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# Captives: Back to Basics

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# Agenda

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- Brief History of Captives
- Quick Reminder of What They Are
- Two Watershed Events and Insights from the Past
- Growth in Numbers and Domiciles
- Pressures (Opportunities) Currently



# The History of Modern Captives

- Term “captive insurance” coined by Frederic Reiss, a property-protection engineer in Youngstown, OH in 1955
- Youngstown Sheet and Tube (formed its wholly-owned insurer, Steel Insurance Company of America)
  - Availability and cost of traditional insurance
  - Why are they called “captive insurance companies”?
- Reiss established the first captive insurance company in Bermuda in 1962, International Risk Management Ltd.



# Captives

- Definition
  - A subsidiary owned by one or more parent organizations established primarily to insure the exposures of its owner or owners
- In the risk management context, captives combine
  - Risk retention
  - Risk financing
  - “Alternatives” to traditional insurance



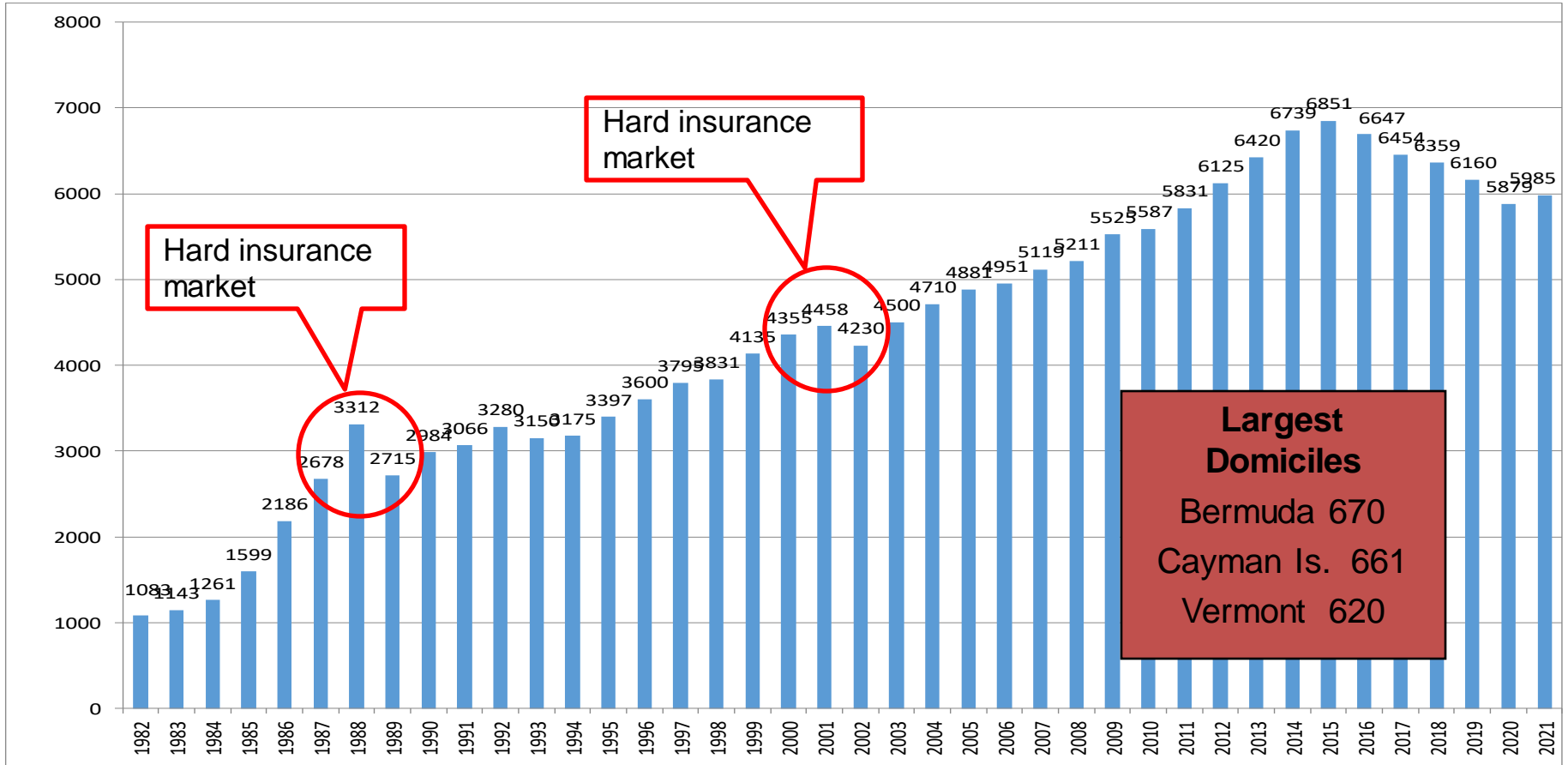
# Benefits of Establishing a Captive

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- Broader coverage
- Stability in pricing and availability
- Direct access to reinsurance
- Improved cash flow
- Increased control over the program
- Structure and discipline



# Total Number of Captives



# Watershed Events for Captives

- Liability Insurance Crisis
  - General liability insurance premiums skyrocketed
    - from 1984 to 1987 increased from \$6.5bn to \$19.5bn (300%)
- Medical Liability Crises
  - Medical malpractice crisis from the 1970s
    - one of the first events that led to insureds seeking relief by forming captives (growth in Cayman Islands)
  - End of soft market in 1984
    - some healthcare providers experienced increased premiums of 50-100% during 1984-1985



