

A Contractor's Guide to Captive Insurance

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At its most basic level, captive insurance is a form of self-insurance that provides significant benefits to businesses with unique and high levels of risk. While captives aren't right for every business, they can in many cases be appropriate for contractors. After all, there are few industries that are exposed to as much risk and workers compensation claims as the construction industry.

Captive insurance has been around since the 1950's but has grown substantially in the past decade due in part to unpredictable market conditions and more favorable legislation in the United States. Despite this shift, many contractors and construction executives, especially mid-sized companies, remain either unfamiliar with captive insurance or uncertain if it is a worthwhile risk management strategy. Below are some key considerations for contractors when evaluating captive insurance.

A Strong Foundation

While Fortune 500 companies have the ability to entirely self fund their captives, most mid-market companies are not positioned to do so. For these companies, group captives are a more favorable option. These types of captives spread risk among several partners, and there are currently many captives formed for both the construction industry and specific trade contractor groups.

Think of a group captive as a strong foundation for your risk management program. Just like the weight of a building is evenly distributed on and supported by its foundation, a group captive ensures your risk management program will not topple over because of high costs. Beyond the cost savings that this set-up brings, it can provide additional support resulting from services provided by the many group captive companies. These may include on-site compliance audits, safety training, program development, and education for employees.

Custom Engineered

Regardless of how contractors are insured, claims can be one of the biggest drains on their bottom line. Work-related injuries cost time and money, and the claims management process is frustrating at times. Additionally, a majority of the control in the claims process lies in the hands of the insurance company. With captive insurance, contractors have far more control over claims and litigation management. What's more, there may be certain types of claims that traditional insurance companies do not cover. With a captive, construction companies can make sure they're protected against most known risk exposures.

Think of this particular aspect of a captive like a custom-engineered piece of architecture that's meant for a very specific building and a very specific use. Unlike some options offered by traditional insurance companies, there's nothing cookie-cutter about a captive insurance program. It can be made to fit a wide variety of needs and businesses.



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Built to Last

There is a misconception among many that setting up a captive provides a quick way to save money. In fact, this is not typically the case. But it is true that over time, a captive can be a worthwhile investment that can offer construction companies significant cost savings. Consider a hypothetical construction company that pays a \$1 million premium for insurance coverage for the year. If it only had \$400,000 in claims for a given year, it would not recoup the additional \$600,000 that covered the premium. But in utilizing a captive insurance company, that additional money would stay in the captive and the company would experience a significant advantage. Conversely, if this company were to experience \$3 million in claims, the captive insurance company would be in financial trouble and, if not properly capitalized, may be subject to take-over or liquidation by the regulatory authorities. That's why it is critical to carefully evaluate risk to determine if a captive is right for you.

Think of a captive as an extremely sturdy structure made with high-quality materials. If a construction company has done its due diligence and carefully evaluated the opportunity, it will continue to reap benefits long into the future.

It's important to reiterate that captives do not work for every contractor. Before pursuing one, contractors should make sure they go through a rigorous review process with a trusted risk management partner. If a contractor is a good candidate for a captive, it can be an attractive opportunity to change the conversation about insurance from one filled with headaches and frustration to one filled with opportunity.

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