A group **to suit every need**

This year has been excellent for group captives, with some of the best-known providers of group captive management in Cayman recording impressive growth. *Cayman Captive* reports.

As with all data relating to captives, precise numbers detailing the growth of the group captives sector are hard to come by. However, what evidence there is suggests the business has been growing strongly in recent years.

This year in particular appears to have been an exceptional one for group captives. In 2018 Captive Resources managed groups that generated $2.2 billion in premiums. That grew to $2.6 billion in premiums in 2019.

It has also been a record-breaking year in terms of new group captive formations, says Sandra Springer, senior vice president at Captive Resources.

"Robust growth continues in the group captives we work with, particularly in the number of new members joining," she says.

Over the course of the last year, nearly 500 new members have joined Captive Resources' client captives, the company says. It has also launched eight new group captives in the last three years, of which five came in 2019. It now manages 40 group captives, all domiciled in Cayman.

"We believe these factors are better indicators of growth than, say, premium, since in our model, premium can decrease for members that are doing a good job of controlling their losses," says Springer. Premiums are also impacted by economic and market dynamics, she notes.

"Having said that, the premium volume of the captives we work with is on pace to increase by nearly a quarter of a billion dollars this year," she adds.

Springer believes the growing interest in group captives reflects an increasing understanding of what group captives have to offer. This increasing awareness of the industry and its advantages is to be found not only among the companies that join, but especially in their brokers who bring the concept to them, she says.

The wisdom of groups

At first glance group captives look especially well suited to smaller companies looking to launch captives, because of the scale they offer, but group captives are also attractive to larger companies.

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Erin Brosnihan, executive vice president at Kensington Management Group, says the group captive model is appropriate for companies of all sizes, "allowing for better control over insurance premiums, insulation from extreme market fluctuations and enhanced loss control protocols that further serve to reduce premiums paid due to improving loss experience".

"Members of group captives say the model appeals to them because their premiums are highly correlated with their own loss experience," she says.

They are less likely to see their premiums affected by the experience of other companies in their industry, while stability of premiums, the ability to operate companies more safely and the potential for dividends are among the other benefits cited by members, all entice members to join group captives.

If companies were drawn towards single parent captives as they grew there would be evidence of some attrition among groups, as their largest and most successful members peeled away, but there is no such evidence. On the contrary, group captives appear to have very high levels of retention.

"We have a 98 percent retention rate across the groups we work with," says Springer. "Companies don't want to leave. The 2 percent that do often result from mergers and acquisitions, where the new parent may have a different risk-financing arrangement in place."

However, the growth of group captives, as new members come on board and existing members attract more business, does have implications. When a group of some 200 or 300 members has a meeting in the jurisdiction of its domicile, many of them bringing partners, not every island has the infrastructure in place to cope.

This is one area in which Cayman has an advantage that has made it a leading jurisdiction for group captives.

"Several of the captives we work with have hundreds of member companies; the two largest we work with have 380 and 450-plus member companies, respectively," says Springer.

"These are big companies. Logistically, Cayman is very accessible, and can also accommodate the requirements for large group captive meetings."

Springer believes it would be difficult to find another offshore domicile that can rival the accessibility and extensive accommodation and meeting facilities that Cayman offers.

The Island has other advantages. "Cayman has been a great choice for the captives we work with, in large part because of the quality of the service providers here," says Springer.

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"LIKE SINGLE PARENT CAPTIVES, GROUP CAPTIVES ARE VERY ACTUARIALLY DRIVEN." *JIM DEWULF, CAPTIVE RESOURCES*

"In the Cayman Islands Monetary Authority (CIMA) we have a regulator that is very business-friendly. We have a great working relationship with CIMA, which has been built up over more than 25 years."

Brosnihan argues that Cayman remains a dominant player in the group captives space because of the ease of doing business, its regulatory flexibility, a strong framework that encourages sound risk management and governance practices, and a full suite of high-quality professionals that are experts in the captive space.

The benefits of cooperation

For those considering the pros and cons of the group captive structure, the prospect of cooperating with other businesses can seem a challenge. This is particularly true in homogeneous group captive structures, which focus on a single industry and bring together companies with very similar risk profiles due to the similarities in the businesses they are involved in.

In such groups the members are likely to have traditionally regarded each other as competitors, or even rivals.

"It can be challenging for companies that see themselves as competitors to work together in a homogeneous group captive, but the way the groups are structured and run minimises this," says Jim DeWulf, senior vice president at Captive Resources.

"All the financial information, and information about things such as losses and risks, are presented in a blind fashion, with each member having its own security code—but the members still have the information needed to make decisions."

On the other hand, once this initial reservation has been overcome, working together in the context of the captive can be unexpectedly advantageous, helping competitors cooperate in different areas.

DeWulf says: "Companies within the same industry will face similar issues, for example, the impact of changes and different federal regulation. Working together in a group captive allows them to come up with collaborative solutions to the issues they face individually.

"Also, members are co-owners of the captive and as such, have a vested interest in the group's experience, so they are committed to doing what's right for their insurance company."

Not all group captives are homogeneous, however. Heterogeneous group captives bring together companies from very different industries and regions, the logic being that this diversification makes the captive more resilient to economic cycles. At first glance they may look like commercial insurance companies, which usually sell all types of insurance coverage to customers from different industries and regions.

However, this would be incorrect, says Brosnihan, who stresses heterogeneous groups are nothing like a traditional commercial insurer. Clients of commercial insurers have no control over their insurance destiny, she points out.

"In a group captive such as this, each member insured, with an increased focus on safety and loss control, can directly impact its insurance premium."

Members of heterogeneous group captives also have the ability to drive down their insurance costs over time, she adds—even while experiencing growth and increases in exposure.

"It is through this focus on safety and loss control that member insureds have an opportunity to earn distributions of unused loss fund dollars," says Brosnihan.

"On top of all this, the member insured earns investment income on its premium dollars that would otherwise be earned and retained by the commercial insurer."

Actuarially driven

DeWulf agrees that group captives are much closer in spirit to their single parent relatives than to the larger commercial insurers.

"Like single parent captives, group captives are very actuarially driven," he says. "Traditional carriers use various different benchmarks and have very different underwriting capacity."

Group captives may also be more selective than commercial insurers, with the latter likely to extend coverage to any company that is willing to stump up the cash. Group captives may have more specific selection criteria, which will vary between groups, depending on the objectives of the members.

DeWulf says: "We look for companies that are as predictable as possible in terms of the expected frequency of claims, and where the expected severity of loss is not catastrophic, so that we can build groups of companies that have similar risk profiles, even if they are from different industries."

Some groups may take steps to cap growth once they reach a certain size, introducing things such as larger minimum sizes for members.

Ultimately, group captives don't follow a one-size-fits-all approach, concludes Brosnihan—which may be another explanation of their success. By tailoring their programmes in many ways, they can appeal to many different companies for different reasons. ●