6 Reasons to Form (or Join) a Captive Insurance Company

It is no accident that alternative risk transfer vehicles, including captives, now represent over 50% of the U.S. insurance market.

A captive is a wholly-owned subsidiary created to provide insurance to its parent company (or companies). Their rapid growth over the past decade is because of the potential savings and value they can provide, such as:

1. **Cost Control** – Without a captive, a company may experience rising insurance premiums from the commercial market because of losses by other firms in its category. With it, a company can charge itself a premium based solely on its own historic loss experience.
2. **Assured Coverage** – Medical malpractice and other industry crises have caused many commercial insurers to drop whole states or lines of coverage (such as Workers Compensation orEPLI with Wage and Hour). Many entities, such as physicians groups, can band together to form a group captive to effectively replace/complement the commercial market for example.
3. **Access to the Reinsurance Market** – A captive has direct access to the wholesale insurance market. Because reinsurers have lower operating costs and regulatory barriers, they can often provide coverage at lower rates.
4. **Improved Claim Processing** – With a captive, an entity can outsource claims administration to an experienced Third Party Administrator (TPA's). It can then build it's own historic claims database, for better record keeping and future loss estimates.
5. **Potential Tax Savings** – Forming or joining a captive may open the door to tax advantages only insurance companies can access.
6. **New Profit Center** – A captive can also be used to insure the third party risks of a firm's customers, vendors, or franchisees. If managed properly, insuring unrelated risks could become a significant new profit center.

Owning or joining a captive does not preclude selectively using insurance providers. But if a firm with acaptive feels that it is being overcharged for a particular risk, it can easily self-insure. Often, the threat of doing so is enough to have an outside insurer reduce its rates.