Case Study

The Call For Multiple Captives

A company had reached the top of their industry class, due in part to their robust safety and risk programs. Unable to gain the efficiencies and coverages they desired for their insurance policies and programs, they created a series of captives, that when integrated, offer an advantage over their competitors as well as additional benefits and greater returns than previously available with only a single captive.

The Situation

A commercial and residential service contractor in the Northeast (the company) had gained a reputation for being one of the best in their industry segment, due in part to its robust safety program and focus on managing its risk. Like many employers, they experienced numerous pain points with their insurance programs. The commercial insurance carriers charged high rates, without cost reduction credits for efforts to minimize accidents. The company had many deductibles and gaps in these commercial insurance policies that left them without significant protection, forcing them to self-insure these risks. Their biggest purchase was health insurance for employees, which continued to rise every year despite efforts to control these costs.

The first step into captive insurance began in 2007 when they joined a group captive for workers compensation, general liability and auto coverages, managed by Artex. After several successful years they decided it was time to investigate whether there were other captive insurance solutions to help with the rest of their property and casualty risks, and help with the high cost of employee health insurance.

The Solution

Artex proposed adding two additional captive programs—an enterprise risk captive (ERC) and a medical stop-loss group captive. While each captive program alone solves a specific need, the integration of these three captive solutions provides a more efficient structure that reduces the overall cost of risk for the company.

The ERC provides the company an opportunity to transfer the risk that they were currently self-insuring to a captive—creating a more efficient financing vehicle for managing these risks.
The medical stop-loss captive helps the company combat escalating healthcare costs, bringing stability to this large expense line item. By joining with like-minded, mid-size employers, the company is able to gain benefits that have traditionally been available only to large employers. Stop-loss captive programs are a risk-sharing mechanism, pooling the first layer of stop-loss risk that allows employers access to self-funding without the inherent volatility typical of traditional self-funded plans.

All captive insurance programs are customized, and this one was no exception. Artex could provide efficiencies by integrating all three captive programs. One of the policies insured by the ERC was the potential assessment charge that the company had as a participant in a group captive. Another ERC policy reinsured some of the risks of the medical stop-loss group captive. This integrated captive approach removes these two liabilities from the company’s balance sheet, helps to reduce overall operating costs of the ERC, and keeps collateral costs down. Further, the integration allows the ERC captive to diversify its risk portfolio over a larger number of risks and entities, an important practice for insurance companies.

The Result
Integrating the three captives enabled a variety of efficiencies that wouldn’t be available to an employer using only a single captive solution. The company secured the following benefits:

- Improved their overall risk management program in three major areas—reducing cost of commercial insurance, covering self-insured items and reducing cost of health insurance.
- The approach of integrating three captives created cost and operational efficiencies.
- Lowered their collateral costs since they could use profits from their ERC as collateral for their stop-loss group captive.

The Artex Advantage
Artex provides a full range of alternative risk management solutions, customized for our clients’ individual challenges and opportunities. Powered by independent thought and an innovative approach, we empower our clients and partners to make educated risk management decisions with confidence. Operating in over 25 domiciles and in more than 15 offices internationally, we have the proven capacity to supply any alternative risk need. Artex is a solutions company and we invite you to learn more about our breadth of services and depth of talent. There is an upside to risk. Let’s work together to find the right solution for your organization.