

How to Know if a Group Insurance Captive is Right for Your Business



Welcome to the World of Group Insurance Captives

The traditional business insurance marketplace can be a frustrating, dissatisfying place.

No matter what they say, any insurance company's main priority is to protect their own security. They're risk-averse and tend to only bet on opportunities that look very similar to opportunities they've seen have success before.

That means if you're a rapidly growing business, an organization that's trying to innovate outside the box, or a company doing work that creates unique coverage needs, that marketplace can't support you fully.

However, there are options beyond the traditional insurance marketplace. Group captives offer an insurance alternative that allows businesses with unique business insurance goals to band together and create their own insurance company. In the case of group

captives, there's perfect alignment between your insurance needs and goals and your provider's needs and goals.

In this guide we will:

- Define group insurance captives in a way that's clear and useful
- Outline the potential gains and return-on-investment of a successful captive strategy
- Explain how you can determine your eligibility for a group insurance captive program
- Provide first steps for businesses looking to leverage group captives



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Defining a Group Insurance Captive

What is a Group Insurance Captive?

A group insurance captive is an insurance company specifically created to meet the business insurance needs of its member/owners.



How Long Have Group Insurance Captives Been in Use?

Group insurance captives date back to the 1600s. As global trade began, groups of shipowners would share documentation of their cargo manifests and pay into a shared fund they could withdraw from in case of losses. That means the group captive is just about as old as modern business!

How are Group Captives Different from Other Insurance Captives?

A group insurance captive represents the business insurance needs of a coalition, team, or pool of businesses – a “group,” as it were.

The members of the group share responsibility and opportunity within the captive, which is managed by a designated third party.

Single-Member Insurance Captives

Single-member captives have been popular among large corporations in the U.S. since the 1950s, when the pace of innovation for big business began to outpace the traditional insurance marketplace.

As their name implies, single-member captives represent just one corporation,

although they may provide insurance to any number of subdivisions and business entities within that umbrella.

Employee Benefits Captives

Businesses can also leverage captive programs to work around the limitations of employee benefit offerings in the traditional marketplace.

Typically, employee benefits captives are single-member captives designed with very specific goals in mind.

For example, before trans-inclusive medical care and transition resources were widely available on the open market, progressive organizations used benefits captives to ensure their trans employees were completely covered.

Addressing Some Myths About Insurance Captives

There's a lot of misunderstanding – even within business – of how captives work and what they can accomplish. In part, that's because the traditional insurance companies have done their best to make captives seem risky and complex.

Let's take a few minutes to address and obliterate the biggest myths about group insurance captives:

Myth 1:

You Have to Be a Massive Business for a Captive to Work for You

While it's true that single-member captives are most commonly used by large corporations, size is not a barrier to entry in the world of group insurance captives.

Group captives specifically exist to extend the benefits of insurance captives to small- and medium-sized businesses.

When you join a captive pool, your strength in numbers rivals that of any corporation.

Myth 2:

In a Group Captive, You Expose Your Money to Other People's Risks

Many people assume that the "pool" nature of a group captive means that everybody's money goes into one collective share, exposing one business' assets to another business' risks.

That's actually totally false! Within a managed pool, more than 90% of each individual member organization's funds are specifically sequestered to meet that company's needs and protected from other pool members' claims.

In fact, in Launchways' group captive program,



each member
maintains
control of
98%
of their own
funds.

This means just 2% of the organization's funds are considering "at-risk" within the pool when working with the Launchways group captive.

Myth 3:

When You Self-Insure, a Massive Claim Can Destroy Your Business

This is one of the main arguments traditional insurers have made to scare businesses away from forming captives for decades: "When you self-insure, a catastrophic claims scenario will wipe you out."

Again, that statement is untrue because a managed captive can leverage reinsurance to protect against exactly such a scenario.

Review: Defining Group Captives

- Group Insurance Captives provide businesses insurance for a group of member/owners
- Group captives help medium-sized companies navigate the insurance marketplace like a big corporation
- Contrary to popular belief, group captives do not expose your money to significant additional risk

What Can You Accomplish if a Group Captive is Right for You?

Now that we've defined what group insurance captives are, it's time to explain the different ways in which captives can provide value for businesses.

In general, captives enable businesses to break free from the traditional limitations of insurance.

