

# A Successful CONVERGENCE OF DIVERSITY

*Captive Resources, LLC explains that overcoming challenges is a true measure of success for group captives.*



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Member-owned group captives, whether heterogeneous or homogeneous, are comprised of diverse companies, both large and small, publically and privately owned, and with varying operating structures, corporate cultures, products and services, goals, priorities, etc. How is it possible to achieve cohesiveness in a group captive whose many owners seemingly have little in common, and are focused on the successful operation of their own respective companies? It is when the captive is faced with challenges, some inherent in its business model, that commitment and resolve can be tested. The ability to work together to reach a consensus on how best to address each challenge, then becomes critical to the long-term viability of the captive.

#### **DATA SHARING AMONG THE MEMBERSHIP.**

One of the most frequently asked questions by prospective group captive members is, "How is the confidentiality and security of my data ensured?" This is certainly a valid concern, especially given that the members must have access to sufficient, meaningful data to run their captive properly. In order to be considered for membership, prospective

member companies must submit detailed information about operations/exposures, loss history and current financial statements. It is possible that additional information of a confidential or sensitive nature may also be required.

Each member is periodically provided with its own results. However, when sharing data across the membership, strict confidentiality is maintained by presenting it in encoded format. Prior to board meetings, members receive loss, claims, risk control and other data by member and aggregated for the captive as a whole. Individual member data (used primarily to identify members that may require increased risk control support or monitoring of financial position) is coded so that members cannot be identified. Members' individual equity statements which accompany the captive's financials are similarly prepared.

Some captives engage an independent financial analyst to conduct regular, periodic reviews of members' financial positions, and for some, this review is handled by the fronting company. Access to members' financial statements is restricted to the analyst or fronting company, which adequately maintains the confidentiality of these documents.

# GROUPS OVERCOMING CHALLENGES CO-OPERATION

Many captives have now moved to electronic delivery/access of all information previously delivered to the membership only in hard copy format. Naturally, the security of this delivery is of great concern to members. To ensure security and confidentiality, encryption and digital rights management software are utilised. Further, the materials are available only through the captive's member-only web portal which is password secured. Additional proprietary security measures are employed, as well.

Captives ensure that members are fully trained in the proper access and established protocol for handling confidential information.

## **QUALITY GROWTH.**

It's critical for a captive to grow continually so that it maintains an appropriate spread of risk and fully leverages its competitive operational cost. However, this can present a challenge since highly effective loss prevention and claims management by members – a hallmark of this captive model – continually reduces premium.

It's important for a group captive to add new member companies that meet its predetermined underwriting criteria which support the recruitment and acceptance of best-in-class companies. It is equally important to ensure that prospective members share the captive's business philosophy and commitment to safety and claims management. Yielding to the temptation to accept new members that don't fit these parameters, simply for the sake of growth, will likely lead to adverse experience and ultimately, unhappy members.

Captives maintain the quality of membership by ensuring consistent underwriting discipline in both soft and hard commercial markets. While a hard commercial market typically generates more prospects as companies seek lower cost alternatives, the captive maintains its underwriting focus, admitting only those companies that truly fit its criteria as best-in-class. Conversely, in a soft market, the captive does not relax its standards when opportunities are less abundant. If a prospect is interested in joining the captive in the softest of commercial markets, i.e., when it could otherwise secure coverage at very low rates, then this is likely a good indicator that it understands and embraces the long-term cost stability and control that the captive provides.

Captives also ensure the quality of new members through member referrals. The captive's membership is a fertile source of potential members since members often refer other companies that they believe are good candidates for membership. For example, members will refer customers,

suppliers, vendors, and other companies that they have known and/or conducted business with for years, and they often have knowledge of these companies that provides value in the vetting process.

## **LONG-TERM MEMBER RETENTION.**

Long-term member retention has been a persistent challenge for some group captives. The Captive Insurance Companies Association (CICA) 2013 Captive Insurance Market Study reported that the biggest challenge in owning a captive as reported by the survey participants was 'retention/growth/expanded utilisation', with similar findings in its 2012 and 2011 studies.

The member-owned group captive model is designed to be a long-term solution for companies that are willing and able to control their losses, and the members understand this. They also recognise the importance of growing their captive, and that growth will only be impeded should members continually exit. Obviously, the benefits to members, including long-term cost stability, dividend potential, and improved safety and risk management contribute to member retention. However, members agree that in order to realise those positive outcomes, the captive must ensure the following:

## **ACTIVE MEMBER PARTICIPATION.**

First and foremost, members take care of the business of running their captive, working to deliver strong results in line with their expectations as owners. On the home front, members focus on loss control and continually improving safety and risk management, in order to achieve the favourable results that contribute to the financial health of the captive, which in turn, generates dividends and helps control insurance costs. Farther afield, members attend board meetings, serving on committees and as officers, lending the knowledge and expertise that has made them successful business owners in their own right, to the captive, helping to guide it to financial success.

