



Understanding Captive Insurance

Cut Insurance Costs by Up to 60% with an Insurance Captive.

Captive insurance companies, those that are owned and controlled by the companies it insures, offer a way for businesses to cut insurance costs by as much as 60%. As a result, alternative risk financing mechanisms, which include Captives, currently account for over 50% of the commercial insurance premiums in the United States. For those who qualify, **Captives are a more stable and less expensive alternative to traditional insurance.**

A major reason businesses go into Captives is to have insurance costs based on their individual experience and not that of the general population. In the traditional marketplace better risks help fund the losses of those with more claims. **This program is only for superior risks; those whose insurance premiums significantly exceed their losses.**

While there are similarities, this is not self-insurance. In a captive, companies self-insure the lower layer of claims that have become predictable and level over time. Reinsurance is then purchased directly to cover larger claims and guarantee a maximum cost for the policy year. We apply a basic principle of risk management; don't buy insurance to cover losses which have a predictable frequency and which are within the funding capabilities of the company.

The New York Times, The Los Angeles Times, CFO Magazine, Accounting Today, Long Island Business News and 201 Great Ideas for Your Small Business by Bloomberg Press have written about our program. Captives are not new, they represent over 25% of all insurance premiums. If you join a captive you will not be a pioneer. This is a mature, stable and significant segment of the insurance industry.

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What Are the Benefits of a Captive Insurance Program?

- **Long term savings of 20-40% are usually realized**

- Initial premiums are generally less than those paid for conventional insurance coverages. They also remain completely tax deductible.
- All underwriting profit is returned to you for each policy year plus the investment income earned on your premiums. In essence, the profit and investment income now recognized by your traditional insurance carrier becomes yours.

- **Premiums are based on your own experience**

- Workers' Compensation premiums are not subject to traditional rates, job classifications or experience modifications
- General Liability premiums are not based on industry codes
- Automobile premiums are not based on type of vehicle or garage location

- **You gain control over your long term insurance costs**

- Coverages written through a Captive program are much less susceptible to the swings in pricing and availability so characteristic of the conventional insurance market
- Future costs and availability become more level and predictable

- **Your maximum annual premium is always known in advance**

- **You gain control of the claims handling process**

- In a Captive your input is solicited immediately after a significant claim
- Claims are handled by your claims administrator quicker and with more sensitivity

- **Loss control is provided to help reduce future claims**

- **The carriers that issue and reinsure the Captive's coverages provide superior financial security**

- They guarantee the entire program

- **You will never have to spend time shopping these insurance coverages again**

Frequently Asked Questions About Captive Insurance

What Lines of Coverage Are Available in the Captive?

Workers Compensation, General Liability and Automobile. In some cases members may be eligible for property coverage in a Captive.

The Traditional Insurance Marketplace Has Become More Competitive. Why Should I Leave?

The traditional insurance marketplace commonly goes through “hard and soft” cycles, where premiums go up and down significantly with little relation to your actual loss experience. Companies should always be carefully looking at where they should be positioned for the future. They should develop long term visions for their corporate risk-financing program in lieu of succumbing to market-driven, short-term gains. Like most sophisticated investments, you are usually better off getting in during softer cycles. They should start by applying a basic principle of risk management; don't buy insurance to cover losses which have a predictable frequency and which are within the funding capabilities of the company.

Am I Putting My Company in Financial Risk by Entering a Captive?

If all you were doing was paying a premium into a fund and hoping your losses did not exceed the fund, that would be very risky. Our programs are structured using only licensed, admitted, “A” rated insurance companies and reinsurers. Your risk is known and guaranteed in advance. This is more stable than traditional insurance.

Why Would I Want To Share In Ownership Of An Insurance Company With Strangers?

There are several responses to this question. First, without getting together with others your insurance premiums would not be large enough to realize these benefits. The program is structured however so that each member's “account” is separate from the others. Second, remember that your current insurance costs are a factor of the strangers that buy from the same company as you. Plus you are currently grouped with many “bad” risks. In the captive, your costs will be based on your own experience and you will be together with only “cream of the crop” companies. Third, every new member must be pre-approved by the insurance carrier issuing the policy, the reinsurers and the underwriting committee, consisting entirely of current members. Lastly, most of the members find the networking at board meetings to be one of the highlights of the program. By its own nature, the group consists entirely of successful entrepreneurs from around the country.

This All Sounds Too Good. What is the Catch?

The catch is simple. This program only works for and is only available to the best insureds. For those who do not qualify now, we are prepared to handle your insurance traditionally using our expertise to reduce your premiums and improve your insurance & risk management program.

Basic Eligibility Requirements

- Minimum premium for the Captive is \$250,000 (Workers Compensation, General Liability and Automobile coverage combined)
- At least 70% of your Captive premium must be for workers compensation
- Loss experience needs to be better than industry average. Your claims history must be favorable against the premiums paid historically.
- Your company must have a strong management commitment to safety and claims oversight. This is the cornerstone of the program
- You need to be in business, in this industry, for a minimum of five years
- The President of the Company must be involved
- Your firm must be financially strong. You will likely pass the financial review if you are profitable and have no concerns in posting a letter of credit
- One should assume a 3-4 month application process

Coverage Provided by Captive Resources, LLC

- All of our Programs are managed by Captive Resources, the largest manager of member owned Captives in the world.
- Annual captive premiums combined in their 30+ programs is almost \$2 Billion
- Total number of insureds is over 3,000



**Butwin Insurance Group has considerable expertise in the area of Captive Insurance.
Contact a Butwin Insurance Professional to learn more.**

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