Think Differently: Reimage Workers' Compensation as a Profit Center Become an Owner of Insurance, Rather than a Buyer

What is an insurance captive?

A Captive Insurance Company (CIC) is:

1. A wholly owned subsidiary providing risk financing and management services to the parent company for specific risks
2. A strategic, long-term partial self-insured alternative to the traditional insurance transaction that reduces the Total Cost of Risk

In some ways, captive insurance is not unlike a Health Savings Account (HSA), just on a much larger scale. Rather than engaging an insurance company to assume risk, an organization sets aside money to pre-fund future claims.

Captives are primarily used by business owners for workers' compensation, general liability, and automobile exposures. A captive deploys company capital more efficiently than traditional insurance by reducing the total cost of risk, generating more profit and shareholder value.

Who uses insurance captives?

Captives are best leveraged by middle-market companies that have medium to high exposures to loss, such as manufacturing, distribution, and construction firms with 250 or more employees. These companies often look for new and innovative ways to deploy capital more efficiently

If a company has already moved to a high deductible insurance plan to save money, then a captive is a great option to explore as a next step in cost containment.

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Why consider a captive?

By transitioning from a buyer of insurance to an owner of insurance, organizations can benefit in the following ways:

- Disrupt the status quo by innovating on a proven platform
- Rather than a sunk cost and liability, create an asset and profit
- Avoid price volatility in the traditional insurance market
- Personalized metrics for a measurable ROI
- Create a competitive advantage in the marketplace
- Risk personalization more closely aligns cost with exposure
- Keep more of what is earned
- Deploy capital in the most economically efficient manner
- Have overall greater control of the program, including claims

Captives also offer the opportunity to be taxed on investment income and not profit.

Call Out

When an Alera Group client recently experienced rapid growth, the company's workers' compensation premiums went through the roof. To get costs under control, the company transitioned from a traditional policy to its own captive. As a result, the company experienced:

- 45% reduction in Total Cost of Risk (TCOR)
- $703,365 Total Recaptured Cost of Risk for reinvestment opportunities
- At a 10% profit margin, savings contributed 8.3% to net profit

Reimagine your insurance. Connect with us today to learn whether an insurance captive is a good fit for your organization.

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