

BATTLING FOR THE MIDDLE MARKET

Group captives prove their worth

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Anyone who follows the insurance market knows that it is a cyclical beast. Most people who are familiar with this business are well acquainted with the traditional hard and soft pricing cycles that occur periodically within the insurance industry. But this is not the only cycle that occurs in this industry. Over the years, another important cycle has been the interest level in small- to mid-sized commercial accounts. This vacillates from little to no interest in the middle market accounts to intense battles for these types of risks.

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During those little-to-no-interest times, large brokers have gone to great lengths to shed their middle market business, indicating that the amount of time and money required to maintain these accounts is too great. Thus they end up selling their middle market business to smaller brokers just get it off their books. At other times, middle market business is sought after.

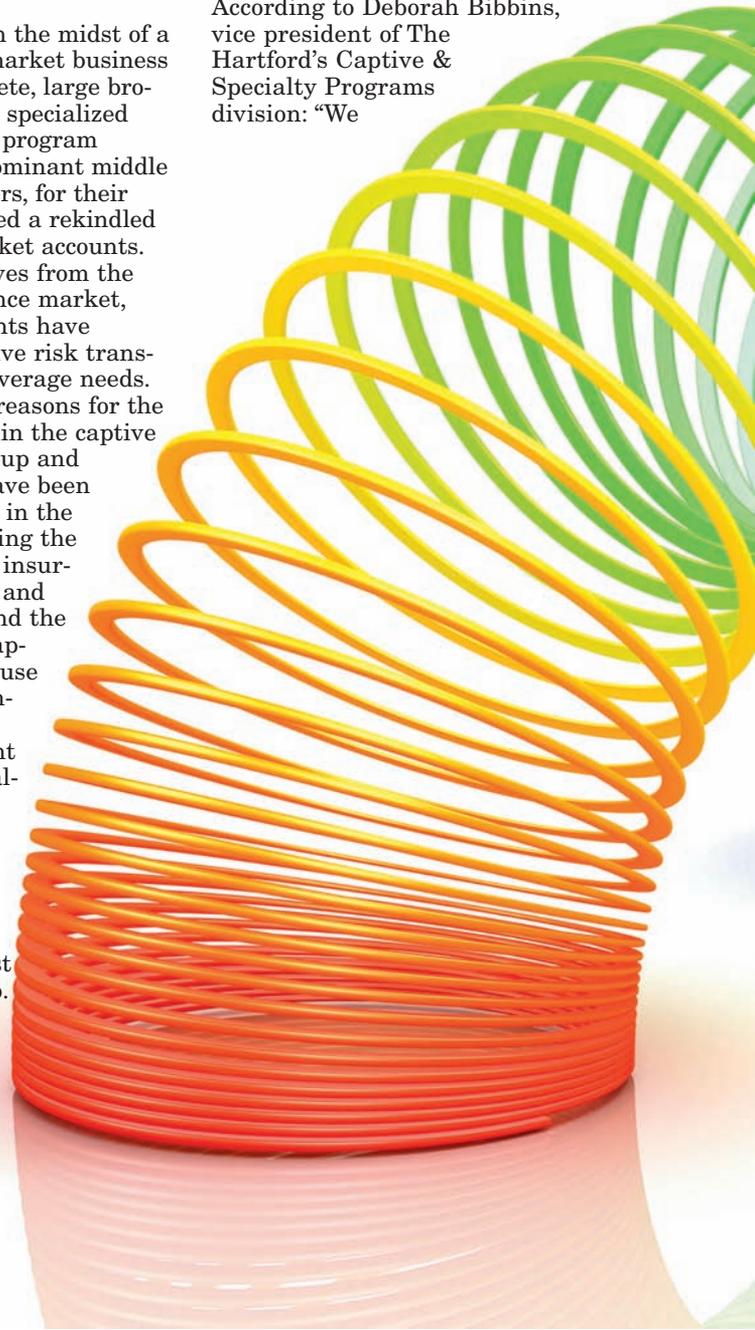
Currently, we are in the midst of a highly prized middle market business cycle. In order to compete, large brokers have put together specialized units and entered into program agreements with predominant middle market players. Insurers, for their part, have also exhibited a rekindled interest in middle market accounts.

To protect themselves from the vagaries of the insurance market, many mid-sized accounts have turned to the alternative risk transfer market for their coverage needs. This is one of the key reasons for the continued growth within the captive insurance market. Group and association captives have been one of the bright spots in the captive movement during the current prolonged soft insurance market. Insurers and brokers that understand the long-term value of a captive have been able to use captives to their advantage. Tom Ullrich, executive vice president of group captive specialist Captive Resources, LLC, (CRI) based in Schaumburg, Illinois, notes: “We continue to see a steady flow of middle market companies expressing interest in captive membership. In fact, we believe the tough economy, in addition to the soft market, is driving companies to explore every option to reduce and control costs, and

our captives are experiencing strong growth as a result.”

