



# ENTERPRISE RISK CAPTIVE REPORT 2015

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**CAPTIVE**  
REVIEW

## **OPPORTUNITY**

Ineffective market leads to increased use of captives

## **MIDDLE MARKET**

Smaller companies ideal for annual captive premiums below \$1.2m

## **COST EFFICIENCY**

Tax savings on underwriting profit



# SELECTING AND WORKING WITH A CAPTIVE MANAGER

Frederick E. Turner, founder of Active Captive Management, LLC, explains the correct process for choosing a captive manager

**O**f the many choices any captive owner will make, one of the most crucial is the selection of a captive manager. In fact, the relationship between a captive and its manager can make or break the captive's success. So, what makes a captive manager a good one? And, what makes the captive/manager relationship strong?

### Finding a competent captive manager – what's the role of the manager?

The role of the captive manager is generally to assist the captive to perform its necessary insurance operations and to communicate on its behalf with regulators. There are four main insurance functions that a manager helps the captive with: (1) performing underwriting; (2) performing claims handling; (3) assisting with financial recordkeeping and financial management; and (4) ensuring captive regulatory compliance.

#### Underwriting:

Underwriting is the process of evaluating risk for coverage. It necessarily involves reviewing information submitted by insureds in an application or renewal process and evaluating this information to determine what would be appropriate insurance policy lines to cover the risk to be transferred to the captive and then what should be the price of the insurance, i.e., its premium rates.

In the captive context, underwriters also qualify insureds to purchase policies. For example, in the single-parent context,

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insureds must be either a parent entity, an affiliated entity, or a controlled unaffiliated business entity. Underwriters also write the policy lines and as the drafters of the coverage, are often called on to work with the claims department to help interpret the intent of the coverage when a claim is at issue. Underwriters also coordinate with commercial insurance brokers to ensure a seamless marriage between the captive and commercial program, where the captive is filling in the gaps in the commercial program. In fact, where commercial insurance is being replaced in whole or in part, the captive manager works in tandem with the commercial broker and the client to determine what would be appropriate captive policy lines.

#### Claims handling:

Claims handling is the function through which a captive evaluates whether or not claims are covered. Captive managers with an in-house

claims department help their captive clients to make claims decisions (some managers might act directly as a TPA for the captive, others provide coverage recommendations to the captive). Claims personnel also coordinate with actuaries to evaluate and manage exposure and loss data and set reserves. The issuance of policy lines coupled with the ability to pay covered claims encompasses the primary functions of any insurance company; a captive is no different than a traditional carrier in this regard.

#### Financial management:

Managers also help their captive clients to maintain accounting and financial records and facilitate making financial records available to regulators, examiners, auditors and company shareholders. Managers also work with a captive's outside advisors, like the captive's CPA, tax counsel, or investment advisors to ensure proper accounting treatment for captive financials, that tax considerations are handled appropriately by professionals employed to address tax issues and to ensure a captive is diverse in its investments.

#### Compliance:

On the compliance and regulatory side of the equation, captive managers also prepare formation documents for the captive, like captive business plans, submit application documents to the regulators in order to secure a captive's license and engage the services of actuaries to prepare feasibility studies. Managers also provide board meeting services,



including coordination of meetings and preparation of materials, and provide for local director services.

These are but a few examples of compliance functions performed by a manager; but, the bigger picture, working hand in hand with the domicile that regulates the captive is in our view, the key and primary function of every manager. So captives need not only managers experienced in insurance and risk management, with deep resources in both areas, they also need a manager that has developed and maintains strong relationships with regulators.

Thus, at the center of captive management is captive compliance – captive managers need strong, solid in-house resources to provide regulatory related services, such as ensuring that the captive is in compliance with governing insurance code in the captive's domicile, overseeing the preparation and filing of regulatory reports like the captive's annual statement, maintaining captive records as per regulatory requirements, and helping the captive to respond to regulatory examinations and inquiries.

#### **Is there anything a captive manager shouldn't do?**

A captive manager cannot – and should not – be everything. There is a line between the captive and the manager and then another line between the manager and necessary outside resources. Each part of this makes up the operations triangle for any captive;

with the owner on one side of the equation, the manager on another, and with outside resources as the third side to a successfully managed and well run captive.

The road to a captive starts with organizational risk management. In other words, captive managers should act in concert with the captive owner and/or the insureds' risk management team and a well thought-out risk program includes both organizational risk management and risk management at the captive level, where one necessarily benefits from the other. The captive also needs outside advisors in the fields of audit, legal, actuarial, and tax.

The captive manager can help the captive retain qualified outside resources in these fields – do not believe any captive manager that tells you they can be everything to the captive. The truth is that every captive needs more than just a manager; it needs an aware owner, a diligent regulator, and outside resources (like tax counsel, CPAs and actuaries). Captive owners should watch out for captive managers that outsource all or most of the four functions noted above or that tell you it's one-stop shopping with them and that they can do absolutely everything to meet the needs of the captive. It takes a team, where a quality manager is but one part.


#### **Having a strong and successful relationship with your manager – the Active Captive difference:**

At Active Captive Management, we listen to

our clients, we listen to the industry, and we listen to regulators. As with any other relationship, communication is key. Our philosophy is one that marries the risk and captive management needs of our clients to the requirements of the governing domiciles to create and manage compliant captives that serve risk management purposes and meet the insurance needs of our diverse business base. We specialize in the formation and management of captive insurance companies for small and medium-size companies.

Captive insurance as an alternative risk management strategy is being used by more than half of the Fortune 1500 US and multinational corporations. Active Captive has in-house veteran insurance industry personnel, many of whom came to Active Captive with decades of experience working for or with commercial insurance companies.

We don't outsource the four chief functions of a captive manager. We have the necessary internal resources in claims, underwriting, accounting and compliance that work in concert with each other and can act quickly and competently to service the needs of our managed business.

We are an approved captive insurance manager in the following domiciles: Alabama, Delaware, District of Columbia, Florida, Hawaii, Kentucky, Missouri, Montana, Nevada, New Jersey, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Utah, Nevis, Bermuda, Puerto Rico, and St. Christopher (St. Kitts). 



Is your Manager listening?

INNOVATIVE VISION FOR MID MARKET CAPTIVE FORMATION



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