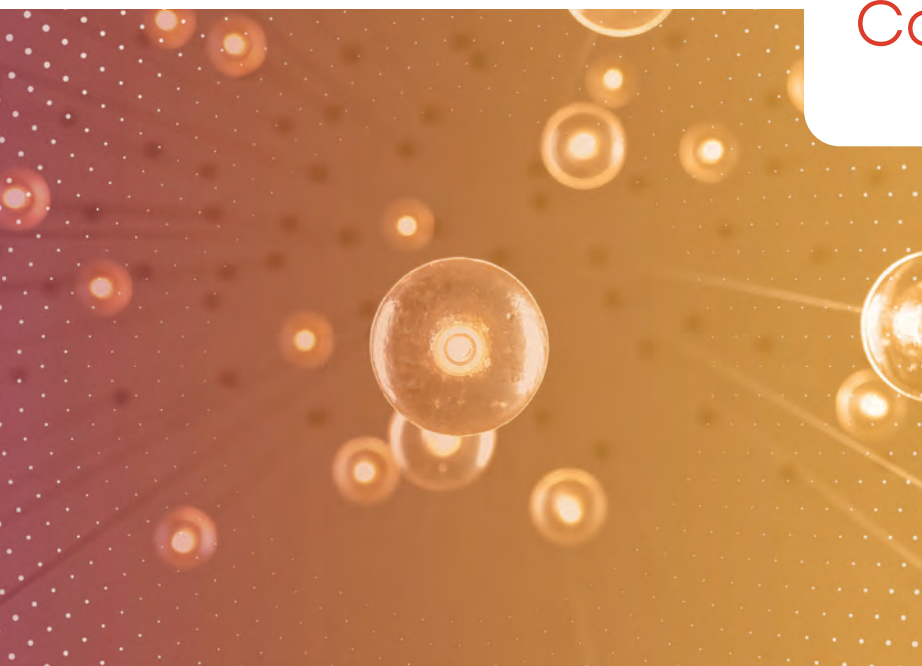




**Artex** | Alternative  
Risk

## **A Guide to Captive Insurance**







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## 04. WHAT IS A CAPTIVE?

The definition of what a captive is will guide you throughout this document.

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## 06. THE CAPTIVE MARKET

Captive insurance companies are a prominent risk control mechanism in the strategic planning of organizations ranging from Fortune 500 companies to medium-sized enterprises, spanning virtually every industry sector and every corner of the globe.

### IN THIS SECTION, WE EXPLORE:

- The current state of the captive industry
- How captives are evolving
- Factors driving captive growth
- The global expansion of captive utilization

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## 08. WHY FORM A CAPTIVE?

Forming or joining an existing captive is a strategic decision. It requires a detailed assessment of your risk exposures and your attitude toward and appetite for retaining risk, as well as a long-term commitment to optimize the balance between self-insurance and risk transfer to the commercial insurance market.

### IN THIS SECTION, WE EXPLORE:

- The key benefits of a captive
- Financial
- Risk management and claims control
- Insurance coverage
- Who should consider forming or joining an existing captive
- Why a captive is a long-term strategy



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## 10. IS A CAPTIVE OR CELL COMPANY RIGHT FOR YOU?

From establishing the viability of a captive to the formation and management of the company, we take a detailed look at every stage in the process.

### IN THIS SECTION, WE EXPLORE:

- The range of information and data required
- Stages involved for a feasibility study
- Registration and licensing processes
- The operational administration of the captive

We also provide an overview of the captive formation timeline, from preliminary meetings to post-establishment review, highlighting fees that may be required.

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## 18. WHAT CAN A CAPTIVE INSURE?

A captive is a versatile facility that can be used to provide coverage for a broad range of insurance lines. While primarily used for more predictable lines, improved risk management and a growing awareness of captive benefits are expanding the frequency and manner in which captives are used to manage risk.

### IN THIS SECTION, WE EXPLORE:

Traditional, expanded, and emerging captive lines.

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## 19. TYPES OF CAPTIVES

A range of entity types are available for captive structures, all designed to meet the requirements of a diverse spectrum of clients' risk management needs.

### IN THIS SECTION, WE EXPLORE:

- Single-parent captives
- Segregated/protected/incorporated cell companies
- Group captives and mutuals
- Reinsurer sponsored by the business producer
- Employee benefit captives
- Risk retention groups

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## 20. CAPTIVE AND PROTECTED CELL STRUCTURES

We provide illustrations of the structure of a single-parent captive insurance company and protected cell, indicating the key parties in the structure and showing the flow of capital, services, and fees.

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## 22. CHOOSING THE RIGHT DOMICILE

In today's increasingly competitive captive arena, one of the most important decisions to make when establishing the company is choosing an appropriate domicile.

### IN THIS SECTION, WE EXPLORE:

- Factors that influence the choice of domicile
- The onshore/offshore decision

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## 24. A CAPTIVE CASE STUDY

We provide an example of how a captive structure was established to meet the risk requirements of a community hospital, highlighting some of the key decisions that were made during the process.

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## 27. ART OF RISK

We highlight some of the factors that set Artex apart from other insurance managers, including our global reach, extensive experience, and belief that we can find a better way.



# What Is a **Captive**?

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- A captive is a special-purpose legal entity that is licensed as an insurer and is established primarily to insure a proportion of the risks of its sponsor — often a corporate parent, group, or association.
- It is a risk-bearing vehicle.
- It can be either an insurance or a (re)insurance entity.
- In addition to being used for insuring or reinsuring the risks of its parent and affiliates, a captive can be used to insure or reinsure the risks of third parties, such as customers, suppliers, or subcontractors.

# Take Control

In an increasingly dynamic, evolving, and volatile global marketplace, the need to establish and maintain control over risk exposures is critical. To do so, successful businesses develop and implement risk management programs that support their strategic objectives, mitigate against new exposures, and probe for emerging threats. Through effective levels of control, businesses achieve stability in turbulent markets, grasp opportunities when they arise, and grow profitably throughout the market cycle.

## A CENTRAL ROLE

A central component of the risk control strategy for a growing number of organizations is the captive insurance company. The primary role of a captive is to insure the parent company, which usually owns or is a sister company to the captive vehicle, for all or a portion of its insurable risks. In practice, however, a captive creates much greater value.

