



# 8 REASONS TO **FORM** **A CAPTIVE** INSURANCE COMPANY

A captive insurance company is an excellent risk management tool. In addition, it can be a profit-center to its owners. It offers many advantages, including the 8 reasons listed here.



## ① Coverage Control

A captive enables a business owner to better manage insurance risk by establishing underwriting guidelines, determining premiums, writing the insurance contracts and controlling the settlement of claims. A business can tailor coverage to the needs of the business.

## ② Uninsurable Risks

A captive can cover risks that are unavailable, or prohibitively expensive, in the commercial market.

## ③ Cost Reduction

A captive can reduce insurance expenses by eliminating such commercial insurance company costs as commissions, overhead expenses, and profits.

## ④ Underwriting Profits

A captive can be a source of profit. Premiums paid to the captive in excess of the claims paid by the captive are retained by the captive as net profit, instead of going to an unrelated, commercial insurance company.

## ⑤ Rate Control

A captive provides greater control over a business's insurance costs. Premiums paid to a captive are based on the claims experience of the associated business, rather than the aggregated claims experience of unrelated businesses, some of which may have poor risk control procedures or claims experience.

## ⑥ Reinsurance Access

A captive can access the reinsurance market, which may result in better coverage at a lower cost, when compared to the commercial insurance market.

## ⑦ Investment Income

By forming a captive, a business owner can control the investment of premiums and reserves. When premiums are paid to an unrelated, commercial insurance company, investment gains are lost and inure, instead, to the benefit of the unrelated, commercial insurance company.

## ⑧ Claims Control

By forming a captive, a business owner gains control over the claims adjudication and payment process, which can result in a more efficient and expeditious claims payment process.

