ALLIANCE CAPTIVE
MANAGEMENT

CAPTIVE INSURANCE, EXPLAINED

What if a business could participate in its own insurance results?

A captive is a licensed insurance company owned by the business or group it insures. It can retain selected risks while commercial insurance continues to protect against larger losses.

HOW THE STRUCTURE WORKS

1. **Operating business**
   Identifies risks and pays premium.
2. **Captive insurer**
   Assumes a defined layer of risk and pays covered claims.
3. **Commercial market**
   May cover larger or excluded losses.

WHAT THE CAPTIVE MUST DO

The captive collects a premium supported by underwriting and actuarial work. Its owners fund capital, pay claims, maintain records, and meet regulatory requirements. Coverage can operate alongside existing commercial insurance.

COMMERCIAL INSURANCE AND CAPTIVE PARTICIPATION

Commercial insurance

- Transfers specified risk to an outside insurer.
- Premium and terms are set by the carrier.
- The carrier generally retains underwriting results.

Captive participation

- Retains a carefully chosen layer of risk.
- Requires capital, governance, and claims discipline.
- Favorable results may benefit the captive over time; losses remain its responsibility.

POTENTIAL ADVANTAGES AND LIMITATIONS

Potential advantages. A sound program may improve control over coverage, create tailored protection, and allow favorable underwriting and investment results to accumulate within the insurer. These outcomes are uncertain and develop over time.

Key limitations. Claims may exceed expectations. The captive needs capital and ongoing management, legal, actuarial, audit, and regulatory work. It is not a substitute for broad catastrophe protection or a guaranteed source of tax savings.

Client-fit conversation starter

Use these prompts to decide whether an introductory review is worthwhile. They are a screening aid, not an eligibility determination or financial projection.

1. Does the business have meaningful, recurring insurance costs or uncovered risks?

[ ] Yes [ ] Not sure [ ] No

2. Can it provide several years of usable claims and exposure information?

[ ] Yes [ ] Not sure [ ] No

3. Is it prepared to commit capital and manage risk over multiple years?

[ ] Yes [ ] Not sure [ ] No

NEXT STEPS WITH ACM

1. Outline the business, existing coverages, and risk goals.

2. Gather current policies, declarations, and three to five years of loss runs where available.

3. Review structure, capital, regulatory, actuarial, and operational considerations with qualified advisors.

Tim Luby, CEO & Co-Founder
t.luby@alliancecaptivemgt.com | 866-570-5794