



Group Captive Risk Financing

An Alternative Method for Reducing Costs/Improving Cashflow During COVID-19

June 10, 2020

The COVID-19 pandemic has caused significant cashflow and liquidity problems for many businesses, which is why it is more important than ever to consider alternative program structures including Group Captive Risk Financing Programs. While curiosity about group captive insurance is currently on the rise, this alternative loss sensitive solution has been popular for quite some time with many middle market-to-upper middle market companies looking to reduce insurance costs associated with Workers' Compensation, Automobile Liability, and General/Products Liability, and improve their cash flow and long-term stability.

Essentially, the insured becomes part of a group of like-minded safety conscious companies who band together to pool their risks, bringing greater leverage and purchasing power to the negotiating table. The end result is lower premiums and the ability to control costs while providing insulation from market cycles, thereby putting money back in the customer's pocket. Insureds are granted admission into group captives only if strict underwriting requirements are met. Think of it as an exclusive club, but one well worth the benefits to you if you qualify.

Nationally, close to 6,000 insureds across the country in all industries have determined group captives are the most cost-effective loss sensitive risk financing option. Eighty percent of USI's clients and prospects moving into a group captive are coming off a guaranteed cost or dividend program. The total cost of risk for the primary casualty program averages \$750,000 which makes it an ideal loss sensitive solution for middle market companies. With over 450 clients in group captives, USI is well positioned to help clients assess the cost-benefit of joining a group captive.

As mentioned in our companion report entitled [Considering Loss Sensitive Program Structures To Reduce Cost And Improve Cashflow During COVID-19](#), a group captive is one of numerous loss sensitive program options that insureds should consider in this challenging insurance market, which is expected to remain this way throughout 2020 and into 2021. Moreover, the COVID-19 pandemic has caused significant cashflow and liquidity problems and consideration of alternative program structures is more important than ever, especially for those insureds who are currently on a guaranteed cost program.

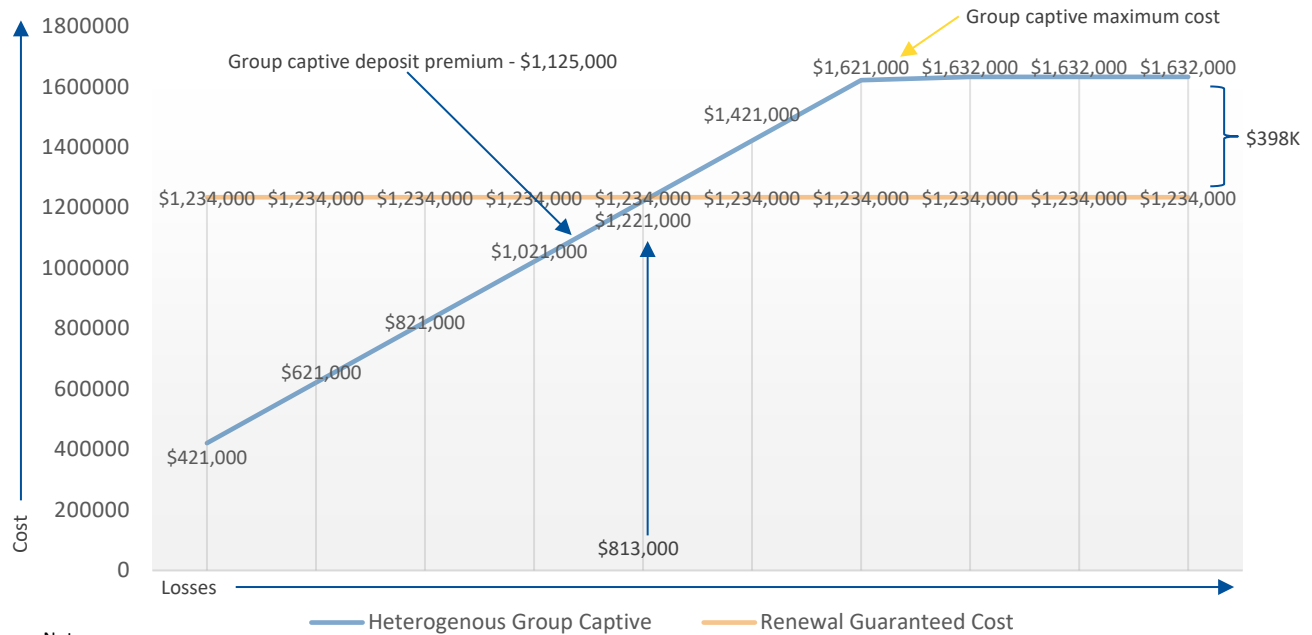
Important Reasons to Join a Group Captive

- Premium savings
 - Ultimate premium savings can range from 10% to 50% depending on losses
- Leverage purchasing power of the group provides lower costs and insulation from traditional market conditions
 - Over the past few years, the majority of heterogeneous group captives are renewing with rates flat to slightly down
 - Most homogenous group captives (trucking/transportation, construction, temporary staffing and others) are renewing with minor to moderate rate increases of 5% to 10%
- Competitive cashflow
 - For those that meet the criteria, deposit premiums are similar to and often less than guaranteed cost or dividend programs
- Competitive per occurrence and aggregate retention levels built into program
- Caters to best in class financially strong companies with a proven dedication to loss control and claims handling initiatives
- Full turn-key solution offering embedded claims and loss control services
- Underwriting surplus returned to members via dividend beginning three-years and ending five-years after annual policy expiration
- Collateral requirements are flexible and can be in the form of cash or letters of credit
 - Collateral maxes out 3 years from the first policy expiration
 - Cash collateral earns investment income
- 100% of the investment income generated on premiums paid accrues to each insured

The illustration that follows is an example of a program comparison of a group captive to an expiring guaranteed cost program. We have provided both a prospective look-forward comparison as well as a retrospective comparison or lookback. These graphics bear out much of what is mentioned in the previous section, i.e. cost savings can be significant for the right candidate. While collateral is a requirement in a group captive, when viewed in the context of overall premium savings and long-term program stability, clients and prospects often come to the conclusion that although an important part of the evaluation process, the benefits frequently outweigh any collateral concerns.

