

# CAPTIVES

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*Unleashed*

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Tulsa, Oklahoma

  
**WRCIC**  
WESTERN REGION CAPTIVE  
INSURANCE CONFERENCE. LLC

2024

# New and Emerging Uses of Captive Insurance Companies

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What is the biggest trend/ emerging risk you currently see in the captive insurance space?

Property buydowns

IRS Scrutiny

Pandemic Related interruption

Point based solutions to address increasing health care claims cost

Overpopulation

Parametric Insurance

InsurTech/ Micro Insurance

# Medical Stop Loss

Overall risk reduction through responsible underwriting

Ability to embrace RBP powered benefit plans

Rise in high cost claims

non insurance companies wanting to assume risk, needing a vehicle to get it done

A move from FI to Seel Funding for the 25-150 space

# Cell/Gene Therapy

desire for captives to cover property risks

Opportunity, new entrants (healthcare captives)

# Cyber

Hardening Market

More flexibility in the overall solution.

"Promoters" selling captives like sticks of gum

## Insurance Industry Trends

Stricter Underwriting Standards  
Reduced Capacity  
Fewer Competitors  
Higher Premiums  
Restricted Coverage

**Hard Market**

**Soft Market**

Easier Underwriting  
Increased capacity  
More Competitors  
Lower Premiums  
Broader Coverage

### Catastrophe

- Increased frequency and severity of hurricanes, floods, tornadoes, etc.

### Reinsurance

- Increased premiums
- Restricted coverage
- Reduced capacity

### Inflation

- Increased cost of material
- Increased cost of labor
- Shortage of labor
- Increased claims costs

## P&C Captives Emerging Trends

### Hard Market

- Property
- Auto – Comm'l & Personal
- Cat. (Wind, Water, Fire)

### Impact

- More claims being denied
- Increase in policy limitations and exclusions
- Underwriter hesitancy
- Capacity issues
- Reinsurance –in light of Vesttoo fraud (???)

### Hot Coverages

- Property
- Contractual liability
- Warranty/ Service Guarantees
- Medