

FREQUENTLY ASKED QUESTIONS CAPTIVES INSURANCE

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What is a Captive?

A

An insurance company that is wholly owned and controlled by its insureds, its primary purpose is to insure the risks of its owners and its insureds benefit from the captive's underwriting profits.

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Who should consider a Captive?

A

Financially stable companies with a good loss ratio, good claims history, and good risk management strategies, while willing to make a long-term commitment.

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What are the benefits of a Captive?

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Coverage tailored to meet your needs, reduce operating costs, capture underwriting profits, price stability, greater control of claims, flexibility in managing risk and program design, and accessibility to the reinsurance markets.

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What type of Captives are there?

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There are single-parent captives, group or association captives, segregated cell captives, agency captives and risk retention groups.

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Is there a minimum premium requirement?

A

There is no specific set minimum premium but there needs to be enough premium to cover administration costs and claims. \$500,000 in annual premium would typically be a minimum premium.

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What coverages or product lines will a Captive cover?

A

You can place most insurance lines in a captive, e.g., general liability, professional liability, excess and Umbrella coverage, property, supply chain, intellectual property, Trade Credit, environmental, Political risk, Product recall, terrorism, Errors and omissions, auto, worker's compensation, employee benefits, etc.

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Are there any specific Captive requirements?

A

You must have an independent actuarial study completed, ability to pay the required capital, captive must be formed as an insurance company designed to pay claims when necessary.

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How long do I need to stay in a Captive program, and can I leave the Captive?

A

There is no rule about how long a company is to stay in a captive, but captives are a long-term alternative to the standard market. Yes, you may leave and dissolve the captive at anytime.

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What investments can a Captive own to provide reserves?

A

A captive can own any investment approved by the insurance regulators in the jurisdiction where the captive insurance company is domiciled. It is important for the captive to maintain appropriate liquid reserves in order to meet potential claims liabilities. Therefore, captive insurance companies are highly regulated, and investment portfolios tend to be conservative and provide significant liquidity.

[Learn more at Oxford Risk Management Group.](#)

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What is the time horizon for a Captive?

A

Any company considering forming a captive should have a long-term plan for the proper development and implementation of a captive program. Once the captive insurance company is established, an organization should consider modifications to their program as business and financial situations change. The insurance advisory team should meet at least annually to evaluate all aspects of the program to ensure ongoing success and benefits. If the insured maintains a favorable loss profile (the captive is successful in managing claims and expenses) it is possible for the captive's investment portfolio to increase significantly over the years, because of the time value of money.

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How can a Captive complement my Asset Protection Plan?

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A captive insurance company is not an asset protection tool. Nevertheless, with litigation activity on the rise, it can be beneficial to grow some portion of wealth in an entity that provides protection from judgment creditors. The captive insurance company may be owned by an asset protection trust, further safeguarding those dollars from potential litigation exposure. Asset protection rules vary by jurisdiction, and when combined with new captive ownership restrictions signed into law December 18, 2015, make it essential to include counsel familiar with asset protection planning in the planning process.

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Talk to us about additional frequently asked questions.

- **Captives Overview - [View Here](#)**
- **What is a Captive? - [View Here](#)**
- **Is Captive Insurance Right for You? - [View Here](#)**

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