

# A GUIDEBOOK TO CAPTIVE INSURANCE

IS SELF-INSURANCE RIGHT  
FOR YOUR ORGANIZATION?





### WHAT IS A CAPTIVE INSURER?

A captive insurer (or simply “captive”) is a licensed insurance company that is entirely owned by its insured. The purpose of a captive is to insure only the risks of the owner company. Captive insurance is a type of self-insurance where the owner company pays insurance premiums to its wholly owned captive rather than paying premiums to a third-party insurance provider. Captives can be established and licensed in various jurisdictions, both within the U.S. and internationally. Many states have special regulations to permit and support captives. The jurisdiction where a captive is based is referred to as its ‘domicile.’

**Captives are licensed insurance companies with the sole purpose of financing self-insured risks.**

### WHY DO COMPANIES FORM CAPTIVES?

Most insurers do not offer first-dollar coverage, so companies are already responsible for risk up to their deductible. Fluctuating claims result in loss of control of deductible payouts, creating financial unknowns. Forming a captive entity enables companies to increase control over financial operations and reduce risk for exposures, including liability, property, and employee benefits.

The advantages of captives extend beyond just controlling financial unknowns. Captive insurance provides measurable benefits to parent companies that are better than average risk, reduces premium by the amount of commercial carrier expenses, and offers coverages not typically available in the commercial marketplace.

### WHAT TYPES OF COMPANIES ARE MOST SUITED FOR CAPTIVE INSURANCE?

Any entity can form a captive, but there are certain types of businesses for whom captive insurance makes the most sense. An organization might be a good fit to form a captive if the company:

- + Experiences a high volume of claims
- + Purchases insurance with high deductibles
- + Seeks first-dollar coverage
- + Has unique or unusual risks
- + Pays high annual insurance premiums (at least \$1.5M)

# TYPES OF CAPTIVES

Various captive structures exist for various purposes, and the number of captives worldwide has increased dramatically over the last few decades as companies recognize their value.

CAPTIVE TYPE	DESCRIPTION	PURPOSE
<b>Single Parent</b>	Owned by one parent company	Insures or reinsures the risk of its parent, subsidiaries, or selected unaffiliated parties.
<b>Group/Association</b>	Owned by more than one company, each becomes a shareholder	Insures or reinsures the risk of the entire group. Shares risks and profits with other group members.
<b>Risk Retention Group</b>	A specific type of group captive that is licensed in one state but operates in all 50 states on a registered basis	Can only write liability lines of risk but does not cover workers' compensation (WC) or property.
<b>Cell Captive</b> (Segregated/ Protected or Incorporated Cell)	Formed by a third-party sponsor who "rents" cells to unrelated companies	Typically lower start-up and frictional costs than SPCs. Assets and liabilities of each cell are segregated and each cell owner is typically required to capitalize that particular cell.
<b>U.S. Branch</b>	A division of a single parent captive that is usually domiciled in the U.S. as a branch of an offshore captive	Allows a company to access U.S.-only coverages, such as employee benefits and risks associated with terrorism.

## WHAT ARE THE BENEFITS OF CAPTIVES?

Forming a captive offers businesses greater control over risk management, potential cost savings on insurance premiums, and the ability to tailor coverage to meet unique needs while benefiting from underwriting profits and investment income.

### + Reduces unknowns

As claims are paid by the captive, its balance sheet will rise and fall. However, since insurance payments from the parent company to the captive are regular, the parent company's balance sheet remains stable, stabilizing cash flow and company assets.

### + Potential cost savings

Traditional insurance expenses such as agents' commissions, acquisition expenses, and premium taxes are eliminated by placing coverage through a captive. Additionally, because premiums are based on the parent company's experience only, if the organization has better than average risk with robust loss control in place, premiums will be lower.

### + More control over claims handling process

A captive insurance model affords the parent company more control over the claims handling process, allowing the company to decide which claims to defend vs. settle.

### + Enables unique coverages

Many companies that form captives do so to underwrite risks that traditional insurers do not cover. This is especially beneficial for companies in emerging industries where traditional insurance still lacks sufficient data and expertise to underwrite and price risk accurately.

# HOW PERR&KNIGHT HELPS

Perr&Knight's Risk Strategies & Solutions (RSS) department can help determine if forming a captive is right for the parent company and can assist with registering and continued management of the captive, obtaining the appropriate licenses, and developing compliant and appropriately priced policies.



## REVIEW INSURANCE PROGRAM & RISK APPETITE

Our insurance experts discuss the types and volume of risks the parent company faces, historical loss data, and the company's capacity and willingness to retain risks.



## FEASIBILITY STUDY

Our seasoned actuaries and RSS team estimate capital requirements, calculate potential premium levels, compare costs between captive and traditional insurance programs, and develop financial statement projections.



## DECISION TO PROCEED

Using the analysis prepared by Perr&Knight and the company's other financial and legal advisors, the company decides to proceed with captive formation.



## BUSINESS PLAN DEVELOPMENT

Our team outlines the captive's purpose, risk management strategies, financial projections, operational structure, and compliance framework, ensuring all align with the parent company's goals.



## VENDOR SELECTION

The Perr&Knight team helps with identifying, vetting, and selecting the appropriate team to assist in operating the captive.



## CAPTIVE APPLICATION, LICENSE, INCORPORATION, AND CAPITALIZATION

The team at Perr&Knight oversees the filing to become a licensed captive insurer and submits rates and forms documentation for the insurance products the captive provides to the parent.



## BEGIN OPERATIONS

Once operations commence, the team from Perr&Knight can continue to provide captive management, actuarial support, and financial projections to ensure retention aligns with required coverage.

## RISK STRATEGIES & SOLUTIONS

Partner with Perr&Knight's Risk Strategies & Solutions (RSS) practice area for end-to-end captive entity and program development consulting and support.

1.888.201.5123 x2

[PerrKnight.com](https://PerrKnight.com)

## ABOUT PERR&KNIGHT

For over 30 years, Perr&Knight has provided exemplary insurance consulting and software solutions to the property & casualty and life, accident & health industries. Services include actuarial consulting, risk strategies & solutions, applied AI consulting, product development, insurance policy and forms consulting, regulatory compliance, compliance and operational assessments/training, state filings, licensing, technology consulting, statistical reporting, data services, predictive analytics, and bureau monitoring & maintenance. Software includes [StateFilings.com](https://StateFilings.com), the leading cloud-based state filings management solution. With offices nationwide and more than 150 insurance professionals, including 30+ credentialed actuaries, Perr&Knight is among the largest independent actuarial and insurance consulting firms in the United States.

Copyright© 2025 Perr&Knight. All Rights Reserved.

Perr&Knight is not a law firm and does not provide legal advice, services and/or opinions. Perr&Knight and its employees cannot act as legal counsel with respect to any matter and no attorney-client relationship is implied or created by anything contained herein. To the extent that during the course of providing consulting and other services, any information regarding legal matters is provided, Perr&Knight has made commercially reasonable efforts to ensure that such information is accurate. However, as laws vary from jurisdiction to jurisdiction and change rapidly, such information may not be up to date and all legal matters should be reviewed by your own in-house counsel, outside counsel and/or other legal advisors as appropriate who are licensed or otherwise permitted to practice law in the jurisdiction(s) involved.