



GREYLING

INSURANCE BROKERAGE | RISK CONSULTING
A DIVISION OF EPIC



GROUP CAPTIVES 101

Your Top Questions Answered

INSURANCE IS EXPENSIVE — THERE’S NO GETTING AROUND IT... OR IS THERE? FOR FIRMS WITH EXEMPLARY RISK MANAGEMENT, THERE IS.

Many businesses with excellent risk control pay costly annual premiums on commercial general liability (CGL), workers’ compensation (WC), and automobile liability and physical damage (AL/PD) insurance. Because their effective risk management mitigates many incidents before they ever unfold, these organizations have far fewer claims and receive none to minimal returns on their premiums through reductions in renewal premiums or dividend payouts.

Despite these firms’ very profitable loss histories, traditional commercial insurers are often unable to provide premium levels that are proportional to their risk; carriers count on these accounts to subsidize other insureds that require more in claims than the premiums they contribute. And traditional insurance premiums continue to rise — 2023 U.S. commercial insurance prices sustained a 7% increase in Q4 across all account sizes, making it the 25th straight quarter of premium increases.¹

Fortunately, there is an innovative solution for organizations that find themselves sowing more than they reap: group captive insurance. The upside can be immense, and you’ll see how one firm paid 78% less than traditional insurance, accounting for close to \$16 million in cumulative savings through their participation in a group captive.

What is a Captive?

A captive is a type of alternative risk transfer where the insurance company is owned by the businesses that are insured by it. Instead of the business owners being the buyers of insurance, they are the owners of their insurance company, giving them more control over their programs and enabling risk management at industry-leading costs.

There are two main types of captives: single-parent captives and group captives.

- A **single-parent captive** is owned by one business that administers the captive by itself and is typically an attractive option for large and complex companies.
- A **group captive** is jointly owned and controlled by a group of like-minded and generally mid-size to large businesses and insures specific risk types for its owners at drastically reduced rates, rewarding individual loss performance.

Group captive insurance is materially different in structure compared with traditional insurance. Captive premiums are formulated based primarily on individual recent loss data rather than formulas tied to exposures or rate need mandates often encountered in traditional insurance. In addition, the premiums are designed to create loss funds to pay claims for both the individual firm and all captive members in a risk sharing pool at different loss levels.

Group captives can be homogeneous (comprised of similar types of businesses from the same industry) or heterogeneous (including different kinds of companies from various industries) in nature. Most group captives typically provide coverage for common lines of insurance: CGL, WC, and AL/PD.

¹ The Council of Insurance Agents & Brokers “[Commercial Property/Casualty Market Report Commercial Property/Casualty Index Q4 2023](#),” Accessed May 8, 2024.

TRADITIONAL INSURANCE VS GROUP CAPTIVE



How Do I Qualify for a Group Captive?

Group captive members share one important attribute: historically low losses. To be considered to join a group captive, firms must demonstrate the following:

- **Good loss ratio:** Viable candidates for a group captive must score below the average loss ratio of 50%, unless there is an outlier claim that is inflating their score, in which case they must provide proper justification. The loss ratio is evaluated for each line of coverage over the past five years using exposures applicable to each line of coverage that benchmark an organization's losses against similar businesses.
- **Effective risk management:** Businesses must engage in proactive efforts to manage fleet exposure and fleet safety, such as using data-driven insights and responses from telematics and implementing controls around driver selection and jobsite safety.
- **Meet minimum premium:** A group captive's minimum combined premium ranges widely, beginning at \$250,000.

QUALIFICATIONS

LESS THAN
50%
LOSS RATIO
+
RISK
MANAGEMENT
+
MINIMUM
PREMIUM
\$250,000+

What are the Benefits of a Group Captive?

Most companies join a group captive because they are tired of overspending on premiums in the conventional marketplace. They desire another solution that affords them greater long-term control over their premium and risk management costs.

Group captive candidates with good loss history and risk management practices can expect substantial savings upon joining, which often grow larger over time. On average, a new member's initial premiums will be approximately 15% to 30%+ lower than traditional insurance.

BENEFITS

YEAR 1 SAVINGS
15% TO 30%
REDUCED PREMIUM



CUMULATIVE
PREMIUM
REDUCTIONS



DIVIDEND RETURNS

As the reduction becomes more aggressive, the delta between traditional insurance and the captive grows significantly. Once policy periods mature — typically after three to four years of participation in the captive — insureds can reclaim unused loss funds in the form of dividends, resulting in even greater savings.