## **MEMBER EDUCATION.**

Members know first-hand the importance of education and its significant contribution to member satisfaction and retention. They have learned from experience that in general, a member well-versed in the mechanics and operations of the captive, is far more likely to remain a member for the long-term. For this reason, there is significant time and effort invested in the education of prospective, new, and even veteran members.

In addition, most of the business owners that join the captive are not insurance experts per se, and on a day-to-day basis, are focused primarily on operating their own companies. However, they are owners of the captive as well and need the requisite knowledge to make sound decisions.

Members must understand the true purpose of the captive, risk funding formula, structure/flow, functional areas (role of various service providers), responsibilities of membership, and more. Examples of post-entry educational initiatives include formal orientation for incoming members, mentoring programs, and ongoing refresher sessions for existing members.

#### **CONSULTATIVE SELECTION.**

A certain level of subjectivity exists in the new member selection process. To the extent possible, prospective members must be vetted to ensure that their business philosophy is aligned with the captive's: Is the company comfortable sharing risk with other business owners? Is it willing to participate in running the captive? Is management truly committed to safety, loss prevention and proactive claims management? Does the company understand its fiduciary duty to the captive? – i.e., Will the company be able to put the interests of the captive above its own as policyholder? An interrogative and consultative approach to selecting new members helps to determine whether the company is a truly good fit for the group.

#### **CONTINUOUS SAFETY/RISK MANAGEMENT IMPROVEMENT.**

While best-in-class companies are recruited for membership, that doesn't always translate to new member safety and risk management programs that are as good as they can be.

New members are subject to an in-depth safety and risk management program assessment either before entering the captive or shortly thereafter, the goal of which, is to identify areas of the company's risk management program that may need improvement. However, a new member may believe that its programs are already optimal, so were it to be assessed "average" by the captive, this may not be received with enthusiasm. Captives address this potential situation in two ways.

First, by adequately preparing prospective members on what to expect with regard to the captive's risk management guidelines, this situation is either mitigated or avoided entirely. Because controlling losses is so important to the success of the group captive model, captives develop fairly stringent risk management benchmarks for members and measure their performance, tracking key performance indicators. Prospective members understand that they must be committed to operating their company safely.

