

Captives for the Middle Market— “the alternative that makes sense”

by Rick Stasi, Chief Operating Officer, Frank Gates Alternative Risk

Today it is estimated that the alternative risk market makes up over one-third of the commercial insurance market, and is expected to reach 50% of the market share, or over \$100 billion of gross written premium, in the near future. America's largest businesses have taken on risk through captive insurance companies, risk retention groups, and self-insurance.

In the past, “Fortune 1000” corporations drove the growth in this market; however, today many mid-sized companies are also reaping the benefits. Over the past few years, due to increasing premiums and unaffordable insurance coverage, we have noticed a significant growth in middle market accounts looking for a captive as an alternative to their existing casualty insurance program.

The middle market is defined as companies with annual revenues of \$1,000,000 to \$750,000,000 which, up to very recent times, has always relied upon the traditional insurance market. This marketplace has found its way to the alternative risk marketplace by banding together in the form of groups or multi-owned programs. Insurance agencies have also participated in forming captives to better provide for their clients' insurance needs.

CAPTIVE OVERVIEW

Captives have remained somewhat of a mystery to the traditional insurance industry. In order to unravel this mystery, let's briefly explain the various types of captives:

Single Parent: A captive insurer can be owned by a single parent, such as a large multinational company, and used to consolidate the parent's insurance program. The captive brings consistency of pricing and coverage to facilities located throughout the globe, not to mention unbundled claims and loss control services.

Group Captives: Group captives or multi-owner captives have been in existence for many years and generally are appropriate for middle market or larger accounts. The members of the captive are a group of insureds, all of which are shareholders of the captive insurance company. Generally, the insureds are tied together as an industry group. When structured correctly, it can provide cost advantages, but more importantly, tremendous cash liquidity advantages over a deductible program in most instances. The captive also creates control over your claims and loss control services. Tremendous growth is currently being seen in this area.



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Rick is responsible for overall operations of Alternative Risk Programs such as Individual, Group, or Agency Captives, as well as fronted insured programs. He oversees the administration, marketing, and claim services associated with these programs. He assists clients in developing and administering Alternative Risk Programs through a wholly owned Rent-A-Captive subsidiary, Atlantic Gateway International Ltd. located in Bermuda.

WORK HISTORY

Rick joined Frank Gates Companies in 1998 to establish Frank Gates Alternative Risk & Atlantic Gateway International, Ltd., a Bermuda-based captive reinsurance company that participates in

risk sharing with selected agents, program managers and carriers.

Rick has over 28 years of commercial insurance experience and a strong background of program business. He started his insurance career with CNA Insurance Company where during his 15 years he held a number of management positions. Rick left CNA in 1992 to head up the Sales department of a large regional insurance agency, Van Meter Insurance. During this time, Rick created an Alternative Risk division that formed many Alternative Risk programs for the agency such as self-insurance groups, agency captives, and single parent programs. In 1996, he left Van Meter to become the director of Alternative Risk Operations for Powell-Walton-Milward, which is now part of Palmer & Cay, a nationally known insurance agency.

EDUCATION

Bachelor of Science degree in Business Administration and Occupational Safety from Illinois State University.

AFFILIATIONS, MEMBERSHIP AND LICENSE

Rick holds the Chartered Property Casualty Underwriter (CPCU) and Associate Loss Control Management professional designations, and is a licensed insurance agent for general lines. He is a member of the CPCU Society, Captive Insurance Companies Association, Risk and Insurance Management Society, and the Self-Insurance Institute of America.

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Association Captives: Association captives are generally used for a homogeneous book of business, with a particular trade association being the owner. The purpose of the captive is usually to stabilize insurance costs for the association membership.

Agency Captives: The captive in this case is owned and funded by the agent, who in turn benefits from an exclusive insurance program, and profits from the program's good loss experience. Their clients benefit by having access to adequate insurance coverage, and more effective claims and loss control services.

Rent-A-Captive: A term utilized by offshore insurance, or reinsurance companies to act in a similar fashion as a captive insurance company. All four captive programs described above can be delivered through a rent-a-captive. A rent-a-captive is a company which “rents” its capital, surplus, and legal capacity to policyholders and/or beneficial owners who form individual segregated cells within their captive. As such, the term “rent-a-captive” applies to any arrangement where the insured party obtains equivalent benefits to those provided by standard forms of captives without actually participating in ownership or management. The capital normally required to form a captive is eliminated by using this concept, thus, it allows for ease of entry and exit, is very simple to administer, and is particularly good for program business.



Financial and Control-Oriented Benefits

The benefits of an alternative risk program such as a captive can be broken down into two categories: financial motivators and control motivators.

The financial motivators include: improved cash flow, shared underwriting profits, return of investment income, potential tax benefits, reduced program expenses, and reduced claim costs.

The control motivators: gaining stability through the up and down insurance market cycles, more influence over coverage terms and conditions, direct access to reinsurance markets, loss sensitive versus class sensitive underwriting, and exerting control over claims/loss control services.

The last two control motivators are probably the biggest reasons that most businesses enter the alternative market. Most businesses that work hard in driving down their loss costs want to reap the benefits of such good loss experience. They are tired of paying higher premiums due to other businesses within their industry having unfavorable loss experience. They also want to have some control over their services, which directly affect the loss experience used to price their business.

Customized Support Services

As mentioned above, in contrast to services provided by standard carriers, captives allow for “unbundled” for-fee services. This approach allows the captive members to effectively dismantle a traditional program and reassemble it “a la carte,” creating a non-traditional program which is often more responsive to one's needs. You can hire experts to support and customize your risk management needs, such as claims handling, managed care, loss control, or loss information systems. This results in reduced claim costs, and reduced program expenses as well.

Are You a Good Captive Prospect?

Captive programs are extremely attractive to those who desire to develop a strategic alliance with a proven service provider willing to put their money on the line with a risk sharing relationship. Below are some characteristics which may qualify you for such a relationship:

Individual businesses with above-average credible loss experience, and willing to assume risk to receive the benefits of their loss-reducing efforts.

If you belong to a **group or association** that desires to provide their members a stable insurance program with customized service, competitive rates, and profit sharing dividends. A program that has many advantages over group self-insurance, and will also provide a good source of non-dues revenue for the association.

Agents and brokers that strive to provide an exciting new alternative market program to offer clients and prospects, which will generate new revenue, help retain existing accounts, and thus allow them to compete in the 21st century.

If you are among any of the above and desire to discuss an alternative risk program opportunity please call your BizAssure Agent, and they will arrange a meeting to discuss strategies for such a program.