



# 2022 Annual Conference

## Captive Innovation: Using Your Captive to Its Full Potential

**R. Wesley Sierk III**

Risk Management Advisors  
2040 Main St, Ste 45  
Irvine, CA 92614  
[wsierk@riskmgmtadvisors.com](mailto:wsierk@riskmgmtadvisors.com)

# Who Are We?



## TOP 10 CAPTIVE MANAGERS

Ranked by the number of captives managed worldwide in 2021

Rank	Company	2021 total captives <sup>1</sup>	CAPTIVE TYPES		
			Captives	831(b) microcaptives	Protected/ segregated cell companies [Individual cells]
1	Marsh Captive Solutions	1,501	1,415	28	58 [271]
2	Aon Captive & Insurance Management	990	918	16	56 [322]
3	Artex Risk Solutions Inc.	822	638	138	46 [1,345]
4	Strategic Risk Solutions Inc.	427	342	—	85 [472]
5	WTW, Global Captive Practice <sup>3</sup>	339	304	11	24 [59]
6	Risk Strategies Co. Captives <sup>4</sup>	223	36	172	15 [626]



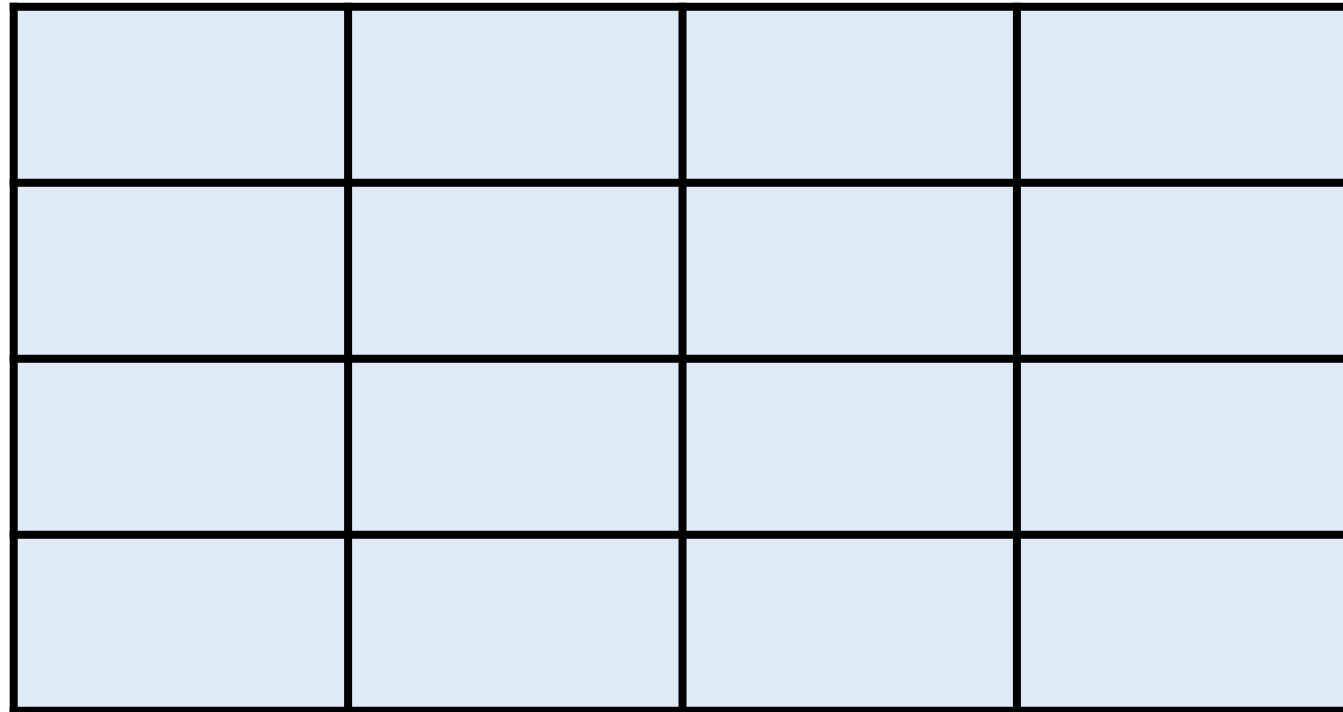
# Let's Play A Game

First, Here Are The Rules:

1. Get Out a Piece of paper
2. “No Talking”
3. Count “How Many Squares”
4. Write Down The Number



How many squares do you see in the picture below?



How many squares  
did you see in the  
picture?

