



Beth Jacobsen, CLCS

DEMONSTRATING THE BENEFITS OF GROUP CAPTIVE MEMBERSHIP

Artex

Alternative
Risk

In 2022, Artex carried out a study to determine the extent to which the members of a group captive program were able to reduce their cost of claims. The insights clearly showcase how companies improve their risk profile over time, and show a strong correlation between reduced claims costs and discounted insurance premiums.

There are multiple reasons why a company might decide to join a group captive program. Group captives allow like-minded organizations, often (but not always) from the same industry sector, to pool their resources, share loss insights, and benefit from economies of scale.

During a challenging insurance market the benefits are particularly compelling, with group captive membership offering greater control over claims, access to broader coverage, and discounted premiums. Companies attracted to a group captive model already tend to have a strong safety and risk management mindset. By joining forces with other members, they can take this to the next level and see the benefits more directly than is typically the case within the commercial insurance market.

As owners of the program, members are also able to earn investment income for every dollar put into the captive that's not being used to pay for claims and/or fixed costs. Looking ahead, this is likely to become more of an attraction as interest rates rise and group captives writing longer-tail lines of business consider potential opportunities within their asset- and liability-matching strategies.

Group captive members monitor their performance on an individual basis over time, but it can be difficult to access broader metrics. We are operating in an era where clients are looking to make decisions based upon data and insights. CFOs need the ability to accurately demonstrate the extent to which a group captive structure will benefit their company over time, help them benchmark progress and, in particular, how a reduction in insurance costs could benefit the bottom line long term.



TESTING THE HYPOTHESIS

In the fall of 2022, Artex set out to test the hypothesis that group captive members improved their risk mitigation and thereby their claims experience over a 10-year period. Study participants were a subset of members from the same group captive with at least 15 years of experience in the captive.

The results were compelling in each of the measurement categories outlined within the study. Notably, workers' compensation insurance programs saw an average claim cost reduction of 64% over the course of a decade and enjoyed premium rate discounts of over 44% during the same period (more on the difference between these two figures later).

PRONOUNCED REDUCTION IN CLAIMS COSTS

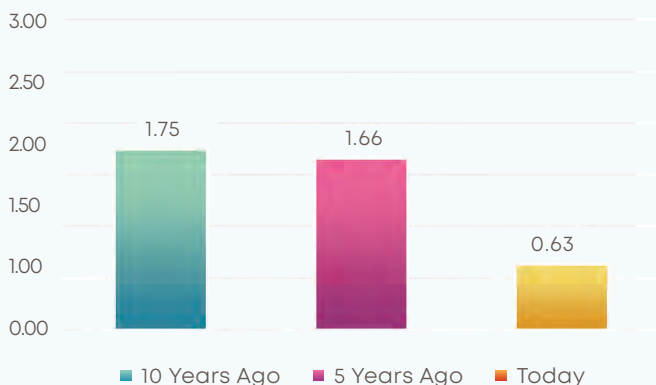
This evaluation looks at the change in workers' compensation average claim cost per exposure unit (per \$100 of payroll) over time. The average cost per claim is calculated by taking the total incurred loss (paid plus reserves) over a five-year historical time period, divided by

Artex identified a number of factors driving a reduction in the frequency of incidents and overall claims costs, ultimately enabling a reduction of premium rates and improvement in group captive members' underwriting profits and policyholder distributions, including:

- Increased active involvement and safety awareness focus from owners and department leads
- More control and involvement over the claims process
- More education on claims handling, improving efficiency, and keeping down costs
- Use of loss control services within a captive to help mitigate claims
- Use of data and analytics to identify and tackle loss trends, including analysis of near misses in addition to claims

the workers' compensation payroll over the same period. Despite economic changes in inflation and a rise in medical costs, the results show that claims costs decreased significantly for group captive members by an average of 64%.

Average Claim Cost



Highlight: The average claim cost per \$100 of payroll was reduced by -64%.



OSHA FREQUENCY RATE

The Occupational Safety and Health Administration (OSHA) has established the number of recordable incidents to compare companies across similar industries. These rates are used to evaluate the effectiveness of an employer's safety program. In the study, we saw a significant drop in OSHA frequency rates for group captive members, whereby the frequency rate reflects the average rate over a 10-year timespan. On average, the frequency of incidents for members dropped from an average rate of 2.19 before they joined a group captive, to 1.17 five years ago and 0.72

today. The results support the hypothesis that participation in a group captive motivates members to take a more proactive approach to health and safety, resulting in a reduction in OSHA incidents over time, reducing the cost of claims, and maintaining a safer and more engaged workforce. It also suggests that the loss data shared amongst member companies is beneficial, by highlighting common areas of threat and vulnerability that companies within the same industry sector should seek to address.

