

Best Practices



C1: ALL ABOUT MEMBER OWNED GROUP CAPTIVES

Over the past 20 years, the number of member owned group captives has increased five fold. These captives have grown from writing US\$100 million in premiums to nearly US\$1.3 billion and the number of shareholders and/or members has jumped 600 percent. Clearly, it is a fact to say these captives are a fast-growing segment of the market.

Interestingly, member owned group captives are not solely the purview of Fortune 1000 companies, but also serve middle market companies well. At Captive Resources LLC (CRI) – a leading consultant to member owned group captives, for example, both public and private companies participate, with optimum premium sizes ranging from US\$200 thousand to US\$10million.

In addition, the particulars regarding capitalization and the formula-driven (and therefore highly predictable) loss funding-based collateralization model employed by these group captives are also enticing to both larger and more middle market members.

Regarding what risks member owned group captives are designed to assume, that's really down to the quality of companies involved in the captive. As Nick Hentges, Executive Vice President at CRI points out: "The key is finding the best-in-class [companies]. We don't look to take everybody. We... pick guys who are committed to controlling their losses, to finding loss control and claims management techniques [in order] to control the claims that they have." As a result, even historically challenging industries like trucking, roofing, construction, oil field operations and agricultural industries can fit well into this model.

And, it seems, heterogeneous captives are often some of the largest and the most successful. "Now it's very obvious and I know all of you are aware [that] spreading a risk is a good thing in insurance. Obviously, being a heterogeneous captive with many different types of members in different industries and locations around the country we do spread that risk... and broaden the universe of people who can be approached," says John Arnold, Chairman and CEO of Petroleum Products Corporation and member of Raffles Insurance, a CRI heterogeneous group captive. If, however, a prospective member does not fit into a heterogeneous captive, homogeneous options are also available.



When not broker driven, members of these captives, both homo- and heterogeneous are tasked with recruiting new members, so entry into a group captive is often through referrals. This ensures a gathering of like-minded business people, which can result in better risk management overall. In addition, members can garner other benefits such as cross-business ‘pollination’, networking, negotiation as a collective for common goods and services and broadening and deepening personal relationships.

In terms of corporate governance, members in a member owned group captive each have the right to appoint one person to the Board. To prevent board meetings from becoming unwieldy and inefficient (some group captives can have over 300 members), a committee structure is generally employed. In CRI’s captives, appointed board members participate on and rotate through committees tasked with looking at finance, risk control, long-range planning, membership development and underwriting. Shareholder, committee and separate Board meetings ensure issues are addressed and dealt with in an effective manner.

Overall, member owned group captives are credited with being more predictable than the standard insurance market. Premium swings are mitigated as premium levels are based on loss/claims history not on the hard, or softness of the wider market. Importantly, member owned group captives generally create an environment where members have more control over their insurance costs and destiny.

“As a former buyer, says Mike Kilbane, President at CRI, “I knew that I depended totally on my broker to go out and cut the best deal. [There’s] nothing wrong with that model, but I didn’t have control... that control of your insurance destiny is critical.”

In conclusion, says Mr. Hentges, “[Member owned group captives] is an area that we see as a tremendous growth opportunity, in the next five, ten, fifteen, twenty years.”



“I found this presentation especially thought provoking and relevant to clients. I’m impressed with how this event goes from strength to strength each year and continues to provide both new and established captives an educational forum in which they can learn from each other.”

**Mike Gibbs, President,
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Ltd.**