16 ? \_\_\_\_\_

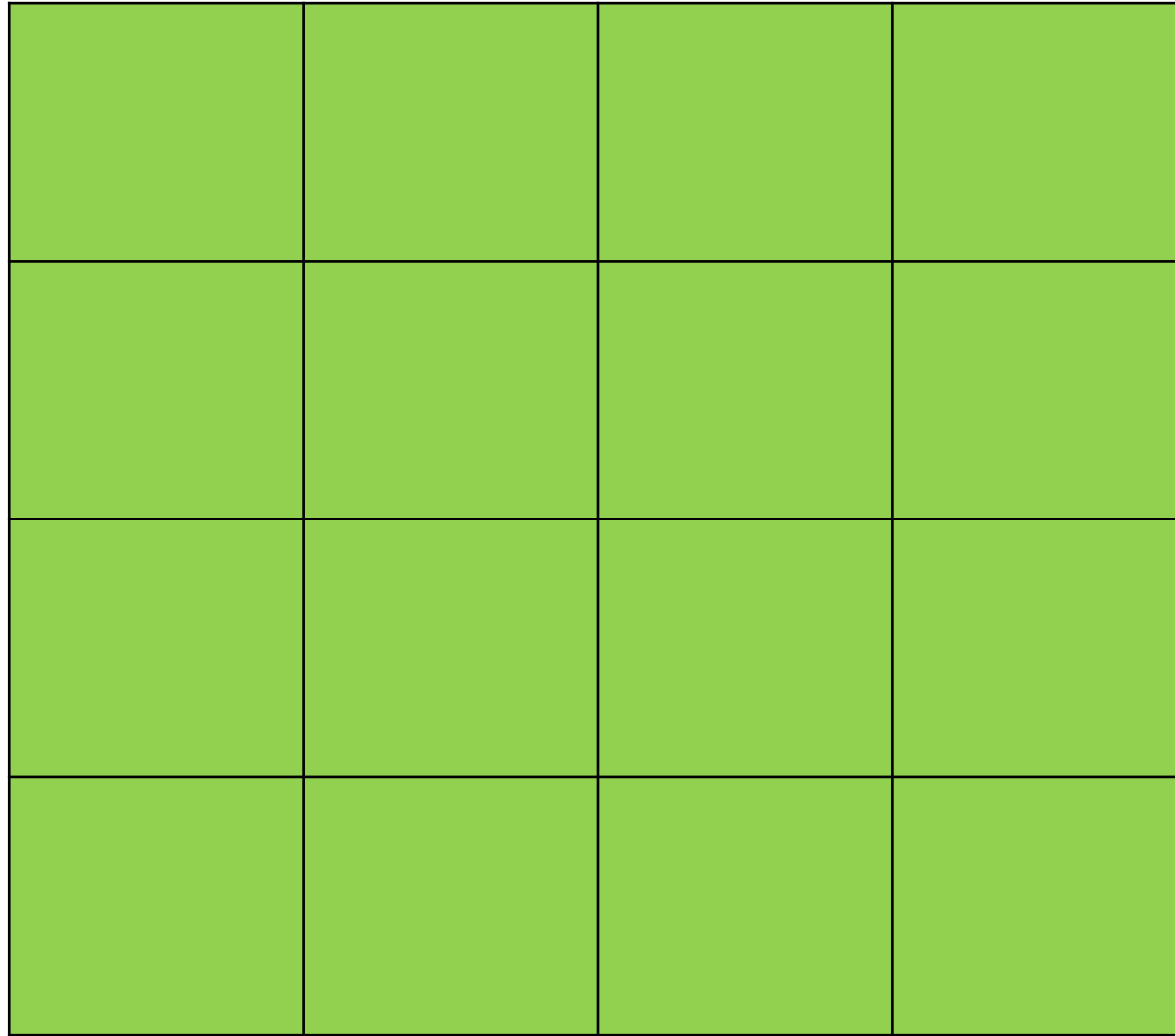
17 ? \_\_\_\_\_

18 - 20 ? \_\_\_\_\_

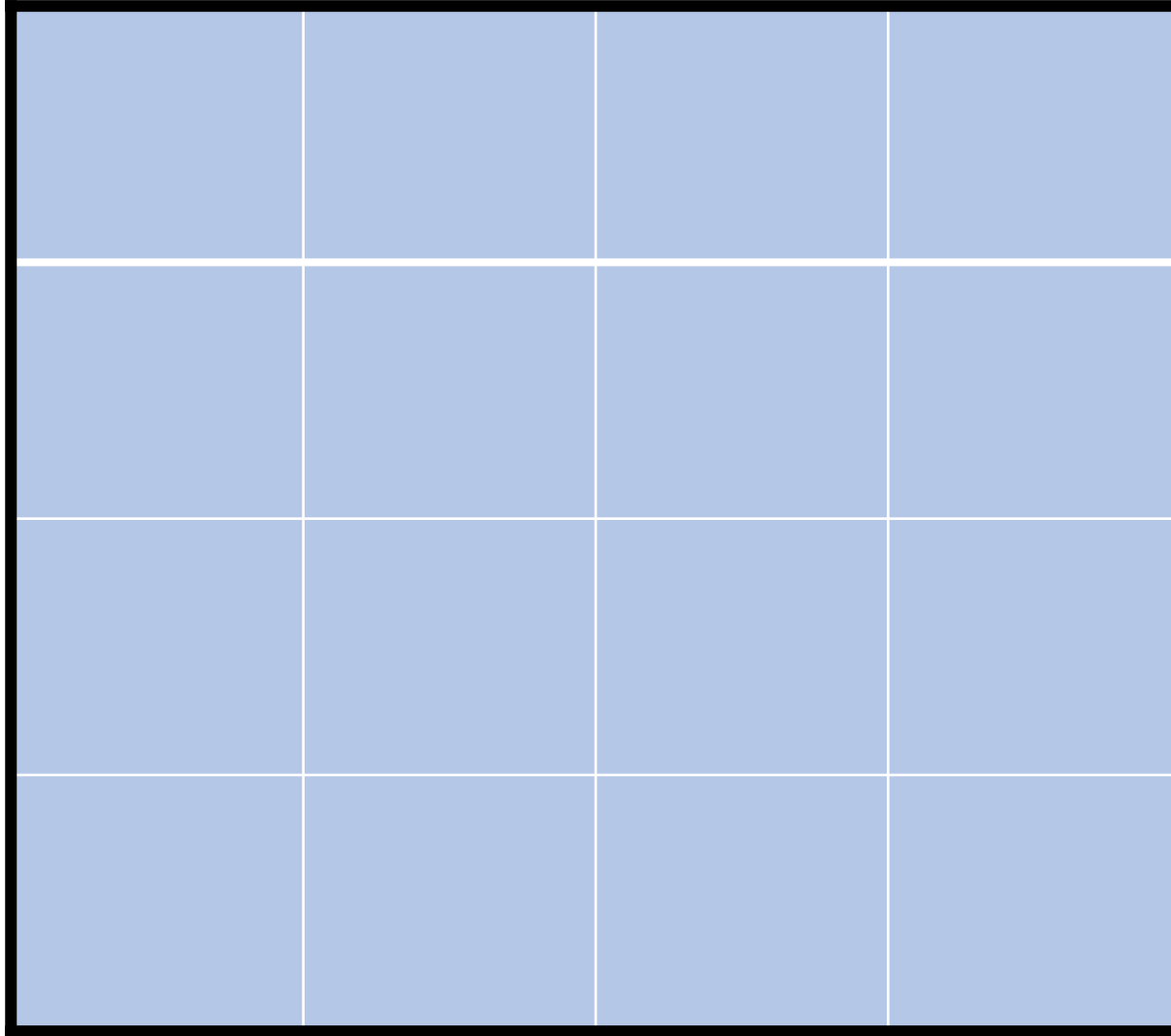
21 - 25 ? \_\_\_\_\_

26 - 30 ? \_\_\_\_\_

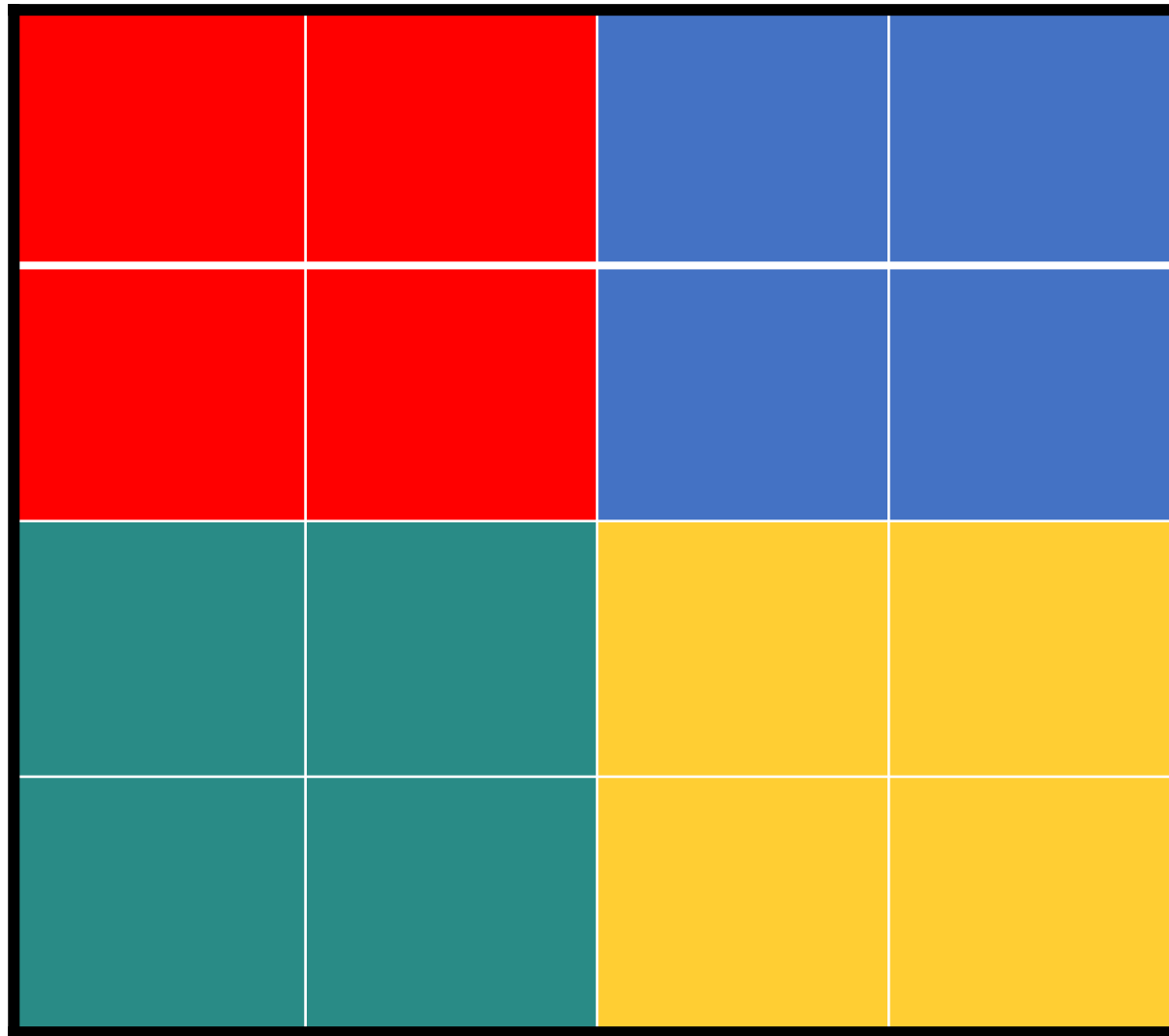
31 - 34 ? \_\_\_\_\_



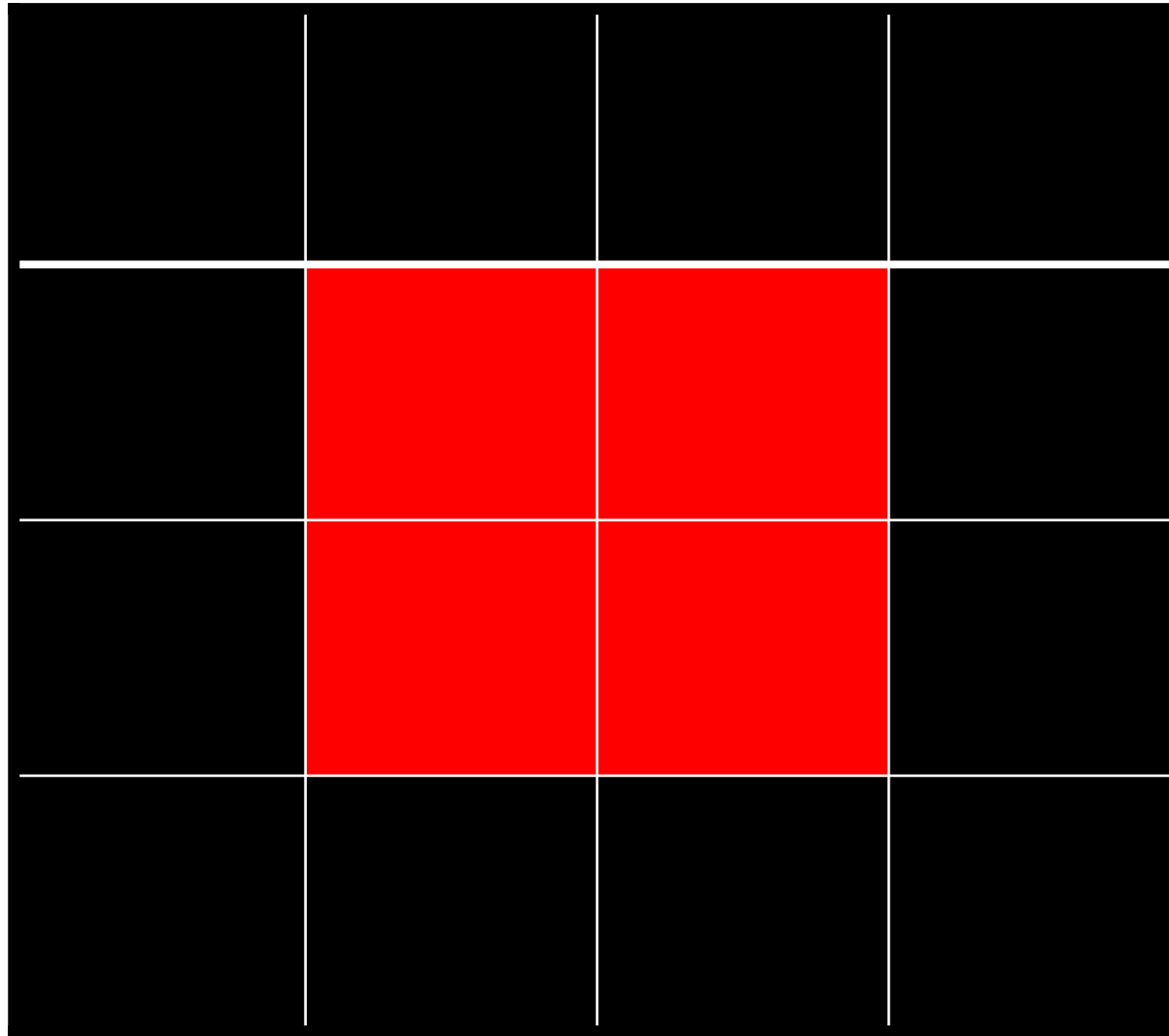
One Unit squares = 16



4 Unit squares  $16 + 1 = 17$

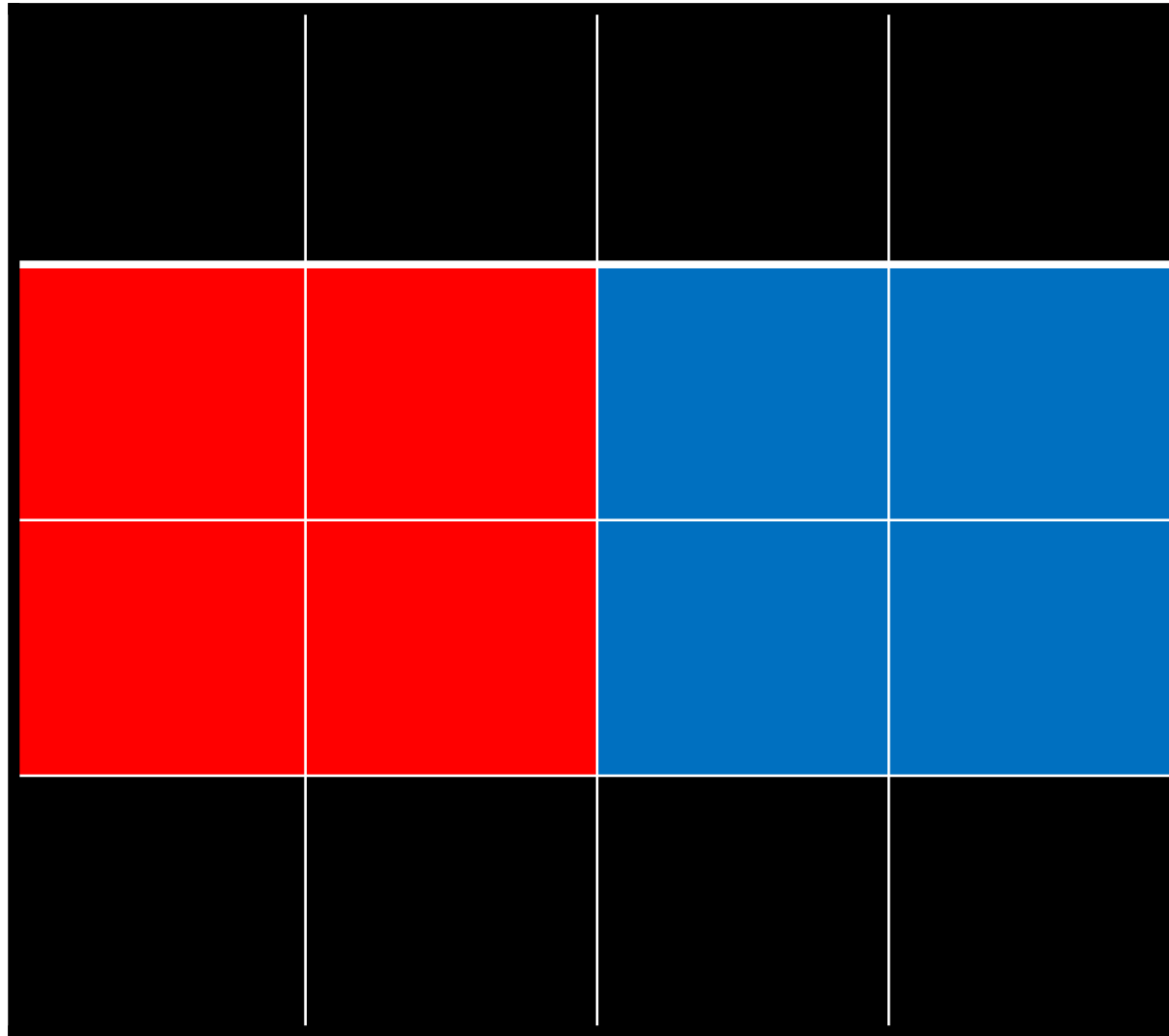


2 Unit Squares  $(4 + 17) = 21$

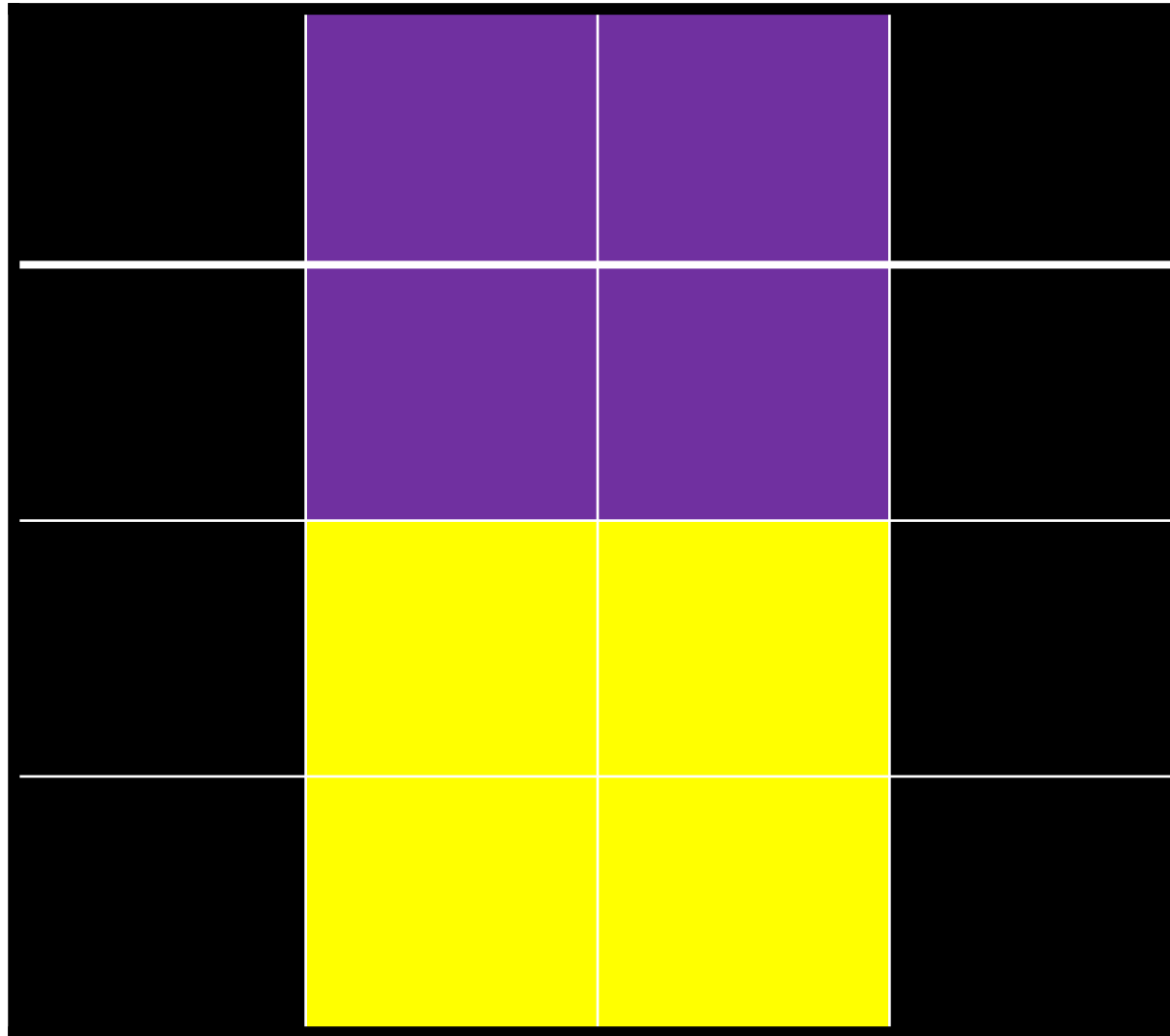


Another 2 Unit square  $(21 + 1) = 22$

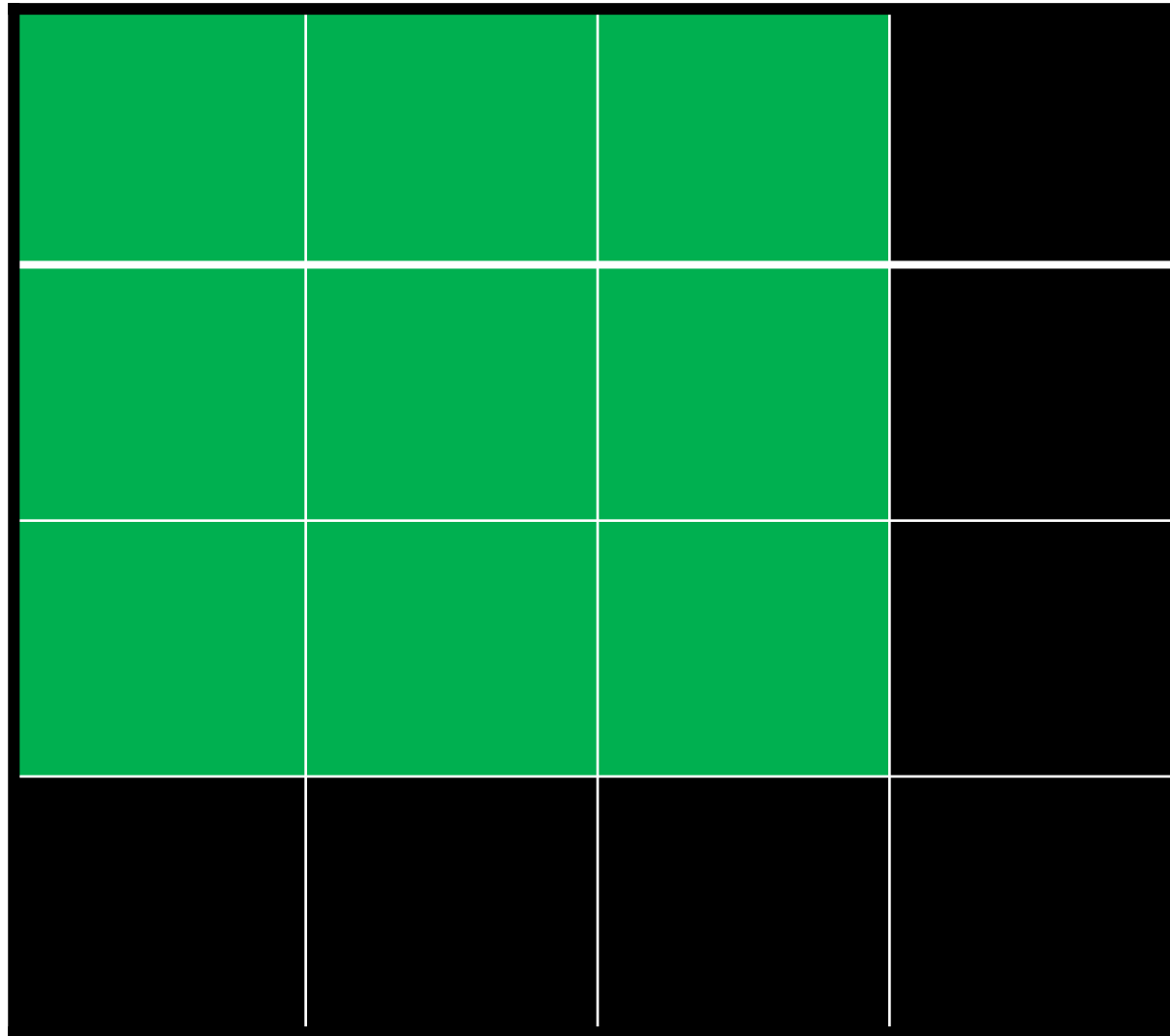




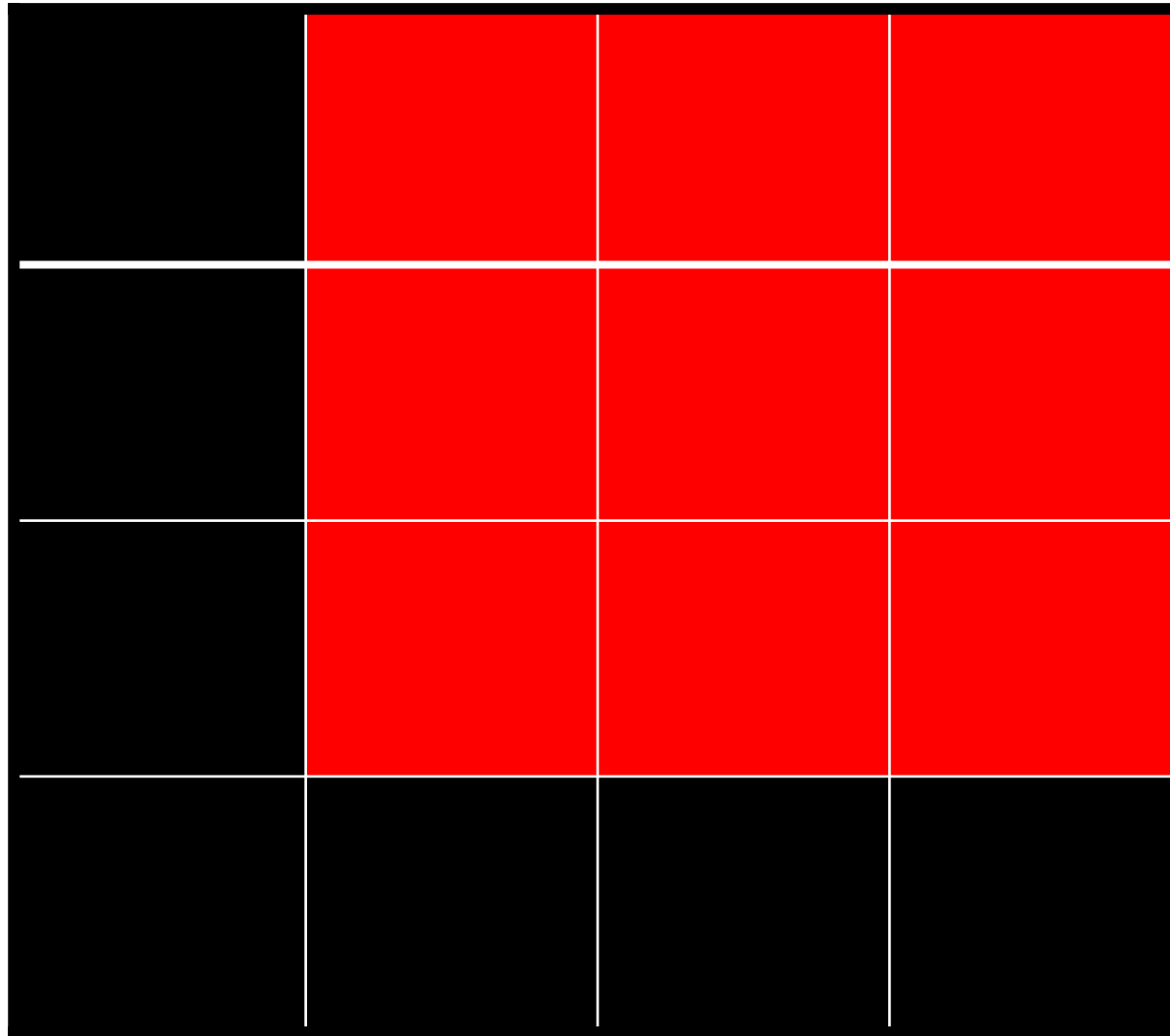
More 2 Unit square  $(22 + 2) = 24$



2 Other 2 Unit square  $(24 + 2) = 26$



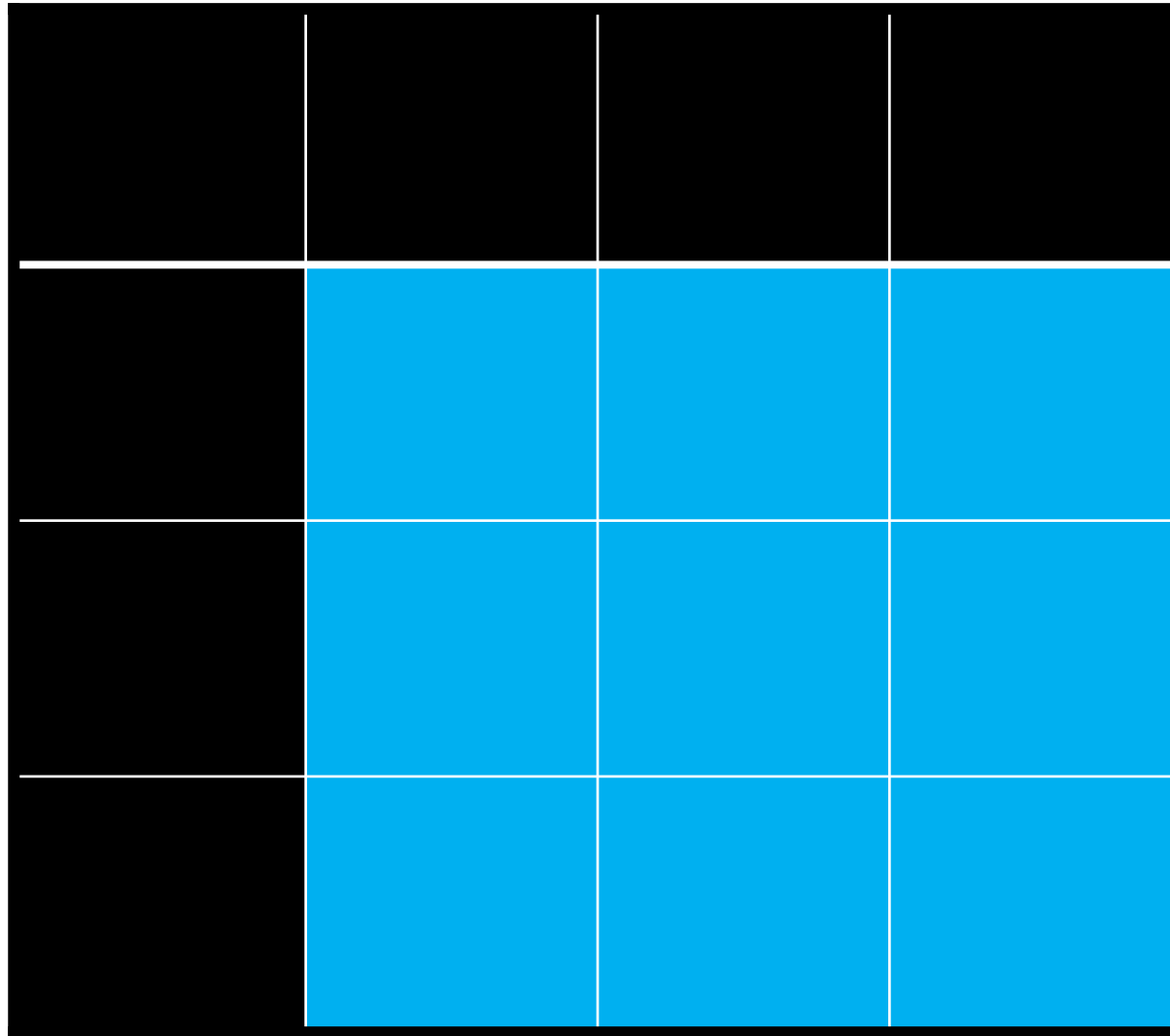
A 3 unit  $(26 + 1) = 27$



Another 3 unit  $(27 + 1) =$   
28



And here  $(28 + 1) = 29$



And here  $(29 + 1) = 30$

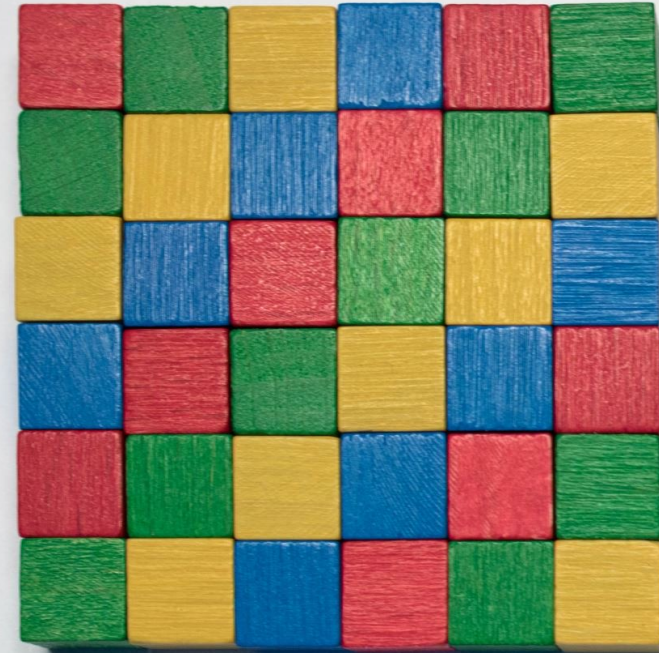


# What Is The Point?

---

Square = Opportunities