### The captive is an ideal mechanism for:

- Establishing a centralized risk framework
- Creating tailored, comprehensive, and responsive coverage
- Enabling the development of tailored insurance policies
- Overcoming exclusions and other restrictions applied by the commercial market
- Delivering more responsive and broader coverage options
- Centralizing and improving risk retention strategies
- Increasing negotiating power with the commercial markets at renewal
- Improving claims handling and monitoring
- Potentially reducing the overall cost of risk
- Potentially increasing the cash flow of the combined business enterprise

A captive provides more than just a mechanism to control the risks of the parent company. It also offers entrepreneurial opportunities for joint venture partners, associations, and insurance agencies. The majority of companies do not have the appetite nor the financial capacity to self-insure all their risks, and a captive allows the purchaser of insurance to optimize the balance between self-insurance and risk transfer with commercial insurers to suit their risks and resources. The process ultimately provides an excellent management and negotiation tool when trading risk in the market.



A well-structured captive can respond quickly and effectively to the changing demands of its parent company or fluctuations in the insurance market.

## A RESPONSIVE APPROACH

One of the main strengths of the captive is its inherent flexibility. A well-structured captive can respond quickly and effectively to the changing demands of its parent company or fluctuations in the insurance market. A captive can adjust retention levels or amend insurance parameters when required, offering a rapid response tool that keeps pace with change.

In this guide, our goal is to make you aware of what a captive can offer your organization. We will discuss the many benefits of being a captive owner, summarize the processes involved in establishing a captive, and provide a brief overview of the different types of captive structures available.

We hope once you have reviewed this guide, it will help drive some of the decision-making process necessary to determine whether a captive could add value to your organization.

# The Captive Market

Modern captives provide a sophisticated risk transfer mechanism that plays a central role in the medium- to long-term strategic planning of organizations ranging from Fortune 500 companies to medium-sized enterprises, and spanning virtually every industry sector.

## ON THE RISE

Global captive numbers at the end of 2024 had reached 6,290, a 1.8% increase from 2023.<sup>3</sup> Increasingly, organizations acknowledge that risk managed through a captive is less costly and more efficient than traditional insurance placement. This is because the captive structure provides a premium rate that reflects the organization’s unique exposures, as opposed to commercial insurance market rates that reflect industry averages, typical exposures, and a margin for profit.

## CONTROL YOUR RISK

As the captive market has matured, the willingness of owners to place a broader array of risks on their captives and to raise their retention levels has also increased. The scope of the captive has moved beyond traditional risks such as property, marine cargo, workers’ compensation, and professional liability to encompass risks such as employee benefits, medical stop-loss, supply chain liability, and trade credit, as well as emerging risks such as cyber liability.

### TOP 10 CAPTIVE DOMICILES

Number of captive licenses at year-end 2024

Source: Business Insurance captive survey

Rank	Domicile	2024	2023
1	Vermont	683	659
2	Cayman Islands	670	658 <sup>1</sup>
3	Bermuda	631 <sup>1</sup>	633 <sup>1</sup>
4	Utah	462	439
5	North Carolina	293	311
6	Delaware	285	283 <sup>2</sup>
7	Barbados	273	261 <sup>2</sup>
8	Hawaii	272	263
9	South Carolina	231	221
10	Arizona	201	176

### TOP 10 US CAPTIVE DOMICILES

Number of captive licenses at year-end 2024

Source: Business Insurance captive survey

Rank	Domicile	2024	2023
1	Vermont	683	659
2	Utah	462	439
3	North Carolina	293	311
4	Delaware	285	283 <sup>2</sup>
5	Hawaii	272	263
6	South Carolina	231	221
7	Arizona	201	176
8	Tennessee	175	165 <sup>2</sup>
9	District of Columbia	132	120
10	Montana	93	100

### TOP 5 EUROPEAN DOMICILES

Number of captive licenses at year-end 2024

Source: Business Insurance captive survey

Rank	Domicile	2024	2023
1	Guernsey	197 <sup>1</sup>	204 <sup>1,2</sup>
2	Luxembourg	197	195
3	Isle of Man	95	98
4	Dublin	61	63
5	Sweden	30	28

<sup>1</sup>Business Insurance – From website

<sup>2</sup>Business Insurance – Restated

## LOWER THE BARRIERS

Captives have continuously evolved in response to changing market needs. Today, there is a diverse range of captive structures available, including pure captives, group captives, agency captives, captive pools, and various cell structures and rent-a-captives. The most recent evolution includes segregated accounts/ portfolio companies, protected cell companies, and risk retention and purchasing groups. These innovative structures have helped lower the financial and logistical barriers to the captive solution for many organizations, resulting in an expansion of their appeal to a much broader market.

