

Outfitter Insurance Captives: Huh?



There's been a recent buzz in the outfitter world around the concept of insurance "captives." If you've heard the term but aren't really sure how it all works, you're not alone! Granite Insurance is here to break down the basics.

What is a captive?

A captive, in its most basic sense, is an insurance company that you create and manage. It's like self-insuring, and it's a way to take control over your insurance program to customize coverages to your needs and a way to (hopefully, if you manage risk effectively) retain insurance carrier profits for yourself.

There are multiple types of captives. A group captive is where you partner with outfitters of a similar type, and a similar risk approach, to create a captive insurance program together. While this can allow more medium-sized businesses to team up and achieve a captive program together, it also has its drawbacks – it's a long-term commitment, financially tying you all together, and relationships with other business owners can be strained because someone is always at the "back of the pack" in terms of risk performance. An individual captive is where you as a (large) business create your own captive, free from the management input or from the suffered claims of other businesses.

Whether you are pursuing a group captive or an individual captive, the premium and capital requirements will be about the same.

How does a captive work, and what are the benefits?

Currently, in a traditional insurance program, you are risk-sharing with other companies nationwide that you don't know. When carriers experience outfitter claims, it affects all outfitter's

premium and insurability nationwide over time. If you as a business are claims-free or with low paid-out claims in this scenario, the insurance carriers are making money off you, because you are paying for insurance that they aren't needing to pay out claims for. Traditional carriers use 40% of your insurance premiums just to run the insurance company, and 60% goes towards a loss fund to pay claims. Why not retain that 60% for yourself if you aren't experiencing claims that need to be paid out? A captive approach can help with these issues and can retain some of those finances for your business to pursue other endeavors or to enjoy higher profitability.

Captives will typically include coverages for General Liability, Commercial Auto, and Worker's Comp. A captive program has a "fronting carrier", who is a recognized insurance carrier putting their name on your policy but who is accepting none of the risk. This allows you to still issue Certificates of Insurance or perform other documentation needs, without anyone externally being able to tell that it is a captive program. You pay annually into the management of the captive, which includes claim reserves in preparation for potential future claims; and includes captive management fees including carrier fronting and filing fees and captive advisory fees. All of the insurance premiums you pay go to your own captive management and to any claims you need to pay out, and ultimately back into your own pocket if you don't have claims occur. You're the one realizing the insurance carrier profits when you operate without claims!

Who should pursue a captive?

Usually, for an individual captive to be in an outfitter's best interest, you should be paying close to \$1m in insurance per year. This is because at the initial set-up/launch of the program, you need to have the funds set aside to cover initial captive set-up fees and to be able to cover claims at the general aggregate limit of a traditional insurance program. Much of this is a one-time capital cost at the set-up of your program and might amount to a total cash outlay of around \$2m for year one.

If you are paying less than the \$1m a year in premiums but have extra funds in cash reserves, you can potentially "front load" the setup of a captive by going ahead and having the funds set aside in the captive claims reserve. However, a full analysis needs to be completed to determine feasibility.

How to create a captive?

A captive program has a long runway, and there are several steps to the process to determine feasibility. It's not something you get up and running within just a few months. The first step is setting up a call to discuss the big picture – we need to understand your goals, concerns, and questions. Beyond the initial meeting, we can discuss setting up a full feasibility study and an actuarial study as things progress. Reach out to us if you would like to set up an initial exploratory call! Our contact information is listed below in the "About the Author" section.

What are my options if a captive isn't right for me?

If you're not ready for a captive quite yet, there are other options! Many times, a first step in that direction is accepting higher and higher deductibles on your traditional insurance program. A captive is a form of self-insurance, but so are deductibles. Can you cover the first \$25k, or even \$50k, of every

claim you encounter, before your insurance program kicks in to cover you? This is a good way to save on insurance premiums if you don't experience many claims, although it may not be feasible if you operate in NPS (National Park Service) territory and are subject to their contract requirements/deductible limitations.

There are also fantastic (traditional program) insurance carrier solutions outside of the "same old carriers" that you've seen! Our agency has worked hard over the past several years to develop new carrier relationships, educate the carriers on outfitter industries, and provide new insurance solutions to the industry. The last thing we want is to see an outfitter experience a bad claim, get non-renewed, and then have their back to the wall without insurance options, like so many have experienced. Our work to develop new comprehensive industry solutions has brought competitive coverage and premiums, along with the benefit of our agency's focus on outfitter guidance and education.

About the Author

Ruthie Rivers is an Adventure & Entertainment Risk Consultant on the Granite Insurance team, who leads the agency's nationwide river outfitter program. In her previous professional life, Ruthie herself was an operator in the outdoor adventure industry, which gives her understanding and insight into running an operation and into employing risk mitigation strategies. Her mission is to empower outfitters through approachable industry-specific insurance education and guidance.

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Learn more about captives by visiting our Granite Insurance website: <https://graniteinsurance.com/captive-insurance/>