- Most People See 16 or 17 Squares
- Some See More



# 'Rough' Outline

---

1. Where Is The Marketplace Today?

---

2. Captives For Environmental, Social & Governance (ESG) Concerns

---

3. Captive Insurance For Cyber Liability Concerns

---

4. Captive Insurance For Employee Medical Insurance

---

5. Some Of The Risks From 44 Captive Insurance Companies Formed In The Last 10 Months

# 1. Where Is The Marketplace Today?

---

Premiums have increased in nearly every policy type

---

Captives are being used to fill coverage gaps

---

Existing captives are writing additional lines of coverage

---

Smaller companies are using captives

---

Not just multi-national corporations

## 2. Captive Insurance for Environmental, Social & Governance (ESG) Concerns

# What is Environmental, Social & Governance?



# Insurance Issues With ESG

The People and Corporations In The USA Are A Litigious Bunch

Many Claims Are Paid As 'Goodwill' To Communities or Organizations

No Proof Of First Party Losses or Claims To Be Indemnified



# Captive Insurance Solutions For ESG Concerns



Policies to cover product redesign to become more ESG friendly



Administrative actions policies for ESG



Cover losses to changes in supply chain



Use of Captive Insurance Companies To Write Environmental Impairment Liability (EIL) Insurance

# Recently We Have Been Asked To Write Environmental Impairment Liability (EIL) Insurance

---

Covers Expenses For The Liability & Cleanup Associated With Pollution

---

Cover Businesses Involved In Creating, Processing or Transporting Products Deemed Potential Contaminants

# Recently We Have Been Asked To Write Environmental Impairment Liability (EIL) Insurance

---

Cover Accidental Pollution That Arises From Standard Operations, ex. Pollution That May Be Produced By The Business' Products

---