There's no more crossing your fingers and hoping for a good renewal and no more feeling helpless while your insurance company calls the shots.

Let's take a look at six different ways group insurance captives create opportunities to improve your business' overall health, profitability, and function.

Reduce Insurance Overspend

- Maximize profitability through ideally scaled insurance investment (businesses generally see about a 20% premium reduction in a group captive program)
- Get exactly what you need without having to purchase coverage or bundles you don't want
- Stop getting upsold by negotiating more directly for coverage

Insure Outside-the-Box Risks or Projects

- Eliminate the need to "sell" calculated risks to your insurance company
- Create a safety net that empowers you to take creative or innovative risks
- Use self-insurance as an opportunity to take the next big step

Create Unique, Positively Interdependent Relationships with Other Businesses

- Connect with a pool of organizations with similar mindsets and goals
- Build opportunities for future business collaboration
- Learn from your pool partners' best practices to improve your own

Gain Greater Control Over the Claims Management Process

- Work with a manager you know is fully committed to your best interests
- Get better, clearer communication and more relevant updates during the claims process
- Take back control over when to push the panic button instead of letting the insurance company decide

Access a Wealth of Leverageable Insurance Data

- Become the primary curator of your insurance data and documentation
- Gain insights into areas of overspend or inefficiency so you can do better next year
- Create a data-driven practice to continually improve your approach to business insurance and risk management

Make a Profitable Dividend

- Profit from owning your insurance rather than renting it (businesses see about a **25% annual return on premium in a group captive**)
- Get rewarded for accurate business planning and great execution
- Create new opportunities for bonuses, investment capital, etc.

Group insurance captives allow businesses to be bolder and empower themselves as the true bosses and controllers of their own destiny.

By partnering with a group of likeminded businesses, you can break free from the constraints of traditional business insurance and create something specifically designed to support and grow with your organization.

Review: What Can You Achieve with a Captive?

Reduce premiums approximately

20%

Free yourself up to be a more agile, self-determined business

Create a

25%

annual return on premium

If you're intrigued by those possibilities, the next step is to analyze your business' current state and insurance needs to determine if a group insurance captive might be right for you. The Launchways team is available to help you determine your business' fit for a group captive program.

Visit www.launchways.com/captive to request a consultation.

How to Know if You're a Good Fit For a Group Insurance Captive

Given all the benefits we've already explored, it's a wonder group insurance captives aren't more widespread across business. Part of the reason adoption has been sluggish is because organizations aren't sure what makes them a good candidate or not.

To help demystify that process, here are five questions you should be able to answer with an enthusiastic "YES!" if your business is truly ready to transition toward a group captive.

1 Does My Company Pay \$250,000 or More in Premiums?

As we've said before, your eligibility as a captive pool partner has nothing to do with the size of your business in terms of profit or employees; it's actually connected to your insurance needs.

If you pay at least \$150,000 annually in premiums, you're making a big enough investment in the insurance market that you can (1) afford to participate in a group insurance captive and (2) benefit financially from your membership.

If your business is under that \$250,000 per year figure, you're typically better off trying to work within the confines of the traditional insurance market, although it may be wise to find a new broker to get a fresh perspective on things.

Even if you are below the premiums threshold for our group captive program, Launchways can still offer you competitive savings on your annual insurance needs with our business insurance brokerage.

2 Does My Company Have an Entrepreneurial Spirit?

While various forms of group insurance captives have existed for 400 years, they're still not the marketplace norm. Being a member of a captive pool can potentially win you some significant gains, but you're giving up the "set it and forget it" nature of your traditional relationship with an insurance provider.

That means there is increased responsibility within each business to be a great partner and new responsibility for the pool manager, who must work to maximize the overall health of the pool while working toward generating returns for everyone.

Make no mistake, joining a captive is a new and different way of doing business, and if you're not into innovative business practices, you might be better off sticking to the traditional market for a few years.

3 Does My Company Desire Greater Control & Stability?

Does it feel like your insurance company has undue power on the way you do business? If so, joining a captive is a great way to take that power back.

If you've been dissatisfied with your insurance company's cost, communication, timetables, and general approach to claims management, group captive membership provides an opportunity to get a fresh start without sacrificing the quality of your coverage.