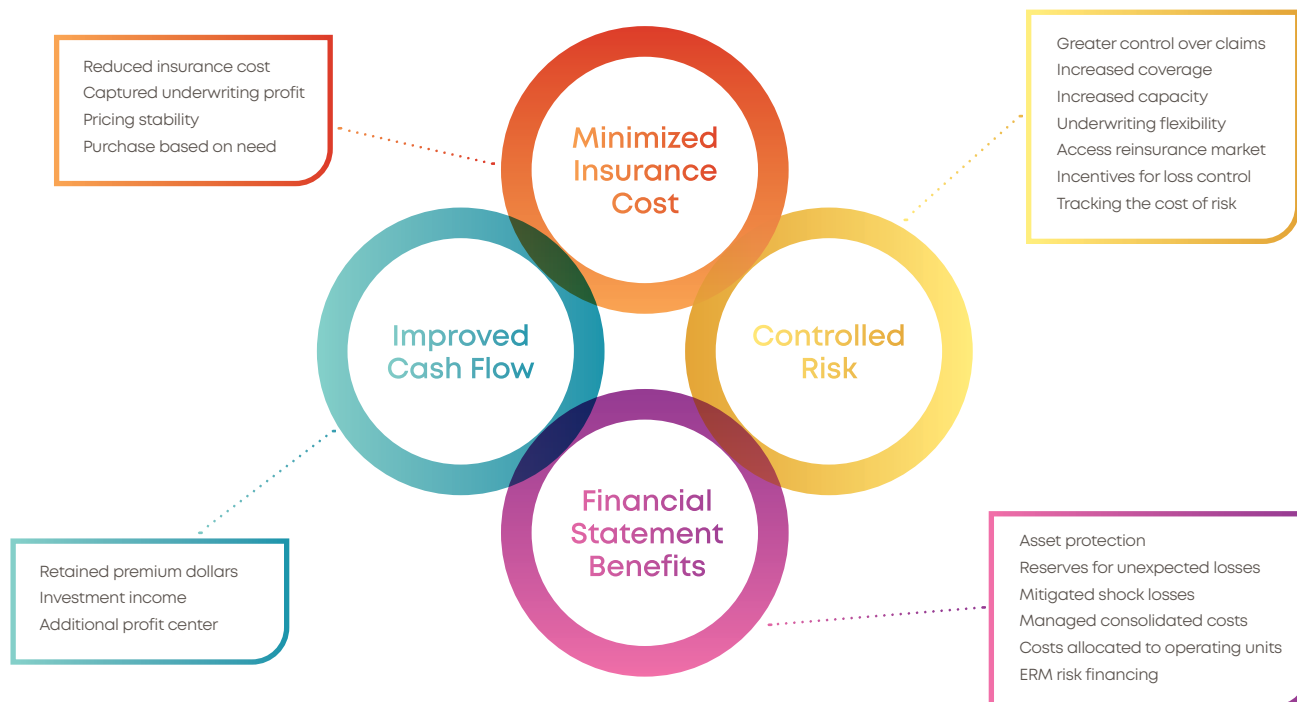
## A WORLD OF CHOICE

At the end of 2024, 55.1% of captives globally were domiciled in the United States, with an additional 29.8% in North American offshore domiciles and 10.9% in Europe.<sup>3</sup> While Bermuda and the Cayman Islands had previously been the largest domiciles globally, in 2023, Vermont overtook both locations to become the world's largest captive domicile. Europe's captive market continues to grow as firms take more control of risk, and regulations ease. As the global market shifts, companies can now locate their captives in more geographically desirable locations, both onshore and offshore, than was previously possible.

## A GROWTH MARKET

The captive market is growing. New formations are on the rise, premium volumes are increasing, and overall market appeal is growing. Self-insurance, as part of a risk transfer strategy, is evolving to capture a greater number of risks, industries, and territories. As the level of sophistication continues to increase, captives will become an even more effective and efficient structure for managing risk.

## WHAT FACTORS ARE DRIVING CAPTIVE GROWTH?



<sup>3</sup>Business Insurance – 2025 Captive Managers and Domiciles Rankings and Directory. Data excludes microcaptives, series captives, and individual cells of cell members in protected cell companies.



# Why Form a Captive?

Making a decision to establish or join an existing captive is strategic. It requires a detailed assessment of your risk exposures, your attitude toward an appetite for retaining risk, and a long-term commitment to optimize the balance between self-insurance and risk transfer to the commercial insurance market.

**For most captive owners/members, the primary drivers for establishing or joining a captive revolve around cost, control, and coverage, and include the ability to:**

- Minimize and bring stability to the cost of insurance risk
- Provide custom, responsive insurance coverage
- Embed a proactive risk and claims management framework into the organization
- Access the reinsurance market directly
- Improve enterprise cash flow, cash flow timing, and investment returns
- Generate a new revenue stream by covering third-party exposures

## MULTIPLE BENEFITS

The range of benefits delivered by a well-structured captive has grown considerably in recent years due to a combination of increased sophistication, changing market dynamics, and a more demanding captive client.

The principal advantages of a captive can be divided into three main categories: financial, risk management and claims control, and insurance coverage.

## Who should consider forming a captive?

Any company with some of the following attributes should give serious consideration to making a captive part of their risk strategy:

- \$500,000 or more in US dollars or equivalent annual insurance spend
- Proactive approach to risk management
- Long-term commitment to risk financing
- Strong financial balance sheet
- Appetite to finance retained risk

## Long-term commitment:

Establishing a captive or joining an existing captive program requires a long-term commitment in order to fully capitalize on the many benefits. Depending on the type of captive structure selected, the capital required can vary from nominal to significant. In terms of risk capital expenditure, we normally recommend that only those companies with an annual insurance spend of over \$200,000 in US dollars or equivalent consider a group captive or small captive program. Consideration for a larger pure captive should have an annual insurance spend of over \$1 million or equivalent, and \$500,000 or equivalent if considering a cell-type structure.







The range of benefits delivered by a well-structured captive has grown considerably in recent years due to a combination of increased sophistication, changing market dynamics, and a more demanding captive client.

#### **Financial:**

- Helps reduce total insurance costs over time by aligning premiums with actual loss experience
- Increases the stability of premium rates during times of market volatility
- Provides direct access to the reinsurance market
- Eliminates high-expense ratios applied by commercial insurers
- Offers enhanced investment and cash flow benefits
- Can create new revenue-generating opportunities

#### **Risk management and claims control:**

- Delivers centralized information and risk control
- Facilitates improved risk capital allocations
- Consolidates and manages global programs
- Provides a vehicle to support enterprise risk management initiatives
- Allows for the ability to create more effective claims handling processes
- Improves claims monitoring capabilities
- Can expose any areas of higher-than-average loss activity through claims audits

#### **Insurance coverage:**

- Enables the development of tailored insurance policies
- Increases negotiating power with the commercial market at renewal when purchasing excess insurance
- Provides broader coverage options
- Can be adapted in response to changing market conditions
- Ability to overcome exclusions or other restrictions applied by the commercial market
- Delivers more responsive coverage
- Offers entrepreneurial opportunities for joint venture partners, associations, and insurance agencies
- Centralized and improved risk retention strategies
- Stability of cover if commercial insurers withdraw from particular lines
- Can be used to underwrite third-party business
- Can be used to fund uninsured/uninsurable risk, including contingent liabilities



## MAKING THE RIGHT DECISION

As with any important business decision, having relevant and accurate information is essential. When assessing the suitability of all captives, the following information is required:

- Description of business operations
- Historical loss and exposure data
- Financial information
- Details of the current insurance program, including any retained loss funding
- Details of additional risk capital expenditure
- Marketplace summary
- Business motivation for the establishment of a captive
- Review of any uninsured liabilities
- Details of the planned ownership structure
- Due diligence information on the captive sponsor and related parties

# Is a Captive or Cell Company Right for You?

The first stage in the process of establishing a captive is to confirm whether it is both viable and feasible for your organization. There are a number of practical considerations that should be addressed, including:

- What is the primary motivation for establishing or participating in a captive?
- What lines of business would be included?
- Can coverage, premium, and loss information be provided for the last three to five years?
- Is there an indication available of renewal terms for the lines of insurance being considered for the captive, and how do they compare?
- What are the corporate growth projections, and how do these impact the risk profile?
- Is there consideration of any regulatory requirements in relation to insurance arrangements?
- Does it have a captive ownership structure?
- Is capitalization required to establish the captive?
- Does it require the funding of any security/collateral?

