Glass half full
George Rusu advises that the captive market is buoyant, despite global economic conditions.

As more and more companies around the world seeking greater control over their insurance coverage look towards alternative risk financing as a flexible, cost-efficient alternative to the traditional insurance market, the benefits of captives are becoming increasingly evident. What's more, as the current economic climate continues to cause general market instability, a growing number of companies are opting for group captives over single-parent captives, due to the diversity and adaptability that a group captive can offer.

"One of the main advantages of group captives is that they can be infinite in size," explains George Rusu, chief executive officer of Captive Resources, LLC, which represents more than 2,200 company shareholders of group captive insurance companies, with assets of more than $4.0 billion. "While a single-parent captive is a great vehicle in terms of addressing specific needs for a specific large company, a group captive has the ability to adapt and morph into various needs for a diverse group of owners."

In light of increasing market volatility, the stability that group captives can offer in these situations cannot be underestimated. "Some companies may be sold off as a result of the economic climate, while others might change their product mix, but the general mission of that captive doesn't change," he asserts. "It is able to continue to go forward, and should a company be sold or even go bankrupt, group captives are still able to go out and attract new membership and continue their growth while hopefully lowering their cost structure—which is not the case with single-parent captives."

While the financial crisis has had a markedly detrimental impact on much of the global economy, the impact of the downturn on the captive industry has been, surprisingly for some, largely positive. "People assume that an economic downturn will slow down the growth of group captives, but we have not found that to be the case," he says. "In financial crises like the one the world is currently experiencing, companies look for any way they can to save money by lowering costs. Often, by talking to other companies that are already in a captive, they realise that the long-term vision of a group captive is going to lower their costs on a continuous and more controlled basis."
“In fact, we have seen more companies investigating what a group captive can do for them since the economic crisis began,” he continues. “When companies are doing well financially, they don’t always pay attention to many of their cost items because, overall, the bottom line looks good. What the crisis has done is to force these companies to identify these costs and look for alternative ways to keep them down—and this has been very beneficial for the group captive market.”

“While those with a limited understanding or knowledge of group captives often believe that group captives are formed in a hard market when conditions are tough, the ideal time to form a captive is in a soft market. “Creating a group captive takes a lot of effort—it takes a lot of negotiation to group providers together,” he explains. "In a soft market, the insurance company that might be providing the fronting policy, the reinsurers and the claims administrators will all be looking to generate business, because their premiums and fees are down, and so creating a group captive at that time is, in fact, very cost-attractive. Then, when the market starts to harden, the captive will already have a number of members, a financial structure, assets and capital, which can simply be added to during the hard market.”

In these times of economic uncertainty, experience is key, and this is an area in which Captive Resources believes it stands out from the competition. “We have been working in the industry for many, many years, and we created and work with five of the top 10 group captives in the world,” he says. “Our size and scope means that we have well-established relationships with the different companies, including the fronters, the reinsurers, banks, actuaries, loss prevention companies and third-party administrators. This helps us to create the very best group captives and the ability to get the best cost structure for those members.”

“If you continue to develop both your services and your employee talent so that you can continue to do things better and with more expertise, you will always be ahead of the competition,” he adds.

With the captive industry continuing to experience strong growth, Rusu predicts that group captives will continue to form an important part of the insurance industry in the future. “Twenty-five years ago, approximately 18 percent of all commercial insurance was in the alternative marketplace. By 2004, this had grown to more than 50 percent,” he says. “Within this increase, group captives experienced the largest growth, a result of the interest from mid-sized companies wanting more control over their destiny.”

“Now that group captives are more established, it will be interesting to see how much growth the industry will continue to experience as the alternative market becomes increasingly crowded,” he concludes. “What we can be certain of is that as more and more companies become aware of the benefits of captive insurance, the popularity of group captives will continue to rise, and it is a market that still has huge potential for continued success in the future.”

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