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Group captives offer mid-market employers workers comp options

Smaller firms can avoid market swings, state regulations for self-insured programs

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Group captives have become an attractive option in recent years among mid-market employers that want to self-insure their workers compensation risks.

The structure provides control over claims and premiums for companies that want to avoid rising costs in a hardening workers comp market. And experts say the mechanism is convenient for smaller firms that often can't afford to take on a high-deductible workers comp program or become a qualified self-insurer in their states of operation.

“You're basically taking yourself out of the ... swings in the traditional work comp market, and that becomes even more important when you're in these even more challenging states like New York, California or Illinois,” said Duke Niedringhaus, an excess workers comp specialist and vice president at broker J.W. Terrill Inc. in Chesterfield, Mo.

Workers comp self-insurance has become a topic of interest among mid-market firms as insurers have pushed for workers comp rate increases in the past couple of years, said Christopher Flatt, New York-based leader of Marsh Inc.'s Workers' Compensation Center of Excellence.

“Our customers are looking for any way possible to minimize their total cost of risk,” Mr. Flatt said. “So that would include ... their retained losses if they go into a self-insurance or a captive program, but also the risk-transfer elements that they're placing into the market.”

Self-insurance options include high-deductible programs where an employer purchases excess workers comp coverage and agrees to pay comp losses that fall under a large deductible amount, or qualified self-insurance, where employers register as a self-insurer in the states where they operate and cover 100% of work comp losses out of pocket.

Those types of alternative risk financing programs can be attractive for large employers, which often can afford high retentions or the process of seeking self-insurance qualification from regulators in each of the states where they have operations, experts say. Both programs also can require employers to provide collateral — an expense that can be difficult for smaller employers to cover.

“If you're a mid-market company and your work comp premiums are \$750,000, taking \$500,000 of every occurrence is a pretty big retention compared to your overall premium,” Mr. Niedringhaus said.

Group captive insurance programs allow mid-market employers to pool their workers comp risks and premiums with other companies while covering themselves outside of the traditional insurance market, said Eric Silverstein, senior vice president of national accounts for Lockton Cos. in Atlanta.

“It gives you the ability to have a program without a tremendous amount of risk on a per-accident basis or on an aggregated basis,” Mr. Silverstein said.

Mr. Niedringhaus estimates that member-owned group captives saw about \$200 million in new premiums in 2012. The model is attractive, he said, for companies with as little as \$150,000 in combined casualty line premiums for workers comp, auto coverage and general liability.

Benefits of group captives include dividends that are paid to captive members if claim costs fall below premiums paid to the captive, as well as safety programs and consulting that can help captive members improve their workers comp loss experience, sources say.

Captive Resources L.L.C., a Schaumburg, Ill.-based captive consulting firm, saw nearly \$100 million in new premiums last year for the 27 group captives that it advises, said Sandra Duncan, vice president of operations. The member-owned groups include 2,600 companies nationwide in a variety of industries, including manufacturing, distribution, trucking and agriculture.

Captive Resources estimates that the total member-owned group captive market represents \$1.3 billion to \$1.5 billion in written premiums — about 70% of which has come from companies that joined in the past decade. Recent interest in group captives has been driven by the improving economy, greater credit availability, and a hardening workers comp market, she said.

“We think the growth will be even faster in the next five to 10 years,” Ms. Duncan said.

Companies that are considering switching from a fully insured workers comp program to some form of self-insurance should research their options for at least six months before making any decisions, said Lockton's Mr. Silverstein.

That time frame, he said, can allow companies to understand the benefits and challenges of various self-insurance models, as well as consider whether they want to make a long-term decision to leave the traditional insurance market.

“It's not something that you just do for one year,” Mr. Silverstein said. “It's something that you do for a series of years, and you need to understand the exit strategy for self-insurance.”-
