Strength in numbers

Many group captive programmes have experienced growth—especially in the Cayman Islands. *Cayman Captive* takes a snapshot of this growing sector.

While many captive insurance domicile statistics may show fairly flat growth in terms of new formations, they can often neglect the fact that a group captive has gained a significant number of new members in the last year, or is writing considerably more premium.

More than 5,000 middle market American companies have left the traditional market in favour of group captives solutions, and the Cayman Islands is often the jurisdiction they look to.

"KENSINGTON'S GROUP CAPTIVE PROGRAMMES HAVE PAID A CUMULATIVE TOTAL OF NEARLY $2 BILLION IN DISTRIBUTIONS BACK TO THE MEMBER INSUREDS." *ERIN BROSNIHAN, KMG*

Group captives typically offer coverage for workers' compensation, general liability, automobile liability and automobile physical damage insurance. There has also been an increase in the number of group captives being used to provide medical stop-loss coverage following the introduction of the Affordable Care Act in the US.

The Cayman Islands currently has around 120 group captives. At the end of the second quarter of 2018, there was a total 669 class B insurance licences—which includes 524 captives and 145 segregated portfolio companies—along with 25 class C (special purpose insurers) and four class D (reinsurers) licences.

There has been a large push among small and medium-sized enterprises that may be too small to own a single-parent captive, but want to improve their losses and better manage their risk through the use of a group captive. Many group captives are formed by a number of insurance buyers banding together to tackle the high prices and restrictive coverage of the commercial insurance market.

Devin O'Brien, senior account manager at Artex Risk Solutions (Cayman), says that in terms of joining a group captive, the four biggest benefits include: premiums derived from each member company's individual experience; exceptional claims and loss control services; the collaboration of industry best practices; and the return of underwriting profit.

A snapshot of growth

Cayman Captive reached out to a number of captive managers in the Cayman Islands about their various group captive insurance programmes to provide a snapshot into how this sector is growing.

"We currently have 325 members across our 10 groups. Each captive puts on between five and 10 members per year, depending on the industry they serve and the appetite for growth of the membership," says O'Brien.

Artex manages 11 group captives in Cayman: three in the trucking industry covering small to medium-sized fleet; three in construction; one in food manufacturing; and four heterogeneous captives. The heterogeneous captives insure a range of industries, including manufacturing, distribution, retail, construction, non-profit organisations, hotels, car sales and agriculture.

In total, the captives write about $202 million in gross written premium, and write workers' compensation, automobile liability and auto physical damage coverage at various retentions.

"The oldest group captive we manage was formed in 1997; the newest were two we launched in 2016," adds O'Brien.

Global Captive Management (GCM) currently has 15 member-owned group captives and is expecting to license one more before the end of the year.

"Five of the 15 captives were licensed in the last five years so we have seen significant growth in this area in recent years," says Alanna Trundle, vice president at GCM.

For 2018, GCM has 424 members insured through its group captives, a 12 percent increase from 2017. GWP totalled $201 million, an increase of 8 percent year on year.

Breaking down the percentage of premium by line in these captives, they write workers' compensation (59 percent), general liability (22 percent) and auto liability (19 percent).

The top spot

The two largest group captive programmes in the Cayman Islands are Raffles Insurance and Affinity Insurance, both managed by Kensington Management Group (KMG) and consulting client of its sister company, Captive Resources.

Affinity is the world's largest heterogeneous group captive, with 450 members and $310 million in premiums. Raffles has close to 400 members and $295 million in premiums.

Overall, KMG together with Captive Resources accounts for 27 percent of the total group captives domiciled in Cayman, and the total gross written premium in their captives is $2.2 billion, which represents 79 percent of group captive premium written in Cayman and 14 percent of the entire captive market in Cayman. In addition, Captive Resources brings other business to the jurisdiction taking its total contribution to $2.3 billion.

As of October 1, KMG and Captive Resources work together on 33 group captives in total, up from 29 in 2015. There are plans to add three more group captives in 2019.

While new formations have been nominal, the total number of

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members paints a different story. As of October 1, KMG and Captive Resources work with more than 4,000 members in their group captives, up from nearly 3,800 in 2017, and up from 3,500 members in 2016.

Workers' compensation is the most significant line of coverage, making up $1.48 billion in premium, or 67.15 percent of the total premium among group captive programmes.

The feedback from the members of Raffles and Affinity has been positive.

Doug Bawel, chairman and chief executive officer of Jasper Engine and Transmissions in Jasper, Indiana, and president of Affinity Insurance, has been with Affinity, working closely with KMG and Captive Resources, since 2006.

"During that time we have dramatically improved our safety record and today we are ranked in the top 3 percent of companies in the state of Indiana. All three of our remanufacturing plants are at the Star level in the Voluntary Protection Program (VPP)," says Bawel.

Privately held metal products manufacturing firm New Standard Corporation has been a member of Raffles for over 23 years.

Morton Zifferer Jr, chairman and chief executive officer of New Standard Corporation, says the company has benefited from its membership in a number of ways.

"The first is that we have moved our very expensive, ever-increasing 'fixed cost' model of workers' compensation, along with our property and casualty, broker-based insurance coverage, to a very controllable, 'variable cost' model.

"That has paid us huge dividends, on top of a continuously reduced, year over year, experience-related premium base," says Zifferer.

"Our 400-plus associates, as well as their collective families, have lived lives that are quantifiably much more safe and in turn, much more secure, as we continue our hard work, to become an accident-free and a wellness-centric organisation."

Other signs of growth

Aside from the number of members and the growing premiums, there are other aspects—such as total number of insureds and exposure stats—that help illustrate growth in the sector.

Paul Fitzgerald, vice president at Aon Insurance Managers (Shannon), manages a group captive in the real estate and self-storage industry, which reinsures a US admitted carrier for the property contents coverage offered to third party tenants.

The captive was formed in Cayman in 2006 with 16 shareholders, and has grown to 27 shareholders in 2018.

It reinsures approximately 250,000 tenants throughout the US, and GWP is projected at around $30 million for 2018.

The number of insured tenants is up from approximately 225,000 in 2017 (12.5 percent increase year on year), 200,000 in 2016, 176,000 in 2015, and 147,000 in 2014.

The GWP in 2017 was approximately $27.3 million, up from $22.6 million in 2016, $20.2 million in 2015, and $16.8 million in 2014.

Erin Brosnihan, executive vice president of KMG, notes that Kensington's group captive programmes have paid a cumulative total of nearly $2 billion in distributions back to the member insureds since inception.

"That is a phenomenal amount of money going back into the hands of our clients, money that would have otherwise been retained by the insurance carriers in the traditional marketplace," she says.

"No wonder our clients view this as a real value proposition for their businesses."

For GCM's captives, Trundle breaks down the exposure units—people or possessions that may be subject to a loss that can be given a cash value—in its group programmes.

The total workers' compensation exposure units in GCM's captives are $45.5 million, an increase of 6 percent from the previous year. The total auto liability exposure units are $31,000 which increased by 12 percent on the prior year. And finally, the total general liability exposure units are $26 million, which increased 8 percent year on year.