## CONSULT THE EXPERTS

To ensure that each component of the captive is effectively structured and aligned with risk and business objectives, it requires the appointment of a team of experts.

### A comprehensive captive team can include:

- Insurance/captive manager
- Insurance broker/consultant
- Legal advisor with captive experience
- Tax advisor with captive experience
- Claims administrator
- Actuary
- Auditor
- Bank/investment advisor
- Regulator





## THE FEASIBILITY STUDY

A feasibility study is a collaborative study of a company's risk profile that often includes actuarial reports, financial models, a review of the insurance market conditions, and an assessment of regulatory, legal, and tax issues. This report recommends risk management options, and establishes whether a captive is feasible and, if so, how this should be structured. Components of this review often become part of the insurance license application in the captive domicile selected. A feasibility study is generally based on the following framework:

### Introduction and executive summary:

- Terms of reference
- Report objectives

### Organization overview:

- Current insurance program
- Premium expenditure
- Details of any current self-insurance funding and nonconventional risk transfer
- Loss history information
- Actuarial report (if applicable)

### Captive requirements:

- Cost/benefit analysis
- Minimum requirements
- Solvency
- Capitalization
- Premiums
- Captive entity or structure options
- Fronting arrangements (if required)
- Reinsurance (if required)
- Retention levels
- Claims management
- Domicile review
- Regulatory and compliance
- Timelines for establishment and ownership
- Directors

### Financial analysis:

- Stress testing, including loss scenarios and net captive retention
- Premium funding estimates
- Prospective pro forma
- Expected loss calculations
- Comparison of a captive to the existing risk financing program
- Estimate of likely expenses
- Surplus and capital contributions
- Investment strategy
- Tax position

### Other considerations:

- Future development opportunities of the captive
- Tax and accounting
- Ownership structure
- Class of license
- Exit strategy

### Recommendations:

- Final recommended strategy



It is essential that you work with an experienced captive manager when registering and licensing a captive with a regulatory authority.

## REGISTRATION AND LICENSING

It is essential to work with an experienced captive manager when registering and licensing a captive with a regulatory authority. They should be conversant in all regulatory requirements of the chosen captive domicile. It is also advantageous if they have a strong working relationship with the regulator.

The captive manager will work closely with you and the regulatory authority in the chosen domicile to complete all necessary documentation and submit all information required for the license submission. This will include a detailed business plan incorporating the following information:

- Full details of proposed ownership and supporting due diligence
- Description of the insurance program to be underwritten by the captive
- Strategic and underwriting objectives
- Reinsurance, fronting, and any security requirements
- Three- to five-year financial projections
- Capital adequacy calculations
- Risk management framework
- Compliance and corporate governance procedures
- Appointment of service providers
- Board of directors
- Investment strategy
- Dividend policy

### PRELIMINARY MEETING

Discuss captive concepts  
Review process and timelines  
Generate agreement against objectives and client requirements  
Review insurance program

### FEASIBILITY STUDY

Compile data  
Process and analyze data  
Consider important elements, including domicile, type of captive entity, and lines of business  
Draft report

### RECOMMENDATION

Present report to client  
Respond to any questions and complete any additional feasibility work  
Client determines whether to proceed with a captive formation

WEEK

01

03

07

(Typically 12 to 16 weeks; however, certain domiciles and types of programs may take six to 12 months.)

## ONGOING CAPTIVE MANAGEMENT

Once the captive is operational, the captive manager's role becomes focused on ensuring that the new captive delivers the full extent of the benefits possible, and evolves over time to meet the owner's strategic and risk objectives. These services will include:

- Company and secretarial administration
- Regulatory liaison and compliance
- Corporate governance
- Accounting and financial reporting
- Coordination of any third-party service providers
- Strategic advice on the evolution of the captive

The captive manager's role is wider than the operational maintenance of the captive. It is critical that the manager also ensures that the captive continuously evolves to meet the parent organization's needs throughout its life cycle. This involves working in partnership with senior management so that any changes in the risk profile, requirements of the parent, or variations in the commercial insurance market are reflected in the operation of the captive.

The manager also ensures that the captive continuously evolves to meet the organization's needs throughout its life cycle.

### IMPLEMENTATION

Work with client and other professional advisors to implement the agreed-upon strategy

Appoint any required service providers

Negotiate coverage, fronting, reinsurance, and security requirements

Submit license application

Execute agreements

10

### CAPTIVE IS OPERATIONAL

Management account preparation

Policy issue and premium collection

Administer loss payments

Investment of assets

Annual audit

Schedule board meetings

16

### FIRST ANNUAL REVIEW

Review captive participation, operations, and coverages against ongoing objectives

Continue working with client's professional advisors to evolve and add new lines of coverage where appropriate

52

## CAPTIVE FEES AND COSTS

The costs associated with administering a captive vary depending on captive type, complexity, domicile, and levels of administration required.

### Elements that impact these costs are:

- Number and type of insurance policies
- Number and territories included in the captive program
- Service requirements for insurance and claims administration
- Number of currencies, frequency of premium receipts, and claims payments
- Any reinsurance-related work
- Liaison with fronting carrier(s)
- Need for administration of security arrangements
- Volume and type of investments
- Expected treasury and investment activity
- Liaison with professional and service providers
- Frequency and format of financial reporting
- Custom reports
- Number of board meetings or other necessary meetings per year
- Volume of certificates of insurance required





**The typical costs and fees associated with a captive can include the following:**

#### Feasibility study

- Actuarial fees
- Legal, tax, and accounting advice
- Completion of report

#### Captive establishment

- Capitalization
- Application fee (an independent application review fee may also apply in some domiciles)
- Year-one license fee
- Incorporation costs
- Captive manager fee
- Legal fees

#### Ongoing costs

- License renewal fee
- Other domicile fees
- Captive management fee
- Any necessary ongoing legal advice
- Director's fees
- D&O insurance
- Auditor fees
- Actuarial fees
- Sundry expenses, including meeting costs, travel, and accommodation



## KEY CAPTIVE CONSIDERATIONS

When establishing a captive, you will need to consider the following:

- Fronting vs direct policy issuance
- Reinsurance
- Program administration
- Claims administration
- Actuarial analysis
- Financial reporting
- Choice of domicile to meet requirements
- Captive ownership and type of entity

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At **Artex**, we believe there's more to alternative risk management. Beyond business as usual, on the unpaved path. That's where superior outcomes happen and where empowered decisions are made.







