

MARKETING THE CAPTIVE INSURANCE INDUSTRY—WHY BEST PRACTICES ARE KEY



Captives need to showcase their value, and a major component of this is adhering to and sharing best practices, as eight industry experts explain.

The effects of the COVID-19 pandemic and the current hard market have fueled rapidly rising interest in captive insurance. This represents an opportunity to market the sector, ensuring people fully understand the benefits offered by captive insurance, and can make informed choices about how to move forward.

“We absolutely need to take advantage of this point in time to showcase how captives are properly used to assist organizations during varying economic conditions and turbulent insurance markets,” says CICA president Dan Towle.

“Captives have played a very important role during this pandemic, and we all need to tell our stories and do it publicly. We need to put a face on this industry and the only

way that happens is when organizations share that they have a captive insurance company and explain the purpose it has in helping them better manage their risks.”

Marketing needs to take place on multiple levels: not just highlighting the value of captives themselves, but also promoting domiciles—and it’s important to make sure risk managers can confidently communicate the value of captive insurance to their organizations.

“The industry has done a good job of marketing itself,” says Courtney Claflin, executive director—captive programs, University of California Office of the President. “Obviously, you can always continue to try to do better but I don’t think it’s a tough nut to crack. The education given to organizations’

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CHERYL BAKER, BLUE CROSS BLUE SHIELD OF MICHIGAN

risk managers can ensure those risk managers feel more comfortable with captive arrangements and the dedication and investment that you need to put into it.

“There’s a segment of the risk management community out there that isn’t using captive arrangements today, not because they can’t but because they’re not curious enough to look into it, or they don’t understand. They think they don’t have the money to invest in that.”

Claflin adds that domiciles are becoming more active in marketing themselves. “I’ve seen domiciles become much more marketing-oriented in the last few years than they were, say, a decade ago,” he says. “Now, if you go to a conference, you could see 15 to 20 domiciles represented, which I believe is a good thing.”

Focusing on single parent captives, Joel Chansky, principal at Milliman, adds that captives cost money to own and operate, and also tie up capital in a regulated company that could be used for other purposes at the parent level, so showcasing the value of captives, both economic value and non-economic value, is essential for risk managers.

“If senior management is not sold on the captive concept, it won’t fly,” he says. “For domiciles, the cost/benefit analysis can be a bit more complicated. Usually, premium taxes or fees don’t cover the cost to regulate captives, but other trickle-down benefits related to jobs created, visitor traffic from board meetings and conferences—and the corresponding money spent in the local economy—are important for state/country governments to understand.”

Cheryl Baker, manager, risk management services at Blue Cross Blue Shield of Michigan, agrees that to showcase the value of captives, risk professionals must communicate effectively to all key stakeholders.

“This requires having good captive service providers to keep one abreast of the changing insurance and risk financing landscape,” she says.

“Communicating the potential cost-savings, as well as the strategic utilization of a captive is vital. Strategic utilization might include expanding coverage terms and conditions, partnering with commercial carriers (fronting, coinsurance, quota shares, etc) and accessing the reinsurance market directly.

“From a captive owner’s perspective, domiciles need to communicate all of these same things, as well as tout the benefits with regard to costs, regulatory expertise and ease of navigating the regulatory roads in their domicile.”

Besides marketing itself to organizations seeking insurance solutions, the captive insurance industry also needs to bring in new recruits; it is widely recognized that the industry is facing a recruitment problem as more people retire, and marketing efforts can help to attract talented incomers and to inform the insurance buyers of the future about the benefits of captive insurance.

“We need more people,” says Mary Ellen Moriarty, vice president, property & casualty at EIIA. “Over the past 20 years, college graduates have been seeking employment through companies they believe to be exciting: technology, engineering, entertainment. The aim for the insurance industry should be an intentional effort in reaching out to college grads and educating them on the sophistication of the insurance industry.

“It is a wonderful career and will always be a necessary service.”

The current situation

At present, the use of marketing in the captive industry is varied. As Claflin observes, this is because there are different types of captives.

“You have single parent captives like us, the University of California—we have five of them. They each do a different thing. Most Fortune 500s have captives, and a preponderance of the Fortune 1000s have captives.

“There are also some extremely robust group captives and group captive organizations out there that promote their group to middle-market companies that aren’t big or diverse enough to build their own captive. Those organizations have done a fantastic job of educating the middle-market broker community.”

He adds that brokers are spending more time trying to learn about captives so they can do what is in the best interests of their clients.

“If, as a broker, you bring your client this opportunity, then you’re going to have a client for life,” he says.

Baker observes that, based on the increased number of captives being formed, and considered, something must be going right on the marketing front. Her team has had at least a dozen conversations in the past year, as well as speaking on panels focusing on captive benefits.