Who May Need the Coverage: Warehouse & Logistics, Restaurants, Senior Living Facilities, Recycling Center, Service Stations, & Medical Facilities

# Other Recent ESG Consideration

## Where does the captive invest its money?

- Addressed Eloquently Earlier By Scott Mildrum
- Needs To Be Addressed For Rating Addressed By  
Sean Stack



### 3. Captive Insurance For Cyber Liability Concerns

# Captive Insurance For Cyber Liability Concerns

Research found that the number of DDoS attacks in the first half of 2022 increased by 75.6% compared to the second half of 2021

Researchers have also flagged almost malicious **79 million domains** in the **first half of 2022**. This is equivalent to approximately 13 million malicious domains being created per month

Ransomware attacks against corporations were up **323%** from 2019 through 2021, according to a recent Aon report



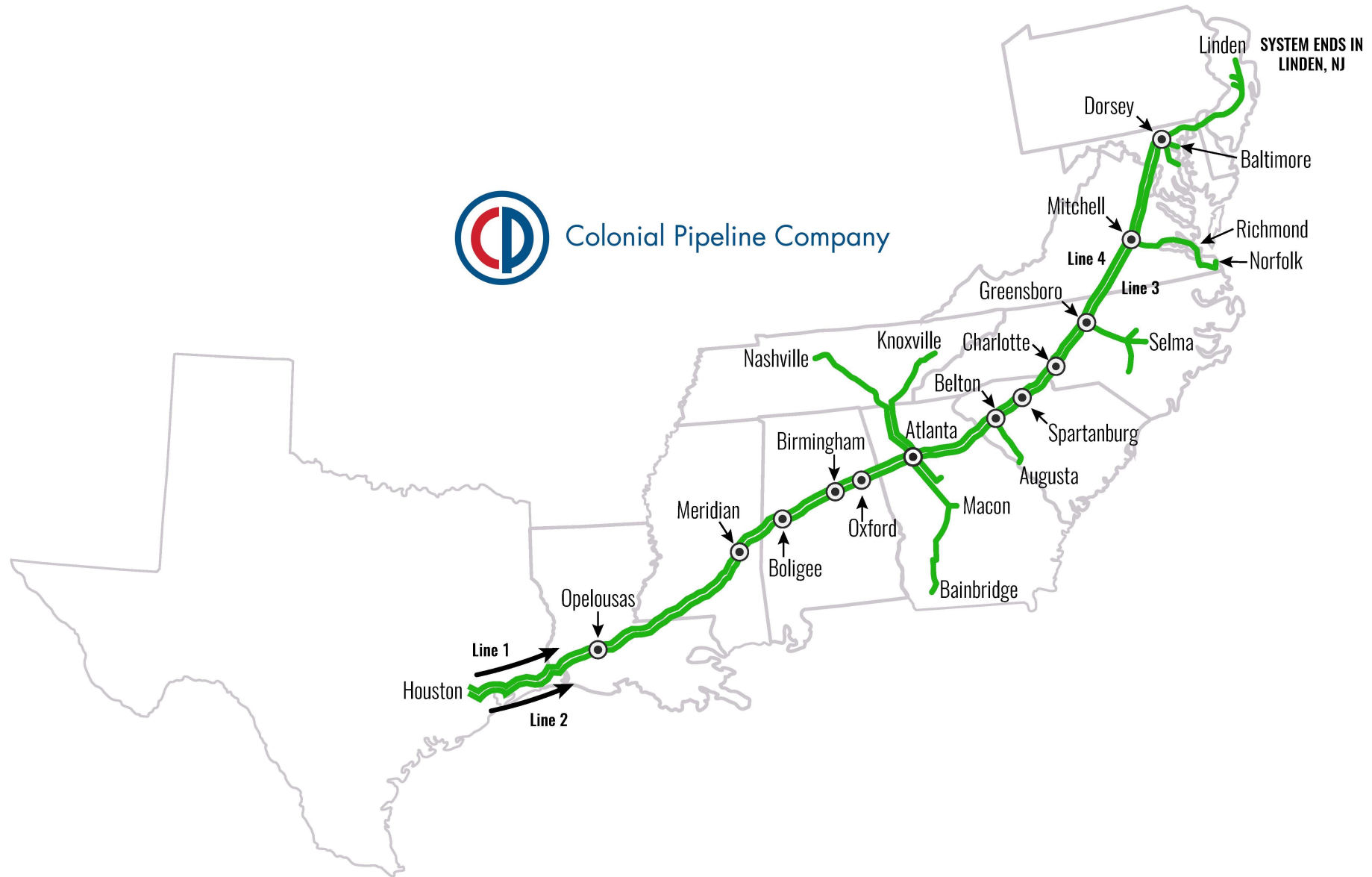


## Colonial Pipeline Company

- Shut down of 5,500 miles of US pipeline
- Carried half of all fuel supplies on the East Coast
- Only restored after they paid a \$5 million ransom to hackers



Colonial Pipeline Company



# The Very Next Month



---

The world's largest meat company by sales was attacked

---

They had to shut down multiple US plants

---

Paid \$11 Million To The Cyber Attackers

# What Does This Mean To Businesses?

The result is more claims  
and more damages paid by  
insurance companies



Which has led to sharp  
increases in premium pricing  
and tighter underwriting



That has made needed  
coverage harder to obtain



# Insuring Cyber Liabilities Through a Captive

---

It can function either in lieu of or in addition to commercially written coverage

---

Insurance costs are likely to drop by avoiding the commercial insurance company's overhead and profit costs

---

Direct access to the reinsurance market: Reinsurance carriers may offer better rates, coverage or services.