# What Can a Captive Insure?

**The captive is a versatile instrument that can be used to provide cover across a broad range of insurance lines. It allows the parent to efficiently optimize its mix of risk transfer to the commercial market and self-funding.**

Some captives focus on traditional limits, while other captives write less predictable lines. The majority of captives tend to underwrite aggregate loss limits to ensure the captive's long-term viability. Larger risk layers are generally placed in the commercial insurance market, which has greater capital, appetite, and capacity for such risks.

The types of insurance coverage that are suitable for a captive, particularly one newly formed, tend to be those that pay a reasonable level of premium and offer the potential for profit supported by historical data, plus projected investment earnings on cash flow. The total premium generated in aggregate across all lines being underwritten by the captive, net of administrative and reinsurance costs, should be sufficient to make establishing and administering the captive worthwhile.

It is important to note that companies that lack sufficient premium volume, resources, or appetite for establishing their own captive can still access many of the benefits by participating in a cell-type structure, such as a protected cell company or a segregated portfolio company, or by joining an existing group captive program.

## EXTENDING ITS REACH

In recent years, many captives have expanded their risk appetite to include an increasingly diverse range of insurance coverages. This is mainly due to greater awareness of the parent's risk profile and a better understanding of the costs associated with managing those risks effectively, as well as a greater understanding of the overall benefits offered by a captive.

Given its inherent flexibility, a captive also offers the parent company an efficient means of responding quickly to changing market dynamics, whether attributable to regulatory changes, volatility in the commercial insurance market, or emerging risks. Examples have included interest in using captives to provide medical stop-loss cover following the Affordable Care Act in the US; trade credit following the financial crisis; accessing UK and US terrorism pools; and more recently, exploring the potential for covering cyber liability.

## What risks can be placed into a captive?

### TRADITIONAL CAPTIVE LINES

General liability  
Property and business interruption  
Terrorism  
Professional indemnity and errors & omissions  
Auto liability  
Marine  
Aviation and associated covers  
Healthcare liability  
Employment practices liability  
Environmental liability  
Workers' compensation and employers liability  
Product or service extended warranty

### EXPANDED CAPTIVE LINES

Employee benefits including ERISA  
Terrorism, including TRIA/TRIPRA  
Fiduciary and surety bonds  
Product recall  
Title and private mortgage  
Equipment maintenance  
Construction exposures  
Trade credit  
Pension longevity  
Errors & omissions  
Creditor life  
Legal expenses

### EMERGING CAPTIVE LINES

Self-insured medical stop-loss  
Reputational  
Intellectual property  
Medicare fraud and abuse  
Expert witness testimony  
Tax audit insurance  
Lease residual value  
Punitive damages  
International kidnapping protection  
Supply chain  
Cyber  
Environmental  
Contingent liabilities



# Types of Captives

Captives come in a variety and ever-evolving range of formats designed to meet the requirements of a diverse spectrum of clients. While the single-parent or pure captive remains the most common, group captives, association captives and agency captives have served to enhance the overall appeal. The phenomenal growth in the formation of segregated/protected or sponsored facilities and cell-type structures has also opened up the benefits to much smaller organizations.

## Single-parent (pure) captive:

- Owned and controlled by one owner
- Formed to insure the risks of the parent only
- The most popular structure
- Certain captives can expand into third-party business

## Segregated/protected/incorporated cell company:

- Owned by a third-party sponsor (often an insurance manager)
- Insures the risks of multiple insureds
- Individual cells are beneficially owned by the insureds
- Cells are legally segregated from each other
- Offers the benefits of a captive without the same level of financial commitment and associated costs
- Some domiciles permit the formation of incorporated cells

## Group captive:

- Owned by a group of companies
- Can be related (i.e., trade groups) or unrelated (i.e., same size)
- Insures the risks of the group
- Can be subject to joint and several liability

## Agency/producer-owned captive:

- Owned by a producing retail or wholesale insurance agency/broker
- Can be homogeneous or heterogeneous books of business
- Assumes underwriting risk on the portfolio as a new revenue stream

## Employee benefit captive:

- Can insure medical stop-loss, retiree benefits, group term life, and long-term disability
- US-based medical stop-loss group captives designed for employers with 50 to 1,000 employees