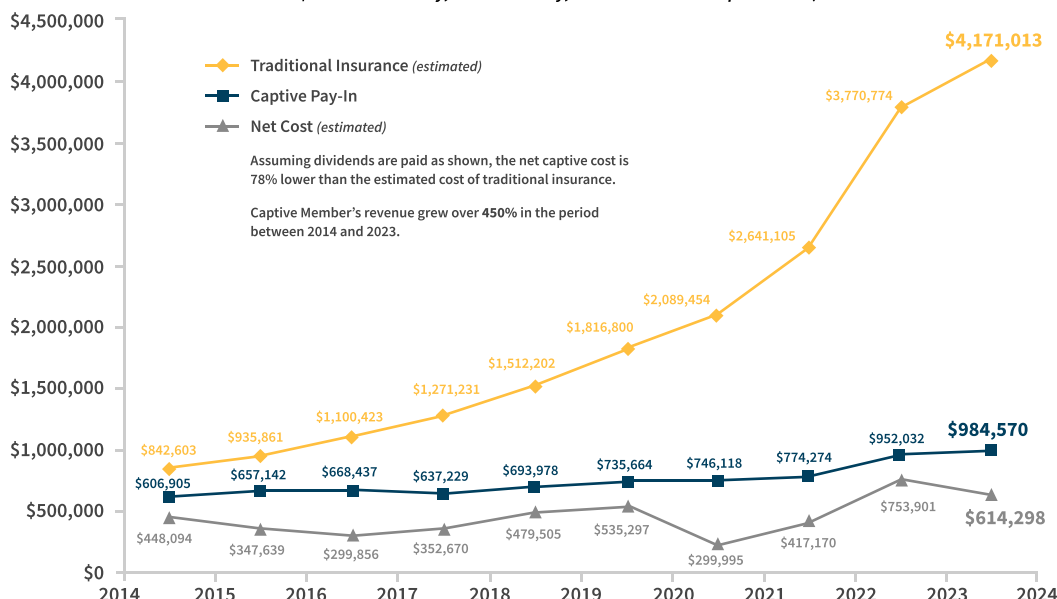
For good performing firms, these benefits compound over time in the form of long-term price stability, reduction of renewal rates, and incentive to enhance loss prevention and risk management practices which help to further lower claims costs. Additionally, premiums and other member cash contributions are invested in a multibillion-dollar investment fund, potentially earning captive members significant investment income returns on a tax-deferred basis.

CASE STUDY: AEC Firm Saves \$16M with Group Captive

While traditional insurers keep any premium that's left over when the policy term concludes, a group captive returns excess premium funds and investment income earned to its members. A firm's premium is based on the amount of premium that hasn't been used and the investment income earned on those funds. Equity balance is distributed back via annual dividends to reduce net cost for that policy period.

This graph illustrates how one fast-growing business that participated in a group captive over a 10-year period saved almost \$16 million when compared to the estimated costs of traditional insurance. The business' captive pay-in (blue line) was drastically lower than traditional insurance costs (yellow line) during the same time period. The savings grew significantly as the business' revenue increased 450% over a period of 9 years. The business' net costs (grey line) were decreased further by captive dividends/equity payouts.

Captive Policies vs. Traditional Insurance
(General Liability, Auto Liability, and Workers' Compensation)



Notes:

1. Estimated net cost is based on the captive pay-in premium (audited where available) minus equity balance before IBNR.
2. 23/24 estimated net cost is calculated by annualizing partial equity balance.
3. Traditional insurance premiums are estimated using adjusted rates from the last year traditional insurer quoted before transition to the Group Captive.
4. 20/21, 21/22, 22/23, and 23/24 years include auto liability premiums at \$2M limits (prior years were at \$1M) and traditional insurance cost was adjusted to reflect the cost for extra limits.
5. 22/23 & 23/24 years include General Liability premiums at \$2M limits (prior years at \$1M).
6. Traditional insurance cost reflects estimated rate changes year over year based on market conditions.

How Does a Group Captive Work?

So, you've been accepted into a group captive... now what?

This non-traditional risk transfer model has annual terms like traditional insurance, but that is where the similarities end. Here's an example of how one of our client's most successful group captives, Evolution, functions and what it requires from its members:

Member Premiums

Member premiums are pooled together. Approximately 65% of the premium is allocated to the loss funds for claims, and about 35% is used to cover operating costs for fronting and reinsurance, claims administration, risk control, board meetings, actuarial services, accounting, and management of the group captive.

Each member has a risk control fund that is funded by 1% of their annual premium. Firms can use their risk control fund to improve risk management outcomes in several different ways, including:

- Risk control assessment (RCA) to establish an action plan
- Fleet safety training
- Telematics implementation costs
- Industrial hygiene
- Ergonomic assessments
- Industrial Automated External Defibrillators
- Firm training and policy making for general and site safety.

An appointed risk control consultant conducts an assessment for each firm every three years and provides suggestions on how the organization can best use their funds to bolster their performance.

Committee Structure

Group captives operate using a committee structure whereby each member is given one vote regardless of premium size, and a simple majority governs. No other parties — such as the fronting carrier, the re-insurance carrier, or any captive resources — have voting power. Standing committees include: the Executive Committee, the Finance Committee, the Risk Control Committee, and the Underwriting Committee.

Member Participation

Each member firm appoints a director to participate in meetings and cast votes on behalf of their organization. Most captives are domiciled in Bermuda or the Cayman Islands due to the beneficial corporate tax implications, stability of British law, and ease of regulation that creates a very friendly operating environment. Board meetings happen twice a year to make decisions on the various facets of running the Group Captive. These meetings are great for peer networking and conducting renewal presentations with our clients.

EXAMPLE PREMIUM ALLOCATION

~65%
LOSS FUNDS

+

~35%
OPERATING COSTS

+

1%
RISK CONTROL

Group Captives: A Compelling Alternative

Group captive insurance provides an innovative risk transfer solution for mid-size to large businesses with exemplary risk management practices and historically low loss ratios. By forming their own insurance companies, these organizations can gain greater control over their insurance programs, reduce insurance costs, and earn tax-deferred investment income.

As illustrated by the case study, the example firm saved nearly \$16 million over a 10-year period through lower premiums and the reclamation of unused loss funds via dividends — benefits that compound over time. With premiums based primarily on each member's actual losses, group captives reward disciplined risk management and incentives individual performance.

Let's Talk

Greyling Insurance Brokerage & Risk Consulting, a division of EPIC, is a specialty insurance brokerage and risk consultant focused on construction and design professionals. Greyling currently has over 30 AEC clients across various group captives and is proud of achieving over \$30 million savings (and growing!) via dividends payouts and equity balances waiting to be distributed back to our clients.

Our expert professionals are here to help you navigate your insurance and risk needs by securing the most optimal solutions for your business.



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