## 4. Captive Insurance For Employee Medical Insurance

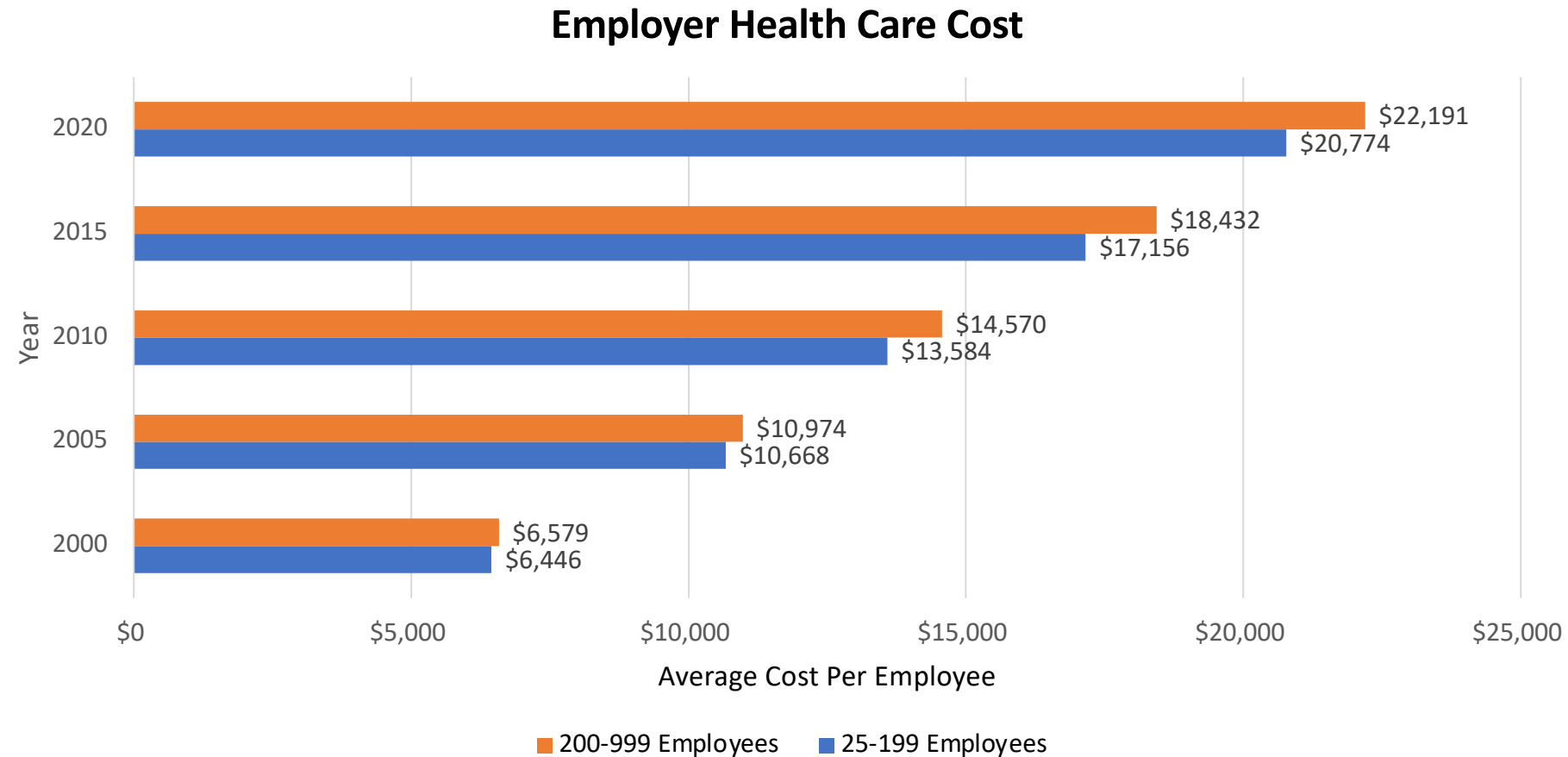


Healthcare Is  
Expensive  
But  
Necessary

The Average Employer Costs For  
Family Premiums Have More Than  
Tripled For Companies Of All Sizes