## Producer-owned captive:

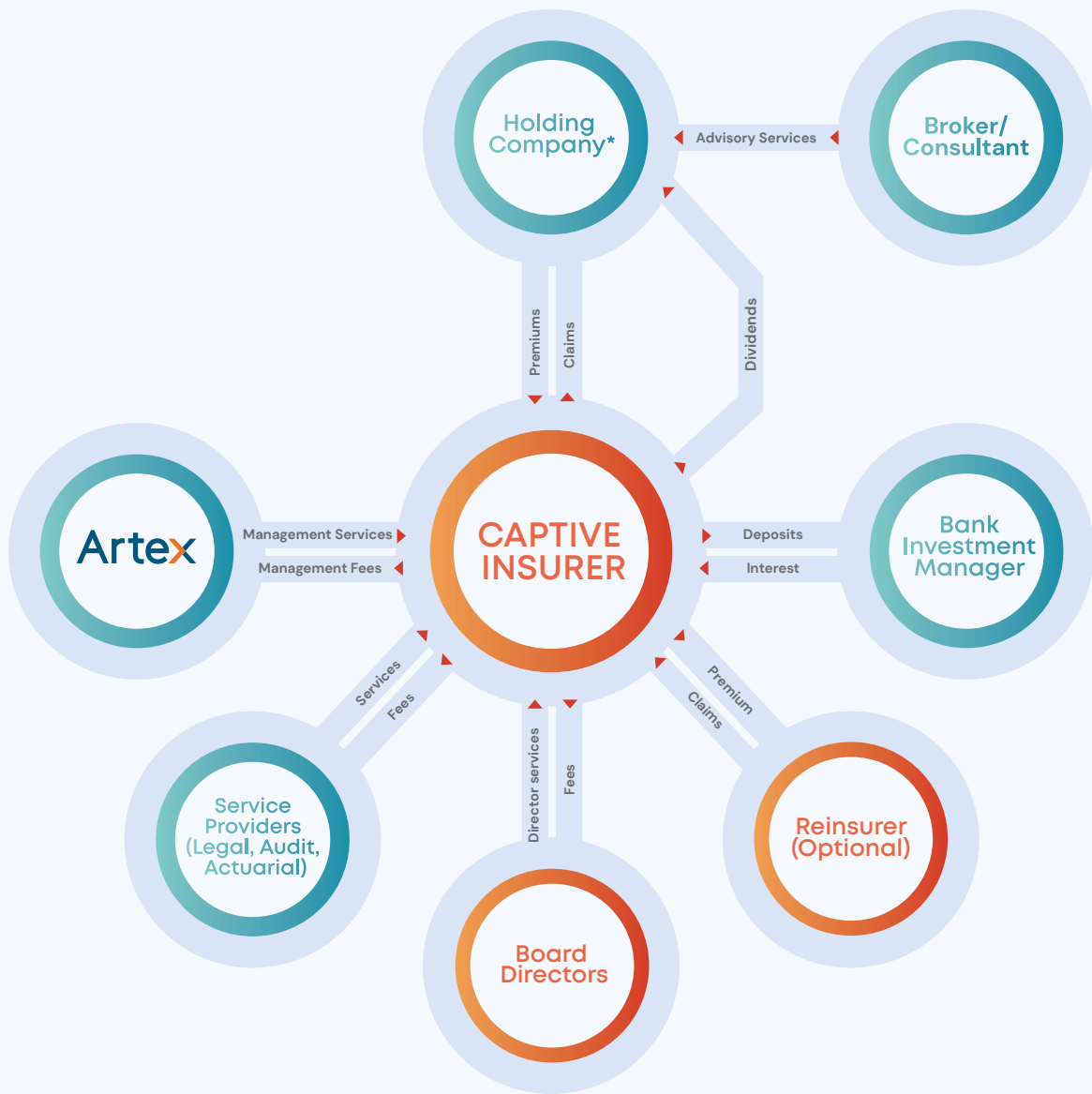
- Owned by organization(s) in the insurance distribution channel
- Can be a homogeneous or heterogeneous book of business
- Assumes underwriting risk on a portfolio as a new revenue stream

## Risk retention group:

- Every insured must be an owner
- Writes only liability lines of insurance for policy holders engaged in similar business activities
- Authorized by the Federal Risk Retention Act of 1986; only available to customers in the United States

# The Captive Structure

The following diagram provides an outline of the structure of a single-parent captive, indicating the key parties in the structure and showing how capital, services, and fees flow.

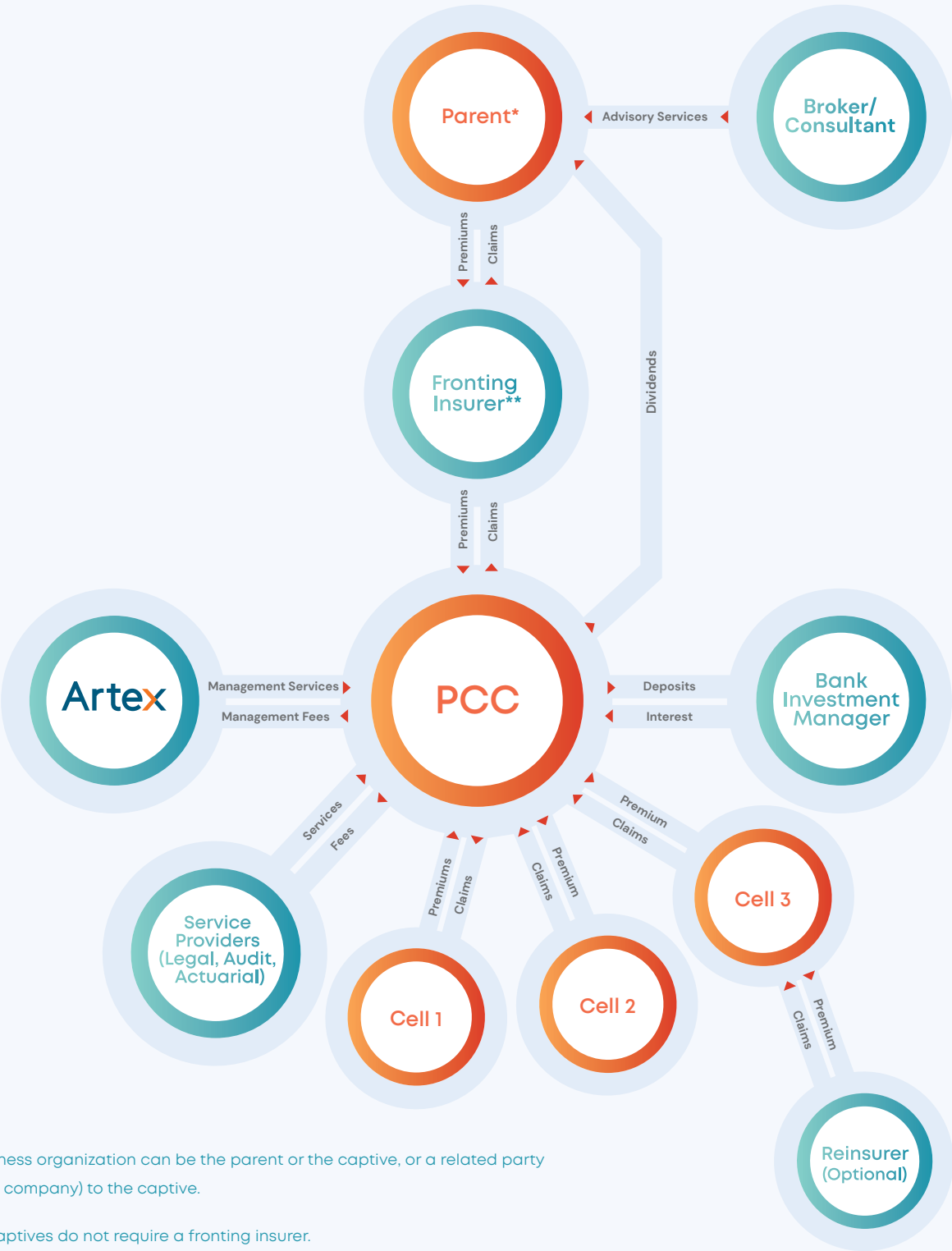


\*The business organization can be the parent of the captive, or a related party (i.e., sister company) to the captive.