# Watershed Events for Captives

- September 11
  - General market capacity
    - *An insurance broker*, “the events of Sept. 11 have clearly and significantly impacted the insurance marketplace”
    - “I expect with capacity and premium limitations that alternative risk vehicle activity (including captives) will increase significantly”
    - Catastrophic losses in insurance lines that hadn’t seen it before (WC)
  - Terrorism risk
    - For airlines - passenger and third-party war and terrorism risks
    - For other businesses - more control over coverage limitations and the price





# Top Domiciles Globally

## Number in 2021 (2020)

- Bermuda 670 (680)
- Cayman Islands 661 (652)
- Vermont 620 (589)
- Utah 384 (396)
- Delaware 313 (288)

Since 2010, the number of captives in Bermuda and the Cayman Islands has decreased 15%, and the number in the U.S. has increased 71%



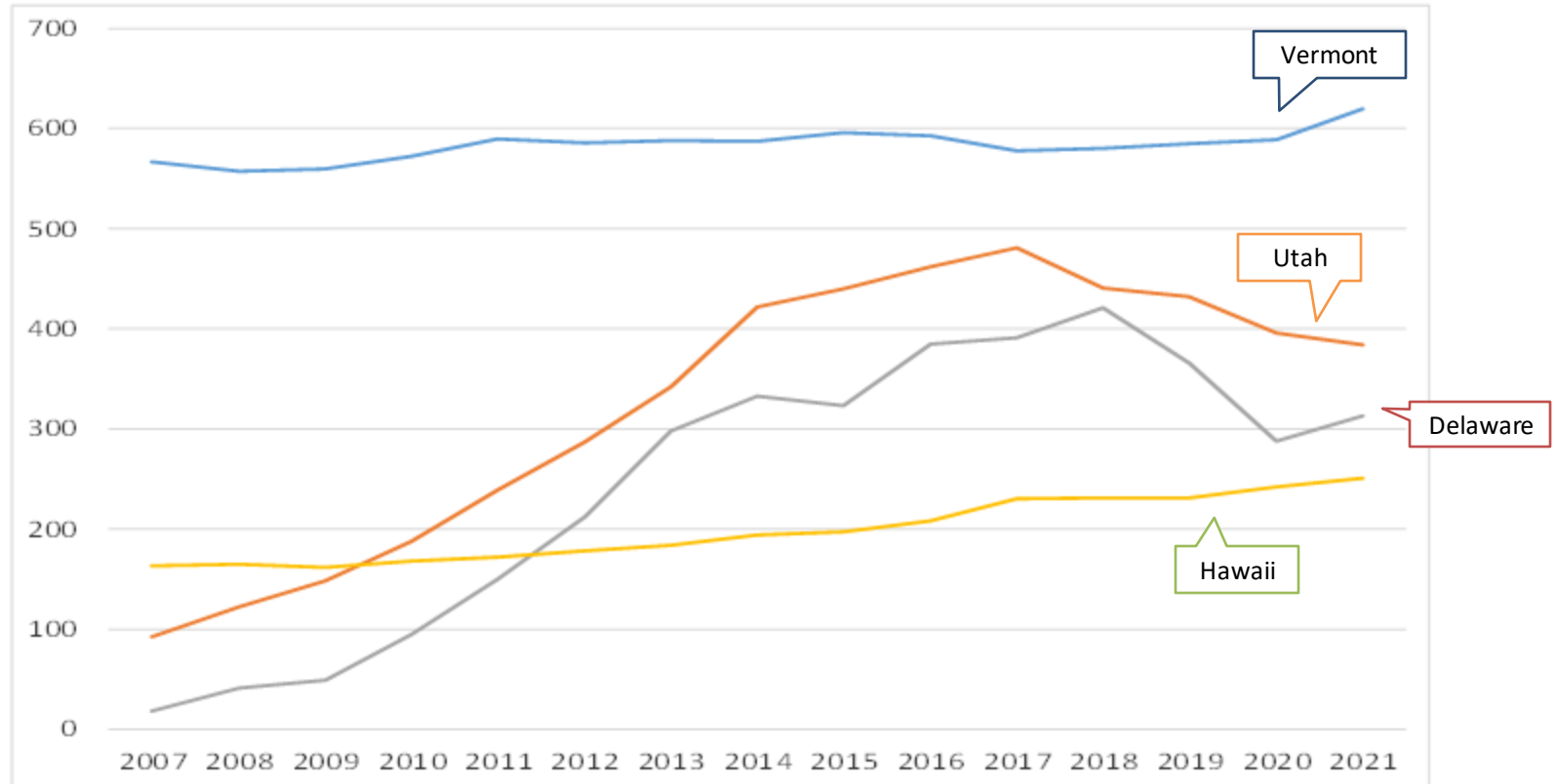
# Recent Evolution in U.S. Domiciles

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- More favorable regulatory and economic policies in a number of states across the U.S.
- Continued scrutiny of offshore financial arrangements



# Growth of Captives in U.S. Domiciles



# Pressures (Opportunities) Currently

- Hard insurance market
  - Cat-exposed Property, Excess Liability, and Reinsurance
  - Deductibles, limits and coverage terms
- Growing concern over Cyber risks and D&O
- Interest in cell and group captives by middle-market companies
- IRS scrutiny of 831(b) - microcaptives
- Other emerging risks
  - Pandemic risks
  - ESG strategy

