

Captive – A wholly-owned insurance subsidiary of a company not otherwise an insurance subsidiary sponsored by a company not otherwise involved in the insurance business, which insures all or part of the sponsor's risks.

Types of Captives:

Single Parent Captive (also known as a "pure" captive) – A Single Parent Captive is a limited purpose insurance company that exists primarily but not exclusively to underwrite the risks of its owner(s). A single parent captive is a wholly-owned subsidiary which insures or reinsures all or a part of its parent and affiliates.

Single parent captives have been an acceptable risk management tool since the 1950s. As of January 1, 2003 there are approximately 4,800 captives in existence. 60% to 70% of these captives are single parent captives.

Association or Group Owned Captive – An insurance company very much like a single parent captive, the essential difference of an Association or Group Captive is that it is owned by a group of insureds that are usually affiliated through a trade, industry or service group. Key features are homogeneity of risk and a willingness by the insureds to pool risk.

Rent-A-Captive – A rent-a-captive is a type of captive structure usually formed by insurance companies, brokers or captive managers whereby the insured does not have to capitalize his own captive but can "rent" the capital of the sponsoring owner and operate under the sponsor's license. There are two different types of rent-a-captive facilities:
Traditional rent-a-captive
Segregated Accounts Companies

The Captive Choice

Hard market pressures of increasing retentions and premiums, coupled with shrinking capacity, all serve to highlight the traditional rationales of captive feasibility studies and captive formations as captives to serve to:

- Stabilize and minimize the total cost of risk
- Achieve optimum retention levels
- Focus on risk identification and control
- Integrate with parent company strategies

Question: Should we form a captive? Or ... We have a captive. Could we do more with it?

AIMS can answer both of these questions with either a Captive Feasibility Study or a Captive Utilization Review.

Rent-A-Captive

Insureds can enjoy the benefits of a captive without ownership requirements. There are no start-up costs, nor individual service provider costs such as legal, audit and license fees. All such costs are borne by the owners of rent-a-captive and are included in the annual fee.

An important feature about rent-a-captives is that they are fully collateralized facilities as the owners of the rent-a-captive do not want to assume underwriting risk. Funding to the insured limits is comprised of a mixture of premium, letter of credit and reinsurance.

There are different types of rent-a-captive facilities in different domiciles: traditional rent-a-captives and cell type companies.

Traditional Rent-A-Captives

Each client has its own share series of preferred, non-voting stock into which premiums are paid and from which claims are paid. Underwriting profits plus investment income are returned to the shareholder in the form of a dividend. While the rent-a-captive accounts for each client separately, there is a risk that the failure of other accounts in the rent-a-captive could jeopardize another account.

Segregated Cell Captives

These structures are similar to traditional rent-a-captives except they are formed under specific legislation in their respective domiciles which guarantees by statute that the failure of one cell cannot impact any of the other cell owners' activities. In Bermuda they are known as Segregated Accounts Companies (SAC). In Vermont they are known as Sponsored Companies. In Guernsey they are called Protected Cell Companies (PCC) and in Cayman they are called Segregated Portfolio Companies (SPC).