If you're comfortable with the yearly renewal dance and prefer to keep claims management out of sight and out of mind, then a captive might not be right for you – at least not yet.

4 Does My Company Understand the Concept of “Risk for Reward?”

Even though we corrected the myth that group insurance captives are excessively risky, it's still true that they do not provide the absolute security of traditional coverage.

When you take on a captive insurance approach, even a group captive with pool partners, you're playing the insurance game with your own business funds in a way you simply weren't doing before.

When you're the boss, you have more power, but you also have more responsibility.

That's true in the business insurance game just as it is in life. If you just can't stomach the idea of any kind of actual loss, you might still require the protection of a traditional insurer.

5 Does My Company Have a Commitment to Safety?

Turning your group captive into an opportunity for profit requires a strong dedication to limiting claims. In order for you to get that return at the end of the year, you need to minimize payouts.

That means that to get the most out of captive pool membership, it's crucial you're honoring your commitment to self-insurance company-wide.

Getting that right may require additional safety training or revisiting policies to ensure your whole business is aligned with your approach to insurance.

If your organization is not proactive about safety and claims reduction and instead relies on insurance coverage to handle problems for you, you're likely not ready to be part of a group captive.



Review: Are You a Good Fit for a Group Insurance Captive?

- A good candidate pays at least \$150,000 in annual premiums
- A good candidate is innovative and willing to work harder and in new ways to create new profit
- A good candidate should have a strong commitment to safety and overall business best practices

Taking the First Step Toward Group Captive Gains

1 Benchmark Your Current State of Business Insurance Usage

One of your most important steps in transitioning towards captive membership is understanding the way you've been addressing insurance needs through traditional providers to date.

Self-knowledge is everything when it comes to planning to join a group captive, especially if you're hunting for a return. In general, it's always a great idea to reflect on your business using three years of insurance records, if available.

You need to understand your insurance needs and coverage state from a variety of angles, including:

- Number of claims per year
- Total value of claims per year
- Coverage premiums
- Inefficiencies/gaps/areas of overspend
- Claims processing timelines

Gathering that data will go a long way in helping you understand your areas of insurance need and provide the foundation of an internal feasibility report or application to a group insurance captive program.

2 Identify Clear Goals & ROI Opportunities

In order to reap the benefits of captive membership, you must have clearly articulated goals and an understanding of how joining the captive is going to help you achieve them. No business should ever transition toward captive insurance because it sounds trendy or interesting – there must be a vision for business success.

Once you've gathered and analyzed the data we discussed in the first step, your next task is to figure out how captive membership will improve the scale, effectiveness, and financial profile of your approach to insurance.

For captive group insurance to make your business stronger and more profitable, the self-insured mindset must be baked into every aspect of your approach.

Before you jump headfirst into the pool, it's incredibly important you know why you're transitioning, what you hope to gain, and how you'll support the work of getting there.

3 Tell Your Broker You're Ready!

If you're ready to be a great pool partner based on the qualifications we mentioned and have done the research and planning necessary to understand how captive membership could change things for your business, you're officially ready to take the next step!

By telling your insurance broker you'd like to transition toward group captive membership, you're beginning the next chapter in your business' history, relationship with itself, and journey toward maximization.



If you're ready to take the next step and learn more about joining a group captive, visit www.launchways.com/captive to connect with a Launchways team member today.

KEY TAKEAWAYS

We've covered an awful lot of ground when it comes to group insurance captives! Let's take a minute to summarize some of the most important ideas we've discussed:

- Group Insurance Captives provide businesses insurance for a group of member/owners
- Group captives help medium-sized companies navigate the insurance marketplace like a big corporation
- Contrary to popular belief, group captives do not expose your money to additional risk
- Group captive membership reduces yearly premiums approximately 20%
- Using a group captive, you can free yourself up to be a more agile, self-determined business
- Group captive membership offers a 25% annual return on premium
- A good candidate pays at least \$150,000 in annual premiums
- A good candidate is innovative and willing to work harder and in new ways to create new profit
- A good candidate should have a strong commitment to safety and overall business best practices
- A good candidate has benchmarked their current approach and understands what they want out of captive membership

A Group Insurance Captive Puts You in Control

Launchways can show you the opportunity that awaits when you choose our group captive program.

If you are ready to take the next step contact sales@launchways.com or visit www.launchways.com/captive