OSHA Frequency Rates



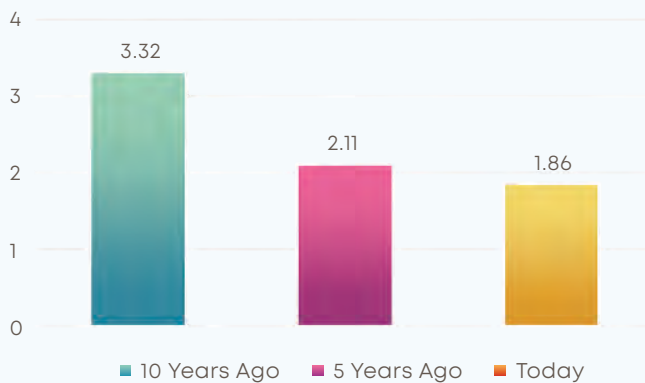
Highlights: The average frequency rate was reduced by -67%.

WORKERS' COMPENSATION FREQUENCY RATE

Premiums within a group captive program are determined actuarially, primarily based upon each individual member's performance, as opposed to the commercial insurance market where a carrier needs to look across an organization's entire book to determine pricing. The pricing model is based upon five years of total incurred loss, exposure, and premium data, plus the current term, in order to determine how much a company should prefund to pay for claims in a given year.

This is where an element of control comes into play. If a member can control their claims through effective risk management and mitigation practices, they ultimately have more control over their premium and rates as a direct result of a reduction in claims. Following is a look at the average workers' compensation rate over time. The research shows that premiums dropped by an average of 44% over a 10-year period.

Workers' Compensation Pay in Rate



Highlights: The average workers' compensation pay in rate was reduced by -44%.

The results also demonstrate a lag between the average reduction in workers' compensation premium rates (down by 44% over a 10-year period) and the average claim cost reduction (a reduction of 65% over the same period). What we can surmise from this lag is that while there remains a direct correlation, factors other than the cost of claims are taken into consideration by actuaries when determining forward-looking pricing models.

Among these are medical cost inflation and benefit level changes, and changes to the fixed cost structure. Ultimately the actual loss cost incurred by the captive will prevail; hence the need for regular policyholder distributions to the members.

REDISTRIBUTION OF UNDERWRITING PROFITS

Captive members have the ability to receive premium back via policyholder distributions for good performance. This return of underwriting profit is important, as an insurance carrier would typically retain this in the commercial insurance market. In a group captive structure (much like in a mutual insurance structure), the profits are instead

retained by the group and distributed among member organizations. On average, the members within this sample group received in excess of 23% of their premium back via policyholder returns. Meanwhile, 78% of the members in the research group had received at least 15% of their premium back via distributions.

CONCLUSION

Up until now, the benefits of becoming a group captive member were largely anecdotal or based upon a company's individual experience. There is substantial value to be gained by measuring and monitoring the impact of group captive membership across a larger cohort of companies, as it helps members benchmark their performance over time, and provides data and insights from which to make more informed risk financing decisions.

The research carried out by Artex overwhelmingly demonstrates that companies which continue to engage in a group captive program benefit from substantially lower average claim costs and loss frequency rates over time. The study showed a direct correlation between a reduction in claims and the cost of insurance, with additional benefits from the distribution of underwriting profits.

While claims history is clearly an important driver in insurance pricing models, it is important to emphasize that it is not the only factor. The impact of inflation on medical costs, for instance, will also continue to influence how premiums are set. There may also be a time lag between an improvement in claims experience, and when and how this reflects in the underwriting of programs.

Do you feel you have become a safer and better company after joining a captive?

100% responded **yes**.



■ No ■ Yes

Nevertheless, the study demonstrates that the group captive members were overwhelmingly able to reduce their claims and the cost of insurance, ultimately impacting a company's bottom line. Perhaps most compelling of all, however, are the improvements in risk management and safety observed by the group captive members.



Beth Jacobsen, CLCS
Captive Director, Artex

Beth Jacobsen, captive director for Artex Risk Solutions, has 15 years of experience in the insurance industry. She began her career on the retail brokerage side and moved into the alternative risk space nine years ago. Currently Beth has oversight of four group captives with close to 225 member insureds. By selecting the best service providers and negotiating the most ideal terms and fees, these captives have reduced some members' costs by more than 75%. Additionally, Beth works with her clients to identify other alternative risk solutions to solve other problems they may experience as their companies grow. Beth's favorite part of her role is building client relationships and helping clients find a better way to control costs.

THE ART OF RISK

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse (re)insurance 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.





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