

MEMBERS ONLY

Sandra Duncan and Nick Hentges of Captive Resources discuss best practices in operational areas that perhaps have the greatest direct impact on member involvement

Independent captive consultant Captive Resources, LLC (CRI) has specialised in the creation and oversight of member-owned group captives for 30 years. The captives it advises employ an operating model developed in 1984 by CRI in conjunction with members of its first captive, which has been subsequently honed over the years, and modified in accordance with the specific needs of the various different captives. Over the last three decades, CRI has assisted captive clients in developing, promulgating and exercising best practices in virtually every operational area.

Captive Review (CR): Given that a member-owned group captive is sometimes comprised of hundreds of diverse member companies from across the US, how is organisational effectiveness achieved? What is your view of best practice for corporate governance?

Sandra Duncan (SD): We believe corporate governance best practice includes equity across the membership, active member involvement and no external ownership. The captives we work with meet on a regular basis at board meetings and the member-owners are expected to participate in running their captive.

Membership is broken down into committees such as finance and investments, underwriting, and risk control, where a lot of work is done. Committees then present their recommendations to the full board of directors, which discusses all issues and has sole authority to make decisions. However, every member can voice opinions on any matter at board meetings. Each member has one equal vote and the captive is run based on majority

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Nick Hentges is president and principal of Captive Resources, LLC. Hentges has held management positions in underwriting and marketing with CIGNA, and specialised in association programmes for a large broker. He has general oversight for the day to day services provided by Captive Resources to its captives, and also oversees all production/administration representatives.

rule. We've seen other group captives allow larger members to have a greater voice, or weighted voting, but in our experience, equity has resulted in consistently active member participation, giving members a feeling of greater ownership of the decisions made.

The captives also have executive committees comprised of the officers, committee chairs and sometimes a few members-at-large. CRI ensures issues are addressed and information is provided, so that members are well prepared for meetings. We oversee the significant planning and preparation between meetings on the part of all the service provid-

ers, to ensure that members have what they need to evaluate the issues, and formulate their opinions/positions.

CR: Your member-owned group captive model requires the active participation of members. Can you describe those responsibilities and obligations?

Nick Hentges (NH): Members must meet all of their financial obligations (such as premiums, collateral, etc.) on a timely basis, keeping in mind that the captive, after all, is a business. Essentially, members must concentrate on three things: participating in the captive, controlling losses and meeting the captive's risk management guidelines, and helping grow the captive by referring other quality companies they know for membership consideration.

CR: You just indicated that controlling losses is a responsibility of membership. Describe best practices for loss prevention, safety and risk management.

SD: Because controlling losses is a key to success in our group captive model, and our captives are comprised of diverse companies, CRI has developed a risk control process that is customised to meet individual member needs. The captive doesn't require that members control losses without providing significant, customised support to assist them. We assist the captives in developing programmes and metrics tailored to their members' needs and regularly solicit feedback to ensure that programmes are meeting those expectations. In addition, for each underwriting year, the model's risk funding formula incorporates a pre-determined percentage of premium which is allocated for external loss preven-



tion services, which each member may invest in services of its choosing. This is yet another opportunity for members to customise their services.

CRI's risk control consultants are responsible for the strategic co-ordination of all risk control resources, addressing the needs of the captive as a whole, as well as the unique requirements of each member. CRI's risk control services include:

- Development of the Risk Control Assessment (RCA), which is an in-depth rating tool used to identify the member's risk control strengths and weaknesses, the outcomes of which feed into a Safety Action Plan;
- Co-ordination and facilitation of semi-annual risk control workshops and monthly webinars;
- A member-only captive portal web tool;
- Preparation of reports for captive board and committee meetings;
- Monitoring of members' allocated loss prevention funds;
- Assistance to members and field consultants with unique needs;
- Facilitation of National Safety Council partnership; and,
- Quality assurance oversight.

So you can see that we invest heavily in safety and loss prevention on behalf of captive members, given the importance of controlling losses.

CR: Many of the captives you advise are experiencing very robust growth. Why is growth so important in your group captive model? Do the captives set parameters/goals for growth and if so, how are these achieved?

NH: Growth is important to counterbalance the effects of good loss control. It allows for greater leverage in the marketplace, including the ability to negotiate better terms for fronting, reinsurance and all support services, as well as more consistent and predictable risk sharing and shifting. In addition, it allows for a larger, more credible pool of data and also benefits the captive by adding fresh ideas and opinions from new members.

The captive grows through member referrals and via agents and brokers which present a continual flow of prospects. There are growth expectations and in some cases, specific growth goals set by the membership. It is CRI's responsibility to ensure that the supporting broker network is large enough, active and well educated about the captive structure

and how it operates. It's also our responsibility to educate the prospects as to the benefits of the captive and we work closely with the brokers to do this.

We educate brokers by first conducting seminars which help them to understand the captive model and how to differentiate the captive from other options in the marketplace. We also conduct broker workshops which go into further depth to address items such as the captive's financial statements, loss funding/actuarial development, corporate governance, member responsibilities, etc. We assemble captive member panels to discuss and answer questions about their experiences in their captives. This is always a popular part of the

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workshops, since brokers hear directly from captive members.

CR: Can you discuss best practice in the recruitment and selection of new members?

NH: One of the best sources of new members is current members, who often refer other companies they know/do business with such as customers, suppliers, vendors, etc. Knowledge that members may have about prospective member companies feeds into the underwriting process. Underwriting includes extensive data collection and actuarial analysis, which is not atypical, except that each and every member is individually underwritten based on its own loss experience versus industry experience, and approved by the front and reinsurer.

We believe that overall, best practice in the selection of new members is a collaborative process involving all the parties – current member, prospective member, broker, consultant, loss control provider, independent CPA, and the actuary, but with the ultimate decision resting with an experienced underwriter at the policy issuing company. This collaborative underwriting process essentially creates a series of checks and balances.

Obviously, a potential member must meet

the captive's size requirements and risk profile (i.e. class of business) and there must be a cultural fit with the captive. The member must be comfortable with taking quantified risk and sharing risk with fellow captive member-owners; committed to risk management and safety within its organisation and have sound programmes in place; financially sound subject to ongoing, periodic financial review; and, the potential member should understand the long-term nature of the captive concept.

CR: Is there any one particular area where applying best practice makes a unique or extraordinary contribution to the success of the captive?

SD: While there may be more than one such area, educating successful business people on how the insurance mechanism can work to their benefit, incorporating a high degree of transparency, is an absolute best practice for CRI and the captives we advise.

Providing for the initial and ongoing education of members has been critical to the long-term success of the captives. In order to make sound decisions as insurance company owners, members need to understand:

- The captive mission of long-term cost stability and control;
- The risk funding formula;
- Operating structure/flow;
- Finances;
- Responsibilities of membership; and,
- Marketplace dynamics including how the captive compares to other available risk financing alternatives.

CRI has a number of educational initiatives including workshops, formal orientation for new members and regular refresher sessions for existing members, and mentoring programmes which help facilitate entry for new members.

It is key to remember that the captive members come from a variety of different industries, and while they are successful business owners in their own right, most are not insurance experts. That is why we, as the captive's independent consultant, must provide education so that members are informed and feel confident to make good decisions in operating their captive. In our experience, understanding and knowledge of the captive also helps to build “buy in” and long-term commitment. This has definitely contributed to the growth and success of the captives.