# The Protected Cell Structure

The following diagram provides an outline of the structure of a protected/segregated/incorporated cell captive, indicating the key parties in the structure and showing how capital, services, and fees flow.





# Choosing the Right Domicile

One of the most important decisions to make when establishing a captive is the choice of domicile. Competition within the captive sector has never been greater, as emerging domiciles compete for market share with the leading domiciles. While competition is healthy, the range and diversity of potential locations for a captive make this challenging for the customer.

## DOMICILE FACTORS

For most organizations, geographic proximity and ease of travel have made the decision of where to domicile their captive more straightforward.

However, there are a range of factors that should also be given careful consideration when selecting the most appropriate domicile, including:

- Solvency, capitalization, and surplus requirements
- Approach, responsiveness, and efficiency of the regulator
- Stability of regulatory and business environment
- Legislation: company and insurance law and the availability of cell legislation
- Maturity and quality of local financial services infrastructure
- Availability of high-quality expertise
- Convenience of travel to and from domicile
- Operational costs
- Taxation and accounting requirements
- Compatibility of language, currency, and culture
- Convenience of time zone
- Political stability
- Redomiciliation agreements

If your organization conducts the majority of its business in a territory other than the one in which the business is headquartered, it may be beneficial to establish the captive in a domicile close to that business.



## THE ONSHORE/OFFSHORE DECISION

A key consideration when choosing the most appropriate domicile for a captive will be whether to locate the entity in an onshore or offshore jurisdiction. In recent times, there has been an increase in organizations establishing their captive onshore in the US and EU.

There are a number of factors that can influence this decision: regulatory developments, tax and accounting considerations, travel cost savings, and the surge in the availability of new onshore domiciles with captive legislation. However, despite this development, mature offshore domiciles like Bermuda, Cayman Islands, and Guernsey continue to dominate the captive marketplace, benefiting from their established and constantly evolving captive legislation, well-reputed and proportional regulatory environments, extensive captive-focused infrastructure, and ease of conducting business.

Selecting the right domicile is a process that must be closely aligned with the organization's objectives for establishing the captive. While it is possible to redomicile the captive, this is generally not straightforward, and the goal should always be to select the appropriate domicile at the start.



For most organizations, geographic proximity and ease of travel have made the decision of where to domicile their captive more straightforward.



# A Captive Case Study

A community hospital was considering setting up a captive. Despite relatively sophisticated risk management procedures and better-than-average claims experience, the hospital was weighing a significant reduction in its OB-GYN practice given its inability to secure continuous insurance coverage at stable rates. The impact of this on their community would be devastating, as access to local OB-GYN practitioners would be severely restricted. Sense prevailed when a board member called this the tail wagging the dog: “We’re letting insurers dictate our mission. Show me Plan B.”

That pivotal meeting triggered the hospital's risk manager and CFO to review the hospital's history of premiums paid, claims reimbursed, and exposure growth. They discovered that over the 10 prior years, the hospital had paid in premiums five times the amount of claims reimbursed. The excess carrier experienced only one payout of \$250,000 on an OB-GYN case that they

insisted be settled out of court, regardless of what the hospital's risk manager and legal team considered a very defensible claim. The hospital's loss experience had improved significantly during the 10-year period, despite significant growth in exposures (i.e., occupied beds, outpatient visits, employed practitioners, etc.).

Presented with the facts and the board's instruction to take control of risk financing, the hospital's broker agreed to explore the idea of using a captive with the assistance of an independent consultant.

A feasibility study was completed to further analyze the loss history, develop actuarial estimates of current claims liabilities and future liabilities, explore regulatory and tax parameters, evaluate ownership structures, compare alternative attachment points for commercial coverage, determine capital and solvency requirements, and compare domiciles. The outcome was a recommendation to establish a captive prior to the next insurance renewal date.

The captive's capital requirement was minimized by adding the following program features:

- Premiums for the limits retained by the captive were actuarially determined using a 75% confidence level.
- Premiums were set sufficiently higher than this to cover the captive's annual operational costs.
- The primary insurance policy contained a mechanism for retrospectively adjusting premiums to partly counter any significant under-/over-funding of a given policy year.
- The excess limits insured by the captive were fully reinsured in the commercial market.



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As shown in the case study, conservative funding at the 75% confidence level meant that the captive had built up surplus of \$7.4 million after five years (\$3.5 million difference between insurance liabilities estimated at the expected and 75% confidence level, and \$3.9 million of funding in excess of liabilities estimated at the 75% confidence level). The retrospective rating plan allowed for some but not all of this surplus to be utilized by setting premiums for the sixth policy year at the actuary's estimate of expected losses, without adding a margin for the 75% confidence level. Delaying the release of all the surplus recognizes the long-tail nature of hospital and physician professional liability insurance, and the possibility of still seeing the loss experience for any prior period deteriorate. This long tail also has its benefits, because premiums can be invested in the meantime, with investment returns supplementing any surplus from the insurance transactions.

Fifteen years after the captive's establishment, it was in a position to negotiate better excess premiums in the market by increasing the excess attachment point and also taking a vertical slice of the excess layer. It was also in a position to release surplus to the hospital to fund ongoing healthcare initiatives, and had sufficient capacity to start considering other lines of coverage in the captive.

The captive afforded the hospital control of its destiny, and its mission was intact.

This case study highlights the importance of certain features in ensuring the success of a captive program:

- Good risk management
- Favorable loss experience
- Accurate exposure data
- Disciplined application of the retrospective premium mechanism
- Prudent release of surplus reserves
- Long-term commitment to this strategic initiative on the hospital's part







# Global Reach

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Artex's global operations platform means that we are always able to locate your captive in the most appropriate domicile, no matter where in the world that happens to be.



