



GLOBAL CAPTIVE SOLUTIONS

# Symbiotic Risk Management: MGAs Using Captives

**MIKE UGLJESA**

*President, Hylant Administrative Services*  
Hylant

**ALEX GEDGE**

*Senior Captive Consultant*  
Hylant

WHITE PAPER

HYLANT

811 MADISON AVENUE | TOLEDO, OHIO 43604

[hylant.com](http://hylant.com)



## GLOBAL CAPTIVE SOLUTIONS

### Symbiotic Risk Management: MGAs Using Captives

Captive insurance provides a proven, effective strategy for managing volatility, reducing costs, and strengthening control over risk financing.

One of the most fascinating aspects of nature and illustrations of natural selection involves the symbiotic relationships of species. Separate organisms see value in each other and evolve to leverage that value for their mutual benefit. Familiar examples include the anemones that offer safe harbor to clownfish in return for parasite removal and nutrient-rich waste, and the cacti that shade mesquite from the desert sun and are in turn rewarded with fallen leaves full of life-giving nitrogen.

Nobody would mistake managing general agents (MGAs) and captive insurers as examples of nature, but the two business models share relational aspects that deliver significant business advantages when used in combination. Whether you choose to call it symbiosis or synergy, pairing the two can leverage more value and cost efficiency in risk management strategies.

#### A Versatile Tool

While one might assume that MGAs would automatically turn to coverage from the carriers with which they work to address their clients' risk management challenges, there are complex situations when the traditional insurance market isn't the best solution. Most often, that's because commercially available coverages may not align with a client's specific situation. In addition, captive insurance provides a proven, effective strategy for managing volatility, reducing costs, and strengthening control over risk financing.

Captives also allow the MGA to develop products that meet the unique needs of specific verticals. When an MGA establishes a captive to support a client's overall risk management efforts or assume a specific portion of their risk, it has an opportunity to market the same solution to other organizations within the sector whose needs are essentially identical. That familiarity with inherent risks can also extend to developing specialized loss control services and claims handling activities, along with the creation of unique policy language and forms.

Additionally, creating a captive can present a risk participation opportunity for the MGA. By taking part in some of the underwriting risk, the MGA can also capture part of the underwriting profit.

#### Captives Draw Upon MGA Resources

Many of the resources a captive insurer requires already exist within an MGA's operations, as the latter performs most of the basic functions of an insurance company. Successfully managing a captive involves activities such as performing underwriting, issuing policies, billing, remitting payments, reporting premiums, marketing, claims handling, and negotiations with fronting carriers and reinsurers—all processes with which MGAs have practical experience and professional staff.



## The Captive Strategy

Captives are licensed insurance companies owned and operated by the parties they insure. They allow organizations to create highly tailored, actuarially sound protection based on their owners' specific business risks. Creating a captive gives the owners an alternative to purchasing insurance on the open market and allows them to tailor the coverage to the specific risks associated with their operations.

Captives generally contract with reinsurance (and sometimes fronting) companies to provide important guardrails to protect against severe losses and risks beyond what the captive's owners are willing to assume. Insurance carriers who may have balked at providing basic coverage directly to individual organizations may be more willing to partner, given the elevated claims support provided through the captive. After all, the program's structure is designed to give the captive owner and manager a more precise assessment of the risks so they can price their portion profitably, which reassures participating carriers.

## Strategic Benefits of a Captive

Captive insurance offers numerous strategic advantages for organizations seeking to enhance risk management and financial stability. Some of the key benefits include the following.

### Stable Insurance Costs

Captives reduce exposure to commercial market rate swings by pricing premiums based on internal loss history and retention strategies. This results in more predictable budgeting and insurance costs.

### Retained Underwriting Profits

Any underwriting margins and investment returns stay within the organization, creating an internal risk fund that can grow responsibly over time.

### Capital Efficiency

Captives allow firms to optimize internal capital for risk retention, freeing up funds otherwise tied to high commercial premiums or inefficient deductibles.

### Improved Risk Management and Oversight

Captives provide centralized data on claims and risk trends, helping stakeholders align insurance with enterprise risk management, risk philosophy, and expansion strategy.

### Access to Reinsurance

Captives are conduits to reinsurance markets, offering more flexibility and cost-effective risk transfer than direct placements.

## Types of Captive Structures

There are three primary types of captives:

**Single parent captives.** As the name implies, single parent captives are owned by just one organization and only insure that organization's risks. The single parent approach is suitable for companies with a solid risk management framework

**Group captives.** A group captive is owned by multiple companies that share uncontrolled risks, such as property claims, and also share in the liabilities and profits associated with insuring or reinsuring the group. Members benefit by spreading administrative and underwriting costs across all the members. In addition, they get to participate in decision-making about coverage, vendors, and consultants.



Any underwriting margins and investment returns stay within the organization, creating an internal risk fund that grows responsibly over time.



**Cell captives.** This approach is used by smaller companies that want to keep their operating costs lower. Like a multi-tenant office building, a third-party sponsor creates the overall structure and rents individual cells to a variety of companies. While each cell owner is required to capitalize its cell, this approach generally carries lower startup and frictional costs than single parent captives while maintaining asset segregation.

### Proceeding with a Captive

Creating a captive begins with a focus on the ultimate goal. Based on that goal, the owner faces a lengthy list of considerations. What domicile will best support the captive owner's tax, regulatory, infrastructure, and political needs in the short and long term? How will the voting rights be established, and how will the board be structured? Many decisions like these will determine how the captive will be owned and operated.

### The Most Important Element

Data is at the heart of every successful captive. This provides a key advantage to MGAs because they already have access to much of the data needed to satisfy the expectations of fronting and reinsurance carriers. Having data that supports underwriting decisions for the captive builds trust among those vital partners.

### Trusted Advice is Critical

Captives are intricate structures that require professional planning, forecasting, and expert advice to achieve long-term success. Choosing an experienced captive advisor or manager gives you access to knowledge about franchise captive types, ownership and program structure, service provider guidance, and more. Captive owners will also benefit from their working relationships with carriers and other key players, which help them make the proper recommendations.

Hylant fields a globally respected captive team with access to a wide array of carriers and servicing partners. Together, they implement innovative strategies to help companies and other organizations design and manage affordable insurance programs.

Hylant's globally respected captive team partners with carriers and service providers to design and manage innovative, affordable insurance programs.