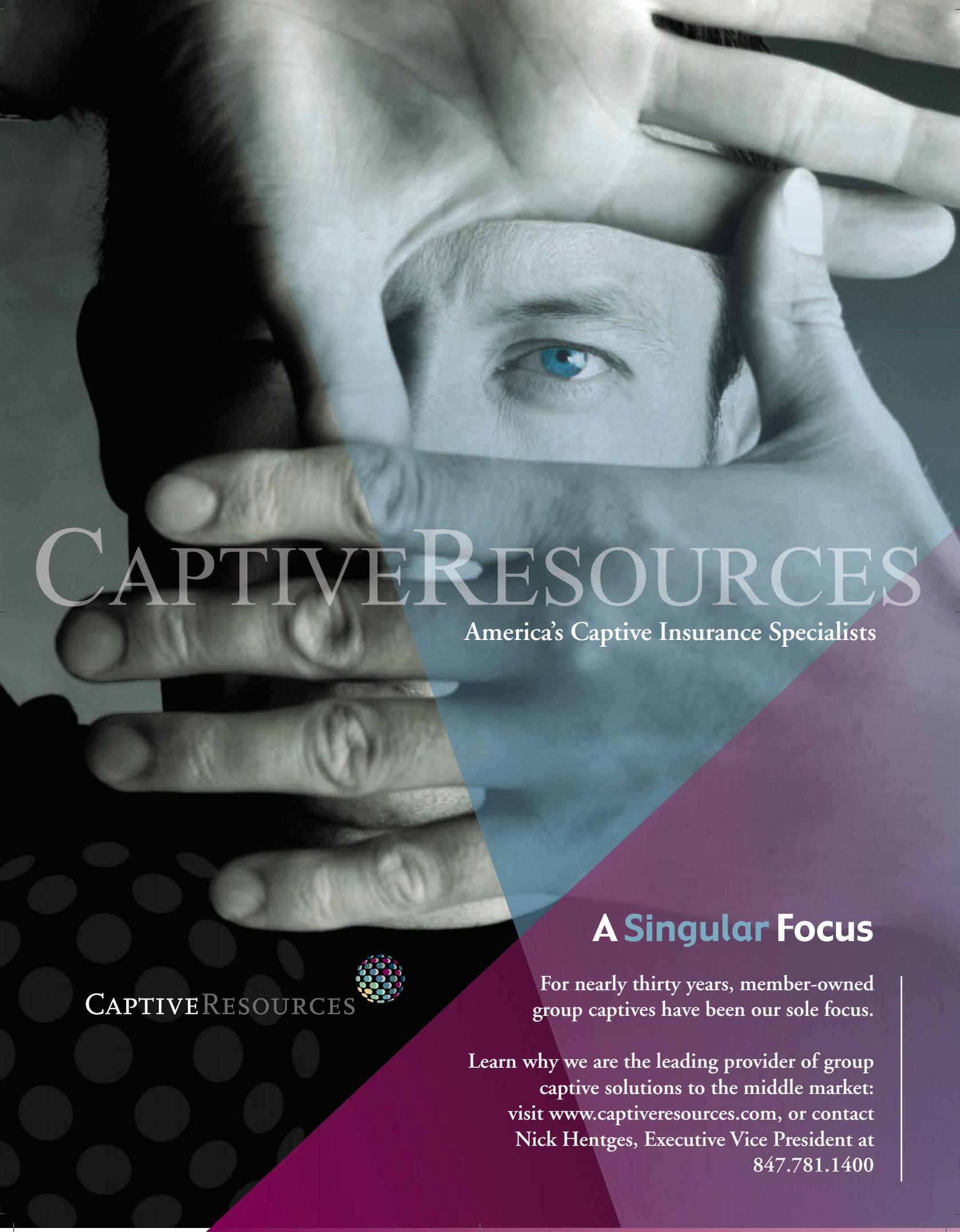
Secondly, captives provide a wealth of customised, state-of-the-art risk management services and resources to members to support them in their efforts. Typical support services provided include semi-annual risk control workshops, monthly webinars, captive web portal, facilitation of a partnership with the National Safety Council, and a risk control group purchasing programme. In addition, each member is allocated a percentage of its premium which it may use toward safety and risk management services of its choosing, according to its specific needs (within captive prescribed guidelines). So while the bar is set high, members are empowered to not only meet the captive's standards, but exceed them.

#### **BROKER/AGENT RELATIONSHIPS.**

In addition to referrals from existing members, the captive also grows through prospects submitted by agents and brokers ('brokers'). As such, the member's broker is an integral part of the captive's business model. However, this is not always well understood by prospective member companies and/or their brokers. For example, a prospect may express concern that participation in the captive may cause disruption, or in some way diminish the long-term relationship it has with its broker, on whom it has come to rely to address its insurance needs. Brokers in turn are often concerned about possibly losing control of their client relationship.

Captives recognise that brokers need to be well informed about the member-owned group captive model, and the role they play. Brokers must be able to thoroughly and accurately present the concept and respond to initial and ongoing questions from prospects and clients. To that end, brokers who work with the captive attend educational workshops and seminars. They become better educated in the captive's process – its structure, operations (via service providers), finances including the funding formula and the importance of risk control and proactive claims management. They also work in close co-operation not only with the captive, but with its service providers including its independent consultant, TPA(s), loss prevention consultants, etc.



A black and white photograph of a man's face, with one eye colored blue. His face is framed by several hands, suggesting protection or focus. The image is overlaid with a dark blue and purple geometric design.

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*“There’s no doubt that the collective benefits enjoyed by members, including long-term cost stability, greater control over insurance costs, profit sharing and an overall, safer company, are a driving motivation underlying continued membership.”*

Once brokers fully understand how the captive operates, it becomes clear to them that not only will they retain their client relationships but that those relationships are stronger. Bringing the captive option to the client and then facilitating its entry, often results in the broker being viewed by its client as more a risk management advisor, than an insurance broker. In addition, members often refer other companies to their broker for membership consideration, which offers the broker opportunities for increased revenue.

As for the new captive member, after being guided by its broker through the entire process of moving from traditional insured to captive owner, it comes to understand how it will rely on its broker in much the same way as it ever did.

There’s no doubt that the collective benefits enjoyed by members, including long-term cost stability, greater control over insurance costs, profit sharing and an overall, safer company, are a driving motivation underlying continued membership. However, perhaps it is the shared vision of achievement of these goals and that commonality of purpose that is the “glue” that binds different member companies together to function as a cohesive group – and finding common ground on how best to address challenges is a testament to their commitment to the captive. ●

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