Early recognition

Like many large insurers, The Hartford Financial Services Group, Inc., (The Hartford) had been watching the growth of the captive movement for quite some time. According to Deborah Bibbins, vice president of The Hartford’s Captive & Specialty Programs division: “We



began by writing an association captive in the late 1980s.” Then in 2001, she states: “We determined there was an opportunity to meet a market need and partner with agents and insureds. Growth in our agency, association and group captive business followed.”

However, it was not until 2005 when, “we brought our specialty program and captive program business together that we began to see our business as one team and benefited from the synergies inherent in writing specialty program and captive program business within one business unit.” As a result, she notes, “We have a formal business development team that actively seeks out opportunities for growth across the full spectrum of program business.”

Bibbins indicates that, “Currently our division writes a total of 54 programs involving agency captives, group captives and non-captive programs, with the most recent addition being the Affinity

Insurance, Ltd., group captive program.” This group is a casualty lines group captive owned by 290 companies and administered by CRI.

According to Ullrich, “The Hartford has a solid reputation in the group captive marketplace for outstanding service and a strong commitment to collaboration with captive owners.” The selection of The Hartford to provide workers compensation, commercial auto and general liability “builds on a long and successful partnership between The Hartford and Captive Resources,” Ullrich points out. “We look forward to a long-term relationship with The Hartford as Affinity continues to move forward with its aggressive growth strategy,” he adds.

Flexibility is the key

Over the years, The Hartford’s Captive & Specialty Programs division has gained attention due in large part to the flexibility it can bring to the table. Over the years, the division’s book of business has included both heterogeneous and homogenous group captives as well as agency captives where “the producer partners with The Hartford by taking significant risk along with us,” Bibbins indicates. In addition, her group also writes specialty programs, typically involving higher hazard business, where the hallmark has been “some form of flexible commission arrangement with our program administrators.”

The Hartford’s agency captive programs and specialty programs take one of three distribution forms. “In our administered programs,” Bibbins says: “the program administrator partner may want to work with sub-producers or, alternatively, our partner may choose to work via a ‘limited access program’ in a retail capacity, directly sourcing all of the program’s business. Finally, there are the ‘open access programs,’ that are open to all Hartford’s agents.”

Captive insurers and agents/brokers can find a willing partner in The Hartford. Bibbins indicates that the numerous specific services that can be offered by the Captive & Specialty Programs division are:

- Excess loss protection and/or reinsurance
- Underwriting
- Policy issuance and administration



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The Hartford’s Captive & Specialty
Programs Division

- Claims oversight, including service providers performance and reserve audits
- Supplemental risk control capabilities.

In addition, Bibbins points out that, “We recently invested in the development of a proprietary Web-based rating and submission system for use by our program partners.” This is a system that promotes speed and ease of use via the “quick quote.” She says it has “functionality and integration with existing Hartford services that facilitates the entry of information.”

Looking for new programs

“Certainly, we are always looking for group captive programs. The way we think about our remaining appetite is ‘programs,’ and the form of our partnership (either through a captive arrangement or a flexible commission arrangement) is just one part of the conversation,” she notes. Other considerations would include such things as:

- Existing programs or books with profitable track records
- Homogeneous or heterogeneous risks written through a common distribution channel

- Standard lines or low hazard programs for small to mid-sized business
- Surplus lines/high hazard programs for businesses with unique exposures and/or difficult to place coverages.

All of these factors determine The Hartford’s appetite for new program business. Bottom line, Bibbins says, “We work with agents and brokers across the full spectrum of our programs.” Further, she points out, “We have grown at a steady rate since the formation of the Captive & Specialty Programs division and intend to grow at a thoughtful rate that ensures that we are developing a sustainable, profitable business for The Hartford and our partners.” At the end of the day, “We view each new opportunity through this lens and we believe our business partners see the value in working with a programs carrier that is committed to long-term profitability, and sustainability.”

Conclusion

The Hartford sees the value of middle market risks that wish to band together through some form of group captive insurer as well as the value of partnering with producers who focus on program business. In

addition, the company has developed a dedicated division that provides services tailored to the needs of group captive owners and program managers. Bibbins states, “We have found that our producer partners enjoy the flexibility we offer in support of their changing risk tolerances. As a partner’s risk appetite increases, we can, for example, easily transition the program to an agency captive program seamlessly, if that should be needed.”

For group captives, Bibbins indicates, “We aspire to be viewed as the premier provider of products and services to the captive marketplace and we believe we are well on our way to achieving that goal.” Bottom line: “We understand the group captive model.”

The Hartford realizes that these programs are member controlled, and as a result, success must be based on collaboration with the members of the group captive as well as the other service providers. “We pride ourselves on our policyholder services capability, which we believe meets the highest standards in the marketplace.” And above all, “we are focused on developing long term sustainable relationships,” Bibbins concludes. ■