Client 1 – Manufacturer of Industrial Storage Racks

Comparison of Costs at Various Loss Levels – All Primary Casualty Lines

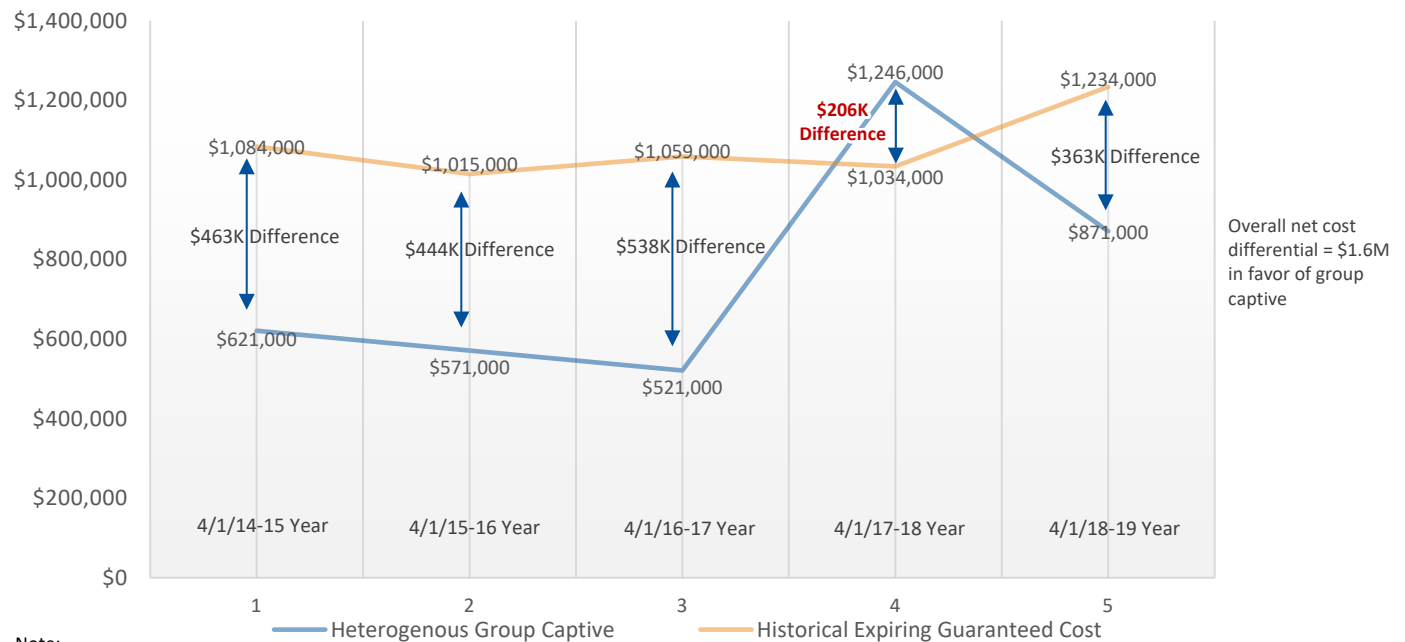


Note:

1. Costs Shown are exclusive of investment income and loss sharing.
2. Total Cost does not include group captive refundable entrance fees of \$36,000.
3. Collateral required in cash or LOC not included for group captive. Amount year 1 will be \$335,000. Maxes out at 3 years.

Client 1 – Manufacturer of Industrial Storage Racks

Historical Cost Comparison Using Ultimate Losses – All Primary Casualty Lines



Note:

1. Costs Shown for group captive are exclusive of investment income and loss sharing. Assumes these are break even.
2. Total Cost does not include group captive refundable entrance fees of \$36,000.
3. Collateral required in cash or LOC not included for group captive. Will be \$335,000 year 1. Maxes out at 3 years and becomes rolling 3 year average.

How Can USI Help?

At USI, our advisors can help you explore this option for your business and help determine whether it is a viable solution in response to the impacts of COVID-19. To assist in making an informed decision:

- USI will walk clients through each phase of the process – from underwriting through implementation
- USI will prepare an internal estimate of the group captive vs. expiring program structure including a 5-year look-back
- USI will prepare variability studies including best- and worst-case scenarios

Learn More

To learn more about these programs, contact your USI representative or visit us at www.usi.com.

Helpful Resources

To help clients navigate these challenging times USI has implemented a **STEER (Steer Through Epidemic & Economic Recovery) Task Force**. This cross-functional team is working to provide timely COVID-19 information, understand cross-industry and geography impact and evolving responses, and to develop and deliver tailored solutions to help clients **steer** through this epidemic challenge and economic recovery.

For additional resources, tools, information, and links, please visit our COVID-19 resource page: www.usi.com/public-health-emergencies



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