On a growth trajectory

A stronger economy and a greater awareness of the advantages group captives can offer firms have made it a busy couple of years for Captive Resources as George Rusu, the company's chairman, explains to *Cayman Captive.*

A better understanding and acceptance of the role of group captives, combined with an improved economy, has made the last few years the busiest ever experienced by Captive Resources, the alternative insurance specialist, in terms of the number of new members joining the firm's existing captives, as well as several newly formed captives.

George Rusu, chairman and chief executive of Captive Resources, says the company—and the market it operates in—has enjoyed strong growth in the past five or six years, probably the healthiest advance he can recall in the nearly 30 years since he founded the company.

"The growth in the captives we administer over the last few years is the strongest we have ever seen," he says. "The thing that really seems to be driving it is a greater acceptance of group captives. Thirty years ago, a much more robust education process was needed around the concept.

"Back then, people also needed to be reassured about transferring funds to offshore domiciles such as the Cayman Islands, our captives' preferred domicile. But in the last five years or so, it appears as though a tipping point has been reached. Almost everyone now seems to acknowledge that group captives are an excellent way of transferring risk."

But there is growth and there is growth—and in the corporate world, growth on this scale is unusual.

The total premium across all of Captive Resources' captives (that is, captives to which it consults) has grown substantially to $1.5 billion, which constitutes more than 12 percent of all Cayman Islands' captive premium. To support this growth, Captive Resources has also increased its staff significantly in the last few years.

Yet Rusu also feels that this is the tip of the iceberg given the potential that still exists in the market. Some 3,200 middle-market companies currently are member-owners of Captive Resources' client captives —clearly the potential for further growth, especially in the midst of a strengthening economy, is exceptional.

"We know of no other company, regardless of size, that has the volume of member-owned group captive business, in terms of premium volume, the number of captives or number of member companies, which Captive Resources has. Nor do we know of another firm with the breadth and years of expertise we have in group captives," Rusu says.

He adds that, in addition to organic growth, Captive Resources made acquisitions in early 2014 which will add further expertise and expansion in the healthcare sector and risk retention group (RRG) arena, as well as provide a platform for geographic expansion in the US.

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The positives converge

Importantly when considering future growth potential, Rusu says, this widespread acceptance also applies to brokers. Captive Resources works with more than 200 agencies and brokerage firms and he says they are comfortable suggesting the group captive option to their clients, preferring to be part of the risk transfer solution. He says much of the company's business is now generated in this way.

"Certainly, this acceptance has been key to the change we have experienced in the last few years," Rusu says. "We have really benefited from a tail wind in recent years—in all the years I have worked in this sector I have not experienced such positive conditions. There is now universal acknowledgement of the value of group captives by clients and brokers alike."

The second factor influencing this growth, he notes, is the improving wider economy. He says that he used to believe there was limited connection between economic conditions and the willingness of companies to consider using alternative risk transfer options such as group captives. Now, he believes there's a more direct link.

"The reality is that when economic conditions are really tough, companies go into survival mode—they don't have the time or the appetite to explore alternatives, so they continue to buy insurance as they have done in the past. In the deepest point of the recession in 2007/08, although most of the captives we consult to still grew, many companies were busy just keeping the doors open. It was more difficult to get them to consider alternatives."

When conditions improved, companies became more open to innovative ideas, he says. "You start to see companies open up a bit.

For many, insurance is their third or fourth biggest operating cost and sooner or later they are willing to attack that to try and reduce costs. That is when the discussions start."

He adds that another positive that emerges during a good economy is that the banks become more willing to grant mid-sized companies, the most common users of group captives, letters of credit or other forms of lending necessary to make such structures work.

He says that Captive Resources has enjoyed high levels of demand from all sectors over the past two years. While all types of the firm's group captives have enjoyed very healthy growth, the strongest has been in heterogeneous captives—group captives whose members are from a range of different industries. This is as opposed to homogeneous captives—groups which contain similar types of companies.

But he adds that he is seeing some specific traction in areas such as healthcare where radical changes to the risk landscape triggered by the Affordable Care Act are driving fast-growing interest in this form of risk transfer solution.

"With 'Obamacare' becoming a reality, customers need a different approach. We are seeing significant interest and growth in this area—we've had very strong interest and growth in our medical stop loss captive, Well Health Insurance, Ltd since its formation in early 2011. Workers' compensation has been the biggest driver historically, but healthcare will be an increasingly bigger factor in the future. It has traditionally been a slow industry to embrace change, but that is changing now."

A stabilising influence

Rusu also dispels a misconception about the growth of group captives. He notes that many still believe that the rate of formations of these captives will increase in a hard market as companies may be more compelled to reconsider their options around insurance, and conversely, decrease in a soft market.

He says it is rarely this simple. "If rates are higher it probably helps, but the conversation is usually more of an evolution—it is about these mid-sized companies wanting to have greater control. Perhaps it used to be more like that when we started the company 30 years ago, but in general, this is not what we see now.

"To a certain extent you could even argue that the proliferation of group captives has helped stabilise the market. Previously, insurers could drive rates up or down as required whereas now, if they increase rates by too much, they lose even more clients to group captives."

He says the key point for companies that join a group captive is that they will often significantly lower their insurance cost over time. He says that being an insurance company owner helps to ensure that member companies focus on risk management—most companies become extremely risk-aware and tend to have lower losses as a result.

"We have many customers who have saved a significant amount over the years—despite growing substantially, they are often paying less than they were when they first joined the captive," he says. "It is because they aggressively manage loss prevention and claims."

"WORKERS' COMPENSATION HAS BEEN THE BIGGEST DRIVER HISTORICALLY BUT HEALTHCARE WILL BE AN INCREASINGLY BIGGER FACTOR."

On top of this, the group captives often return substantial amounts of premium in the form of dividends back to the member-owner companies after a number of lower loss years. Rusu says the captives administered by Captive Resources have returned more than $1 billion of dividends to members in the company's 30-year history.

"It is nice to see our clients getting a return in that way—we are very proud of that. Each year they are paying less into these captives because losses are low. For risk-aware companies like this, the gains can be profound and make it well worth doing."

One other consequence of this highly risk-managed environment is that these group captives are high in demand among reinsurers. "The captives don't take all the risk—they take a layer and reinsurance sits on top. Reinsurers are very supportive of these structures because the reinsured losses, although severe when they do occur, are so infrequent. That is the type of business they like."

Rusu predicts that the strong growth that has occurred over the past few years will continue. He believes the economy will likely hold strong for another two years at least and this, combined with the growing popularity of group captives, will result in a steady stream of companies turning to this means of risk transfer.

Captive Resources' growth stems from two main sources of business: the agents and brokers, and referrals from members of the captives. "It is in every party's interest to attract new members and, as that happens, everyone associated with the captive benefits," Rusu says.

He adds that on the back of such positive growth in the US market, Captive Resources is considering targeting other countries. He believes South America could hold great potential.

"The dynamics of the market can apply anywhere really," he says. "If a company is very risk-aware and is interested in lowering its insurance cost, then this eventually becomes a natural route to explore.

"We expect many years of continuing growth in the US but we are also considering moving into other markets—eventually we may go global."

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