



Agents Urged To Consider Captive Option

Alternative risk-transfer can benefit many insurance buyers, even in a soft market

By MARK E. RUQUET
Published 6/15/2009

[Return To Article](#)

Independent agents can help make up for declining premium growth in a soft market and a recessionary economy by helping clients create captive insurance companies, where appropriate, one alternative market manager suggests.

Indeed, a captive program can be a very profitable venture for those putting up the investment to fund the creation of risk retention vehicles for volatile exposure programs, according to Chris Kramer, senior vice president of Atlas Insurance Management, a management firm based in Washington, D.C.

A typical captive involves the owner of the risk setting up a self-insured program and providing adequate financing to cover the exposure, while buying reinsurance directly to back up the facility, Mr. Kramer explained during a presentation at the recent annual meeting of the American Association of Managing General Agents in Boca Raton, Fla.

In the process, an MGA—as a manager of the vehicle—could make money from the commission on the transaction, he added.

However, by putting up the capital, the MGA can stand to even more through investments made by the program and management of the risk. The financial growth of the captive would be paid in the form of dividends over an extended period of time, he explained.

A retail agency can also enjoy the same dividends by investing in a program with the MGA and creating a captive for their clients' insurance risks, Mr. Kramer noted.

However, to avoid ethical conflicts over this close acquaintance, producers must be transparent and fully disclose the relationship to clients, according to Gary Bowers, a tax partner in Johnson Lambert & Co., an accounting firm in Raleigh, N.C.

Mr. Kramer noted that captives are often used as a hard market solution for buyers, but are set up in soft markets to take advantage of available reinsurance capacity. An agent needs to examine their business and determine which exposures would be most on the edge in a hard market, then develop a strategy to protect it.

However, noted Mr. Bowers, a captive must be a true risk-transfer vehicle, or premiums paid will fail Internal Revenue Services tests for designation as an insurance expense.

What domicile a captive is established is at the discretion of those creating the vehicle, said Mr. Kramer. Much will depend on how much capital the domicile requires and the willingness of the owners to travel to that domicile.

A successful captive keeps its expenses down, noted Mr. Kramer, but certain tax regulations need to be followed or the program could lose its status as an insurance company, observed Mr. Bowers.

Meanwhile, producers were also instructed in the art of "Effective Selling" during the AAMGA conference.

"A year from now, what does an improved sales organization look like?" asked Emily Huling, president of Selling Strategies Inc.

Introducing Zurich HelpPoint
More than just insurance,
here to help your world.

Learn more!

ZURICH
Because change happens.™

Drawing on the sales experience and concepts that the brokers attending the session discussed with one another, Ms. Huling laid out several points agents should consider in formulating their sales strategies.

For MGAs, she said one major purpose behind their strategy should be to make the retail agent look good in the eyes of the policyholder.

Ms. Huling said this does not mean turning over significant portions of the MGA's services to the retail agent. She said it is a question about the focus of service. That focus, for both retail and wholesale agent, has to be on protecting the assets of the end user—the policyholder, she said.

To achieve this goal, MGAs need to focus on internal communication, making sure everyone within the agency works with one another and collaborates to achieve the same goal of taking care of the customer.

Growing the business also means assessing who you are working with. For the MGA, that means determining if they have aligned themselves with the right agencies—those bringing solid business into the firm.

An MGA knows they truly gained the trust of an agency when they get a call from a retail agent asking, "I don't know if you can help me, but I thought you might know something about this." She said this is the highest compliment any MGA can receive.

It is important, she noted, that an agency owner cannot expect to improve their business unless they are open to changing tactics and making changes to the business.

"You can't keep doing business the same way and expect a new result," she noted.