# The Art of Risk

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse reinsurance and ILS solutions, our global team operates at the intersection of art and science — where creative thinking meets expertise, and superior outcomes are made. That's how we're able to fully understand our clients' needs and deliver the most comprehensive solutions available.

Established in more than 35 domiciles internationally, we're here to help you make empowered decisions with confidence, reduce your total cost of risk, and improve your return on capital. At Artex, we believe in finding you a better way.

**We believe there are a number of factors that set us apart:**

## THE BEST OF BOTH

As one of the world's largest insurance managers, we combine our international experience and local market expertise in every captive solution we deliver. Our global reach means we can offer a domicile-neutral approach, which delivers the most appropriate captive location based on your needs. As a wholly owned subsidiary of one of the world's largest insurance brokerage firms, we have an entrepreneurial and independent culture backed by a Fortune 500 company.

## SERVICE WITH EXPERIENCE

Our range of specialist services, delivered by insurance industry experts, spans the full life cycle of the captive structure and covers all permutations of captive arrangements. We also offer access to the largest independent network of cell companies, as well as a variety of risk-pooling services. The hallmarks of our success lie in our attention to detail and personalized approach with every customer we serve, allowing us to truly understand the DNA of each business. We also believe that by understanding where we are today, we can better help our brokers and their clients move ahead with true control over what the future may bring. We view today's challenges as tomorrow's opportunities, and we leverage this mindset to create alternative risk management solutions that change the way clients conduct business and plan for the future.

## ARTEX AXCELL CELL FACILITIES

For corporations and capital market investors seeking an alternative risk solution that demands less time, investment, and resources, Artex Axcell finds a better way. With the deepest knowledge and expertise in the market, Artex Axcell delivers cost-effective and efficient structures that allow you to confidently lower the cost of risk and maximize returns.

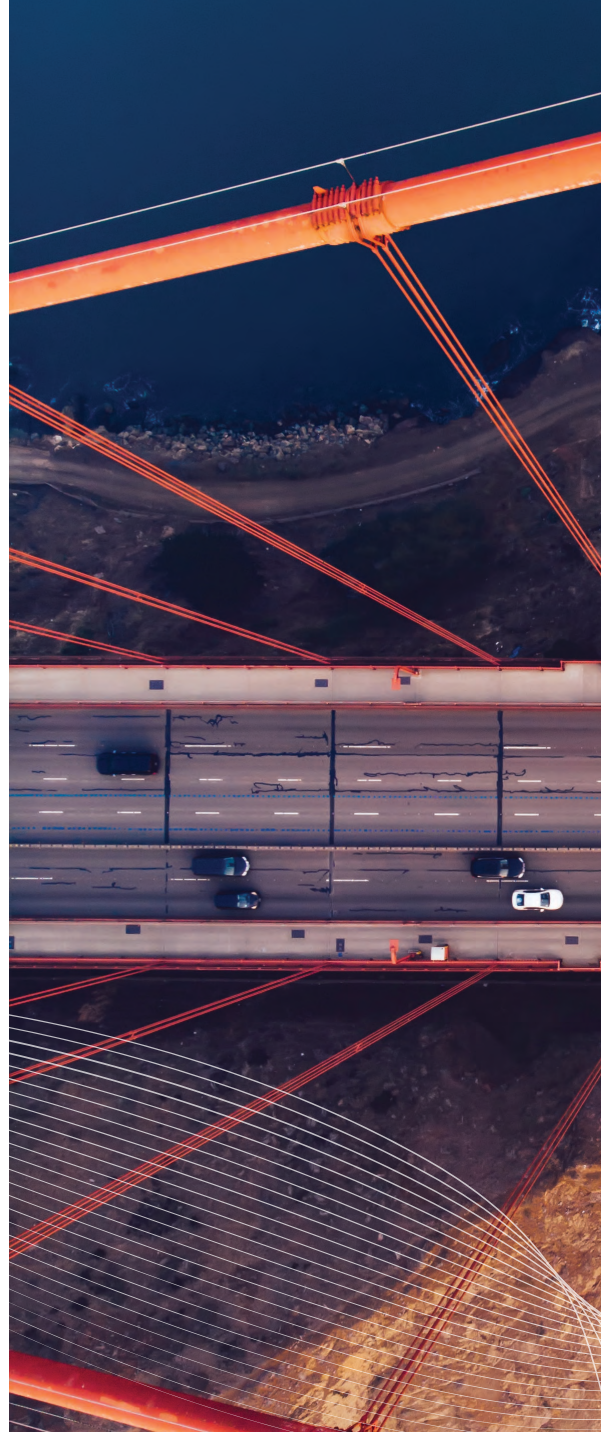
Artex Axcell facilities are available in multiple jurisdictions around the globe, including **Guernsey, Bermuda, Cayman Islands**, and the **United States**. Our client-centered approach combines international experience with local market expertise, allowing us to deliver a plug-and-play solution that capitalizes on our global access and local insight.

We currently manage over 1,300 individual cells for all sizes of business — from small-scale operations to multi-national organizations that encompass a wide range of industry sectors. We compare the costs and benefits of operating a cell against the costs and benefits of other alternatives for the efficient transfer of risk. The cell solutions we design are based on each customer's individual risk profile, ensuring that our strategies are aligned with each organization's requirements. The flexibility of these structures also enables us to be responsive to changing market conditions and organizational dynamics.

## WHERE ART MEETS SCIENCE

By expertly combining the benefits of a tailored captive vehicle with insurance and reinsurance products, our risk transfer structures are designed to flex with changing organizational and market dynamics. That way, we guarantee a solution that is always fit for purpose. In today's volatile environment, that makes a compelling option for any insurance buyer.

Only with such depth of experience, breadth of choice, and level of expertise can we guarantee that each solution we provide is custom-built to support the business objectives.



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Artex provides risk transfer consultation and alternative risk management solutions for our clients. When providing analysis, recommendations or advice regarding risk implications and risk transfer strategy, we offer it as general recommendations for risk mitigation and to limit financial exposures. Any statement or information provided is for informational purposes and is neither intended to be, nor should it be interpreted as, insurance broker, tax, financial, legal or client-specific risk management or mitigation advice. We recommend consultation with tax, legal and financial advisors for business-specific advice for your company.

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