“From what I’m reading about the changes in various domiciles, such as reducing fees and/or premium taxes

“ The best domicile is one that understands the business objectives of the insured. ”

CHAZ LAVELLE, DENTONS BINGHAM GREENEBAUM

and shortening approval timelines, there appears to be a customer-focused approach to marketing the usefulness of captives, as well as which domiciles are right for each captive owner,” she says.

Chaz Lavelle, partner at law firm Dentons Bingham Greenebaum, agrees that marketing efforts are generating results: in the last 20 years, captive insurance has become commonly understood across the middle market.

“Leading domiciles promote their advantages at captive conferences, on their websites in their literature, press releases, as well as providing information to industry publications that compile comprehensive domicile information,” he says.

“Domiciles and others will continue to adapt captive insurance concepts to businesses with evolving risk profiles and market conditions.

“Insureds are facing a hard commercial insurance market; they are also recognizing risks that they previously overlooked (eg, pandemic) or ignored. Captive insurance companies can provide consistent and guaranteed coverage for reasonable premiums, which do not fluctuate with market conditions unrelated to losses.

“Many domiciles have specialties: either because of specific laws (eg, punitive damage coverage), or from a concentration of expertise (eg, healthcare captives). Each domicile emphasizes the general benefits of captives, and the specific advantages of that domicile.

“The best domicile is one that understands the business objectives of the insured and, if they fall within the regulatory parameters of the domicile, will work with the insured to accomplish those business objectives,” he explains.

When showcasing the financial advantages, Moriarty notes that there are costs associated with the captive-domicile relationship that must be in line with value.

“More importantly, the expertise of your domicile contributes to the success of your captive(s) and the success of your captive enhances your ability to be competitive in the commercial market,” she says.

Moriarty adds that when marketing the captive insurance industry, it is necessary to overcome challenges of perception.

“The insurance industry is too quickly viewed as a ‘dated’ business that is boring,” she says. “I can attest to the fact that my career has been extremely interesting. I learn something new every day and it never gets old.”

Cornerstones of best practices

What does marketing look like in practice? Ophthalmic Mutual Insurance markets itself to prospects through state societies, subspecialty societies and the national organization. It also advertises in specific industry materials and through social media—and crucially, it ensures its marketing efforts are backed by solid evidence of best practices.

“Every buyer typically has many options to purchase insurance and your organization needs to show value added and why you are the best choice for them to make,” says Tim Padovese, president & CEO of Ophthalmic Mutual Insurance.

“Having a robust risk management program can show your potential prospect how you can make a difference to their operation. Claims also plays a critical role in their decision-making.

“In our organization we have a hotline for our 6,000 members that receives nearly 2,500 calls a year. We have informed consents for very specific procedures that are also in multiple languages,” he says.

Lavelle highlights the need to adhere to best practices and adds that there is plenty of information available to facilitate this.

“Insurance is a highly regulated business so the domicile’s rules and regulations, together with its review of filings and periodic examinations, form the cornerstone of best practices,” he says.

“These are disseminated through the domicile’s websites and communications with captive managers and captives. The domiciles expect the captive managers to assure that all filings are accurately and timely made.

“CICA has published several books on a variety of topics to assist captives and service providers in knowing and implementing best practices.”

When it comes to domiciles, they are now operating in a more competitive environment than ever. Heather McClure, chief risk advisor, US Healthcare Practice at Aon, believes that as more and more states develop expertise in captive insurance, domiciles need to provide higher levels of service, responsiveness, and reasonable regulation.

“This is being done well now, but further efforts could be made towards collaborating among domiciles—what is good for the industry is good for each domicile, and I think most know

and appreciate that,” she says. “There is a great camaraderie in this industry.”

For captives, she adds, the key to best practice is mitigating risk by ensuring programs are controlling and handling loss.

“Although captives are often formed for financial efficiencies, risk management and safety programs should be pillars the captive funds and maintains,” she says.

Claflin agrees that sticking to the fundamentals of best practice is vital for demonstrating the value of captive insurance and using it successfully.

“You need to have good governance as an organisation, which means you have good financial controls, you get an independent audit, you have outside legal counsel and if your board of directors is strong, you’re probably going to take that and apply it to your captive insurance operation,” he says.

“From a best practices standpoint, it looks completely different for a group captive than it does for the University of California. But the foundational principles behind it are to take it seriously and have good governance.”

He says organizations need to ask themselves whether they have strong risk management policies, procedures and programs in place—because in a captive arrangement, the aim is to more efficiently finance organizational risks, and to do so more efficiently than by going to the commercial insurance market.

Moriarty echoes these sentiments, saying that good governance, a strong investment policy and honest underwriting are all important cornerstones of best practice—and that for good governance, it’s important have multiple directors that have experience in commercial insurance.

“Commercial insurance is a complicated business and having board members that have an understanding is vital,” she says. “Investment policies need to reflect insurance industry investments versus the business of the captive owners.

