - Application and Administrative Fees

3

FEASIBILITY STUDY

A feasibility study is completed to determine the financial viability of the captive.

4

BEGIN APPLICATION

The captive owner and captive manager work with the insurance regulators to begin the application and review process.

5

CAPTIVE FORMATION

After the application is approved, the captive's formation and operations can begin.

Captive Feasibility

At this stage, SIGMA provides actuarial analytics relating to captive funding.

MODELING

LOSS PROJECTIONS

PRO-FORMAS

To calculate a reasonable expectation of loss, SIGMA combines advanced modeling tools with internal data, industry benchmarks, and actuarial assumptions.

- Estimate annual losses to be retained by the captive.
- Determine premiums that should be paid by the insureds to the captive.

- Regulators require captive feasibility studies to include pro-formas detailing financial aspects of the captive to help determine viability.
- SIGMA also models adverse scenarios to stress test the pro-formas.

Ongoing Captive Operations

At this stage, SIGMA can provide actuarial analytics relating to upcoming losses and financial statement needs.

LOSS PROJECTIONS

For ongoing captives, loss projections are needed on an annual basis to help calculate reasonable premium amounts for upcoming periods.

RESERVE ANALYSES/ STATEMENTS OF ACTUARIAL OPINION

Reserve analyses and statements of actuarial opinion are required by domicile regulators on an annual basis for financial statement accuracy relating to a captive's estimated required reserves. Both items are provided by SIGMA.

SRA (STRATEGIC RISK ANALYSIS) MODELING

The primary purpose of the Strategic Risk Analysis is to assist captives in identifying a target level of surplus that can adequately support underwriting risks for a five-year period. Confidence level estimates for surplus targets can be provided.

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Actuarial Data Required for a Captive Feasibility Study

Traditional Risks:

Common traits for traditional risks include high-frequency/low-severity claims, underwriting in the traditional insurance marketplace, and easily defined claim occurrence triggers.

Data Requirements

- A **loss run** containing at least three years of historical data for all claims in each coverage is required. It should be valued as of a recent date and provided in Excel format. An actuary should be consulted to determine which data fields are necessary for the analysis.
- If available, **loss development triangles** for each coverage should be provided.
- **Historical exposure information** is required for each policy period and coverage going back at least three years, and **preliminary exposure projections** for the upcoming periods should be provided as well.

Non-Traditional Risks:

Common traits for non-traditional risks include low-frequency/high-severity claims, underwriting that is limited in the traditional insurance marketplace, and claim occurrence triggers which are difficult to define.

Data Requirements

If credible historical data is available, the loss and exposure information listed for traditional risks is required. If not:

- Provide any **internal loss data** that has been maintained for the risk.
- Review the risk for appropriate **exposure base information**.
- Gather any **market quotes** that have been obtained for transferring the risk.
- Obtain **qualitative input** from management on the anticipated frequency and severity of the risk.
- Discuss what appropriate **industry benchmark data** might be available to supplement unique data.

Risks of this nature often require non-traditional analytical approaches, as standard actuarial techniques may not apply. After the above has been completed and all relevant data reviewed, a strategy for each individual risk should be developed.

Retention and Program Structure:

Regardless of the type of risk being analyzed, an explanation of the proposed captive's **risk retention** should be provided.

Data Requirements

- The per-occurence retention
- The treatment of ALAE
- The annual aggregate limit (if any)
- Any other relevant details of the program structure

About SIGMA

Founded in 1995, SIGMA Actuarial Consulting Group, Inc. is an independent property and casualty actuarial firm located in Brentwood Tennessee. SIGMA provides casualty actuarial consulting services to captive managers, risk managers, brokers, risk management consultants, TPAs, and CPAs. Our credentials cover a broad spectrum from actuarial credentials and advanced academic degrees to risk management and captive insurance specialty credentials. SIGMA is dedicated to offering professional services to its clients and prides itself in the method used to communicate the results of the analysis. We are known for providing an easy to read and understandable analysis free of actuarial jargon. The findings are presented in such a way that individuals not necessarily familiar with actuarial principles and procedures can follow and reasonably understand how the calculations are made and the implications of the results. The analyses of loss data are objective and reference the most recently available insurance industry statistics when necessary and appropriate. SIGMA has won numerous industry awards that highlight our commitment to excellence and education.

CAPTIVE INTERNATIONAL US Awards WINNER	CAPTIVE INTERNATIONAL US Awards HIGHLY COMMENDED	CAPTIVE INTERNATIONAL US Awards HIGHLY COMMENDED	CAPTIVE INTERNATIONAL US Awards HIGHLY COMMENDED
Actuarial Firm SIGMA	Actuary Al Rhodes	Feasibility Study SIGMA	Feasibility Specialist Al Rhodes