

'Captive insurance' catches on, but is it right for you?

"Captive insurance," also known as "alternative-risk transfer" insurance, is another insurance option that some operators may want to consider to combat rising insurance costs and better manage their risk.

While captives aren't the perfect fit for all motorcoach operators, those companies that have adopted this approach to insurance say there are benefits.

Captive insurance programs have been around for more than 100 years but it wasn't until the 1970s that they became more prevalent. Since then, they have continued to grow through soft- and hard-market insurance cycles.

More commercial insurance buyers are considering captives, say insurance specialists, because they can offer pricing stability, potential cost reductions, and more control over their insurance program.

Initially, captives for the transportation industry were only available to the largest fleet owners, but today middle-market insurance buyers have access as well.

The largest writer of captive insurance in the motorcoach industry is National Interstate Insurance Co. of Richfield, Ohio.

While there are a variety of captive insurance options, so-called rental captive programs provide an alternative for some operators because they do not require a capital investment by the insured participants. Other forms of captives require up-front money.

As its name suggests, the insurance company writing a rental captive program actually "rents"

the necessary capital, licenses and reinsurance to the captive members. The insurance company also provides the administrative functions, including claims handling and customer service.

Selective membership

A level of control, however, remains with the members. They have input on potential future participants, how their money is invested, and the services and coverages provided.

With a captive program, premiums are based on a company's own loss history.

And, importantly, participants in a captive program are eligible to receive unused premiums and investment income based on the experience of their captive group.

Captive members also benefit from enhanced loss-prevention programs, insurance experts note.

A commitment to safety and loss control is essential to the success of a captive, since having fewer claims means there's greater potential for a premium refund. Improving safety practices is a win-win for everyone, so insurance companies with captive programs often provide loss-control services for their customers.

National Interstate, for example, encourages the use of accident event recorders as a way to improve driver behavior and reduce accidents. The company believes so strongly in this technology that it has supported its customers with the installation of accident event recorders in more than 7,000 vehicles, and that number is growing.

Other features typically associated with participating in a captive program include:

- The potential for tax benefits, including deduction of policy premiums.
- Access to other coverages, such as general liability, including garage; physical damage, and workers' compensation.
- Specialized customer service and claims management from teams dedicated to serving captive customers.

A partnership

Companies that join a captive typically stay in the program. National Interstate says its captive retention rate is above 95 percent and historically averages a significantly higher renewal retention rate than traditional insurance.

This retention rate appeals to insurance agents who sell captive coverage. Since the agent is likely to keep the captive customer, this can translate into a more secure commission stream.

When a company joins a captive program it becomes more than a business transaction, say those involved in the programs. It's a long-term commitment that becomes a partnership.

Participating operators essentially partner with the other members in the captive, as well as the insurance company. This philosophy is brought home when participants attend captive meetings. During those sessions, participants have the opportunity to meet other operators and share best practices.

Captives use a committee structure, giving members a say in

the underwriting, financial and loss-control practices of the captive.

When an operator has a problematic claim or a new underwriting idea, management from the insurance company is available and the captive meetings provide a forum for face-to-face discussions of new ideas, as well as issues.

The best fit?

Companies best suited for a captive are financially stable and have a willingness to bear some risk; a proactive approach to safety and loss control is essential.

Also of critical importance is understanding the ins and outs of captives, and finding a quality insurance company or agent to walk you through the process.

The agency or company should be able to provide best-and-worst case scenarios, including specific claims examples to demonstrate exactly how it all works.

It's also a good idea to speak with other operators who are in a captive program for first-hand insight.

Researching all options, and starting the process well in advance of your next insurance expiration date, also is important.

The current business environment is a good time to take a more active interest in controlling expenses, as well as focusing more attention on company insurance, including considering the captive approach to risk management.