



## The Glossary of Captive Insurance

As a business owner, you are familiar with the typical language of Insurance. These same insurance terms are utilized in the Captive Insurance world. Some terms are used broadly, while other terms and definitions should be referred to specifically.

The following terms are not exhaustive, yet provide fundamental and introductory definitions to understanding. Each term may be addressed in greater detail.

**Capitalization** - The dollar amount initially needed to capitalize a captive or the initial amount paid in to cover potential and initial claims.

**Claim** - A request for compensation from an insurance company after a covered event

**Deductible** - The amount of money the policyholder pays before the insurance company pays out. Also may reference the amount of risk in dollars, the insured is willing to bare.

**Domicile** - A captive domicile is the state, territory, or country that licenses a captive insurance company and has primary regulatory oversight over that captive insurer.

**Exclusions** - Events or circumstances that are not covered by an insurance policy.

**Group Captive** - An insurance company established and controlled by multiple member companies to insure portions of the participating businesses risks. The Group may be homogeneous (only ensure the same risk) or heterogeneous (insure a variety of exposures).

**IBNR** – Incurred But Not Reported refers to reserves established for insurance claims or events that have transpired, but have not yet been reported.

**Insurance** - A contract between an individual or business with an insurance company to help provide financial protection and mitigate the risks associated with certain situations or events.

**Insured** - a person or organization whose life, health, business, or property is covered by an insurance policy.

**Insurer** - the party in an insurance contract that promises to pay compensation . The insurer is an entity, usually an insurance company, that underwrites the insured risk. Also referred to as the carrier or provider.

**Limits** - the maximum amount your insurer may pay out for a claim, as stated in your policy.

Specific limits refer to the limit per individual or single claim, while Aggregate refers to the maximum limit a policy will cover.

**Risk** - the probability that an event could occur that causes a loss. Synonyms include liability, exposure or lines of coverage.

**Risk Distribution** - Risk Distribution occurs when the party assuming the risk distributes its potential liability among many insureds. Risk distribution incorporates the statistical phenomenon known as the law of large numbers, and allows the insurer to reduce the chance that a single claim will exceed the amount of premiums taken in.

**Self-Funded** - Self-insurance is also called a self-funded plan or partially self-funded plans. In this plan an employer takes on most, or all of the cost of benefit claims. Self-funded may refer to Captive Insurance broadly, and often is referred to specifically regarding Medical Benefits plans.

**Series Captive** – Similar to a protected cell company (PCC), a Series LLC permits the segregation of assets and liabilities into various series, each of which can be operated as a separate captive insurance company

**Single Parent Captive** - A single-parent captive is an insurance company that a corporation creates to insure its own risks. It's also known as a pure captive. A single parent Captive may utilize either the 831a or 831b election.

**Specific** limit refers to the individual per claim limit, while **aggregate** refers to the maximum overall limit of a policy.

**Third Party Risk** - Third-party risks are the possibility of losses to other people such as employees or entities, losses due to a third party's actions, such as a supplier's faulty product.

**831A** – Larger Insurance Companies often insuring exposures with tail risk.

**831B** - Code Section 831(b) is an election which permits Captives that receive less than \$2.85 million of premium income each year to be taxed only on their investment income, and not taxed on premium income.

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## Your Link to Security!

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