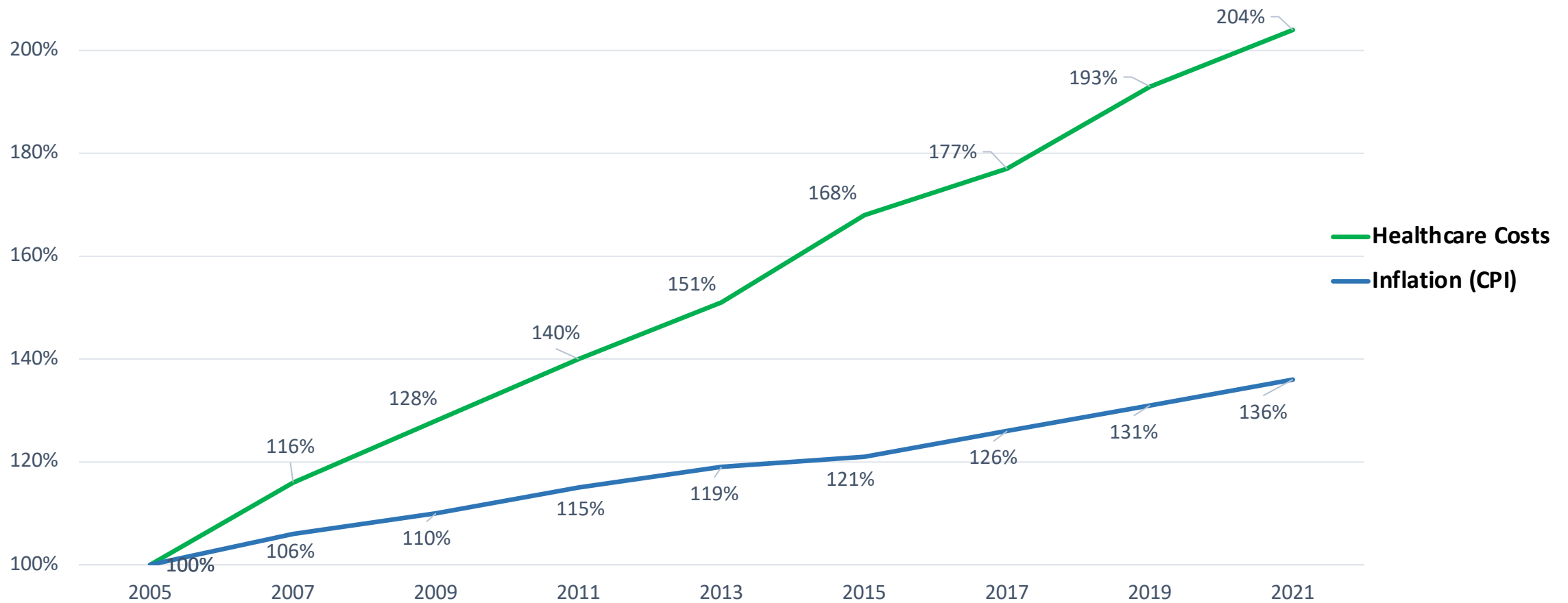
# Healthcare Is Expensive But Necessary



Source: The Kaiser Family Foundation



# Healthcare Is FAR Outpacing Inflation

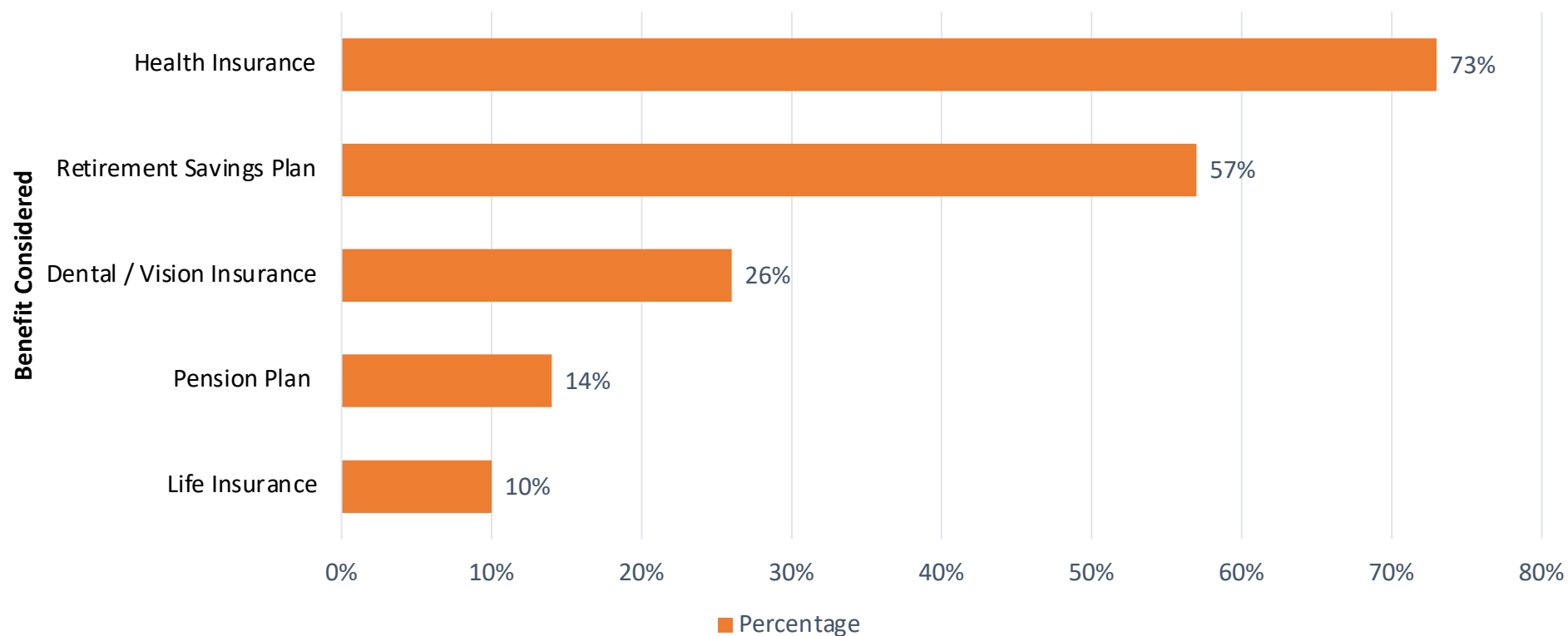


# Employees Pay Attention

- Employees See Health Insurance As a Key Benefit in a Competitive Benefits Package
- Necessary To Attract and Maintain Top Talent
- Millennials Are Seeking High Quality Coverage Without the High Cost
- Employees Rank Health Insurance As Their Most Important Benefit

# Healthcare Is Expensive But Necessary

## Top Benefit Considered When Making a Job Decision



Source: Employee Benefits Research Institute, May 2022

# Captives Can Be A Solution

---

- Small- to Mid-Sized Companies Can Enjoy Many Benefits Of Self-Funding While Minimizing Exposure To Larger Claims
- Provides Companies Greater Transparency Into The Flow Of Dollars And How To Influence Losses
- May Rewards Members For Minimizing Both Frequency and Severity with Dividends From Unused Underwriting Dollars
- Some Of Our Clients Use Underwriting 'Profits' To Waive Office Visit Co-Payments and Generic Rx

# Captive Option for Self-Funded Employers

---

- Companies Can Create Their Own Plan Design and Plan Document
- Choose Their Own TPA and Managed Care Provider
- Purchase Specific Stop-Loss ranging from \$25,000 to \$250,000
- Purchase Aggregate Stop-Loss
- Participate In Wellness Initiatives To Reduce Costs Over Time

## 5. Some Of The Risks From 44 Captive Insurance Companies Formed In The Last 10 Months

# Traditional Risk



Fronted Commercial  
General liability



Large Deductible  
Programs



Fronted Workers  
Compensation



Commercial Auto  
Liability



Directors and  
Officers

# Traditional Risk

- Environmental Liability
- Extended Warranty / Vehicle Service Contracts
  - \*First Electric Vehicle Battery Warranty
- Medical Malpractice
- Reputational Risk
- Employee Benefits Including Medical Stop-Loss



# Risks From The Pandemic Holdover



SUPPLY CHAIN  
INTERRUPTION



BUSINESS  
INTERRUPTION

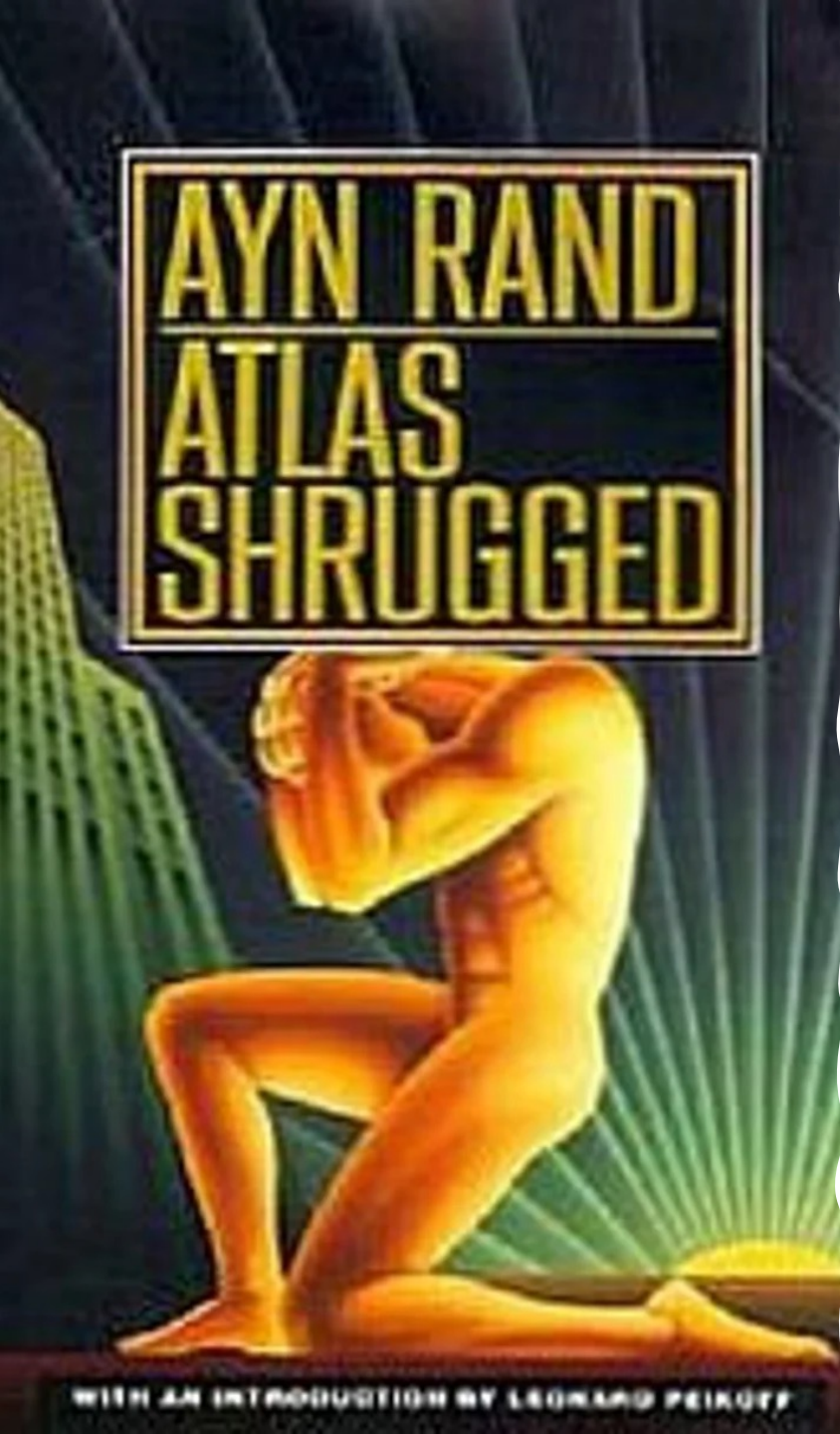


CYBER LIABILITY

# Unique Risks for Captives

---

- Reps & Warranty Coverage – ex. Real Estate Purchase, M & A
- Tenant Damage Waiver
- Security Deposit Waiver
- Rated \$5mm Excess Layer Coverage
  - 80% / 20% Quota Share Reinsurance Treaty
  - Captive Retains 20% Of The Risk
  - Treaty Applies To First Dollar



In Summary...

---

“When men got structural steel, they did not use it to build steel copies of wooden bridges”

Ayn Rand Atlas Shrugged 1957

# Q&A SESSION



## THANK YOU!