“Many of the liabilities assumed by a captive are paid out over the course of 20 to 30 years. You have to make certain that you have the money when the captive is called upon to pay claims.

“Underwriting needs to be focused on delivering some level of profit—and based upon the business of the parent company, profits can be small. Underwriting for cash flow will put you out of business.”



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Key considerations

Baker says that with the traditional market and reinsurance market continuing to harden, the captive insurance industry, domiciles, service professionals and captive owners must continue their efforts to educate risk professionals on the advantages of alternative risk transfer.

“The more players in the industry and the more diversity of thought, the more creative risk financing will become,” she says.

When marketing the industry, Chansky says two key factors should be considered. “First, captives, when properly set up and managed, are bona fide insurance companies and are great risk management tools for many companies.

“Second, for single parent companies, the pros and cons of a captive should be carefully reviewed,” he says. “There is a lot of misinformation out there. With the Internal Revenue Service continuing to go after the captive industry, it’s important to emphasize the first point, and it’s acceptable to acknowledge that captives may offer federal tax benefits not available to self-insurers.”

However, Lavelle notes, tax should not be the main reason for entering an insurance arrangement; rather, there should be a genuine desire to be in the insurance business, to share and assume risk, and a dedication to running the insurance company as the highly regulated business that it is.

“Marketing consistent with these criteria will create successful captives,” he says. “While one must understand tax rules and consequences, it cannot be the motivation for the captive formation and operation.”

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MARY ELLEN MORIARTY, EIIA

Education is an important component for all marketing efforts; Chansky believes that the more fact-based information that can be made available, the better.

“CICA has done a great job in providing educational materials and information,” he says.

“It provides a forum for learning how to take advantage of different tools and strategies that can be applied in practice.”

Baker agrees that sharing information and knowledge is vital. Within the industry and to broader captive and risk management audiences, her team works to tell the success story of its captive and to share its experience and knowledge.

“We discuss the many creative options that we have weighed, whether implemented or not, and it’s exciting to learn that other captive owners have successfully implemented similar programs with their captives,” she says.

“We continue to have conversations with our risk professional colleagues about captive policies, procedures, and best practices. Any time we can give our colleagues a head-start with templates, or lessons learned, is a win. Sharing our knowledge strengthens all of us and the captives industry as a whole.”

Claflin adds that there is now more information and advice available than ever before, making the process of research, learning and consideration far easier than it was 20 years ago.

“There are many articles and whitepapers on best practices and captives, so there’s ample opportunity for you to learn,” he says. “You can go out and find what other like-minded entities are doing from a best practices standpoint, and I think the industry has done a fabulous job of teaching this.”

CICA’s own efforts go beyond providing resources, information and education. It is working to market the industry to new entrants through initiatives such as Amplify Women, NEXTGen, as well as through its conference, mentorship programmes and college student essay competition.

“CICA has been uniquely dedicated to finding ways of reaching out to individuals to at least consider the insurance industry as a possible profession,” says Moriarty. “Amplify Women is launching an intentional outreach to college students to educate them on the opportunities of the commercial insurance industry as well as captives.

“The industry needs to expand the outreach via direct contact, social media, networking, etc. CICA currently reaches out in

all of these ways, and we need the balance of the industry to follow.”

Claflin agrees that CICA’s ongoing efforts to promote and advocate for the industry are achieving results.

“We need people to join our industry and as a board, we founded the NEXTGen and the Amplify Women Committees to promote and enhance the diversity of our industry as well as educating young professionals, whether it be in accounting or consulting or actuarial or tax, letting them know this is a very attractive part of the insurance industry,” he says.

He adds that CICA is doing good work to publicize the full benefits of captive insurance to organizations.

“Captives release money back into the companies for capital improvements, and into the economy, because what was once an expense is now new revenue and that business can now enhance its employee benefit plans,” he says.

“Those businesses can hire new people for risk management and safety, they can now invest in capital improvements that enhance the safety and the wellbeing of the employee.

“With a captive, you’re not just paying for insurance—you’re creating a new business that generates so many benefits: new revenues, capital improvements, safety initiatives, and employee benefit plan enhancements that make that business a better business and therefore a more attractive place for people to work.

“It will change the culture in your company because the owners of the company, who are ultimately the beneficiaries of the investment, income and the underwriting profits, etc, become much more engaged in their company because they know what’s at stake and they know what the reward is.

“They engage with their employees better, and more frequently. That cultural shift is oftentimes overlooked.”

Looking to the future, Claflin believes the captives industry will market itself ever more effectively—not least because the benefits are so clearly in evidence.

“It’s an extremely vibrant, successful part of the insurance industry but it’s still somewhat of a secret in certain areas. But I think with the continued efforts of the associations, the domiciles, the brokers, the captive administration, and consulting firms, we can continue the momentum to educate and spread the word about captives. The industry is in really good hands,” he says. ●