



**ALINK**  
Captive Insurance Services

# Captive Change

The captive insurance industry has changed and continues to change. How? To better suit the needs of the consumer such as making adjustments and making captive insurance available to more companies in a more efficient manner, offering more and more lines of coverage. In the end, it's still insurance. From that respect, insurance really hasn't changed.

**Insured** – The person, or company the policy protects.

**Insurer** – The insurance company providing the protection. The company is regulated by State insurance regulators where the insurance company is domiciled.

**Risk distribution** – Properly created and regulated, each insurance company must meet and provide risk transfer and distribution as well as capitalization. This is what insurance has been and will always continue to be. Risk distribution requirements can and should be met in a variety of ways such as: pooled risk, group risk, third party risk, or number of entities.

**Claims** – Insureds make claims when loss occurs. The Insurer verifies the loss, and pays the claim up to the limits of the specific policy. Depending on the type of loss, claims may be settled rather quickly, and at times not so quickly.

**First dollar coverage** is a type of insurance where there is no deductible or copay. The insurance company starts covering costs on the **first dollar** claimed.

**Profits** – Insurance companies, when properly managed, should be profitable. From creation, insurance companies are capitalized, with reserves set in place to cover future losses. In order to maintain profitability, when significant or frequent losses occur, the insured can plan on an increase in premium at renewal. Conversely, in theory at least, if losses are not made, the cost of insurance should, in theory, go down. Unfortunately, inflation, underwriting, and other maintenance of insurance companies often out-way decreases. Each exposure is annually underwritten, and as variables change, premium requirements may change accordingly.



**Premiums** – For any insurance policy to be in force, premiums must be applied. Regardless of the type of coverage, regardless who the insurer is, premiums must be paid.

The coverage, the premiums, and the profits have been and will continue to be in place; however, the changes that are available to a business owner are tremendous. Receiving the same protection from an insurance company, your own insurance company, while now retaining the earnings is a change worth considering!

## What has changed with Captive Insurance?

**Premium amounts** – The limits have been increased to \$2,900,000 per captive, per year. This increase was a result of the PATH Act and took effect in January 2017.

**Lines of coverage** – Each year Captive administrators listen to their business owner clients, subsequently new lines may or may not be added. Particular exposures of every business should be evaluated and exposures are always individualized and underwritten for each particular business.

**Availability** – Even though Captive Insurance has been available for nearly 100 years, today there are options for every profitable business, regardless of industry and size of company.

**Court cases** – There are multiple court cases which have had rulings, and multiple cases awaiting court dates regarding Captive Insurance. These cases are great news for the captive industry as it brings clarity to the use of Captive Insurance and helps highlight features of non-compliant programs. These court cases provide a clear picture of what “not to do” when structuring and managing a micro-captive arrangement, and also provides additional clarity and reaffirmation of many of the best practices which are and should be utilized.

“Captive Insurance Companies should be in a continual process of evaluation, according to a panel of experts at this year's Captive Insurance Companies Association (CICA) annual conference.

Beyond the initial captive feasibility study undertaken with a captive insurance company formation, captive owners should continually be reviewing and evaluating their captive program's exposures, lines, and limits of liability to determine how these impact the capital in their captive, the experts said.” The Captive Times, Apr 2019

<https://www.captive.com/news/2019/04/23/forming-and-operating-captive-insurer-constant-change> “

Some things stay the same and some things change. Insurance is still insurance, while Captive Insurance is a better way! and definitely

# Your Link to Security!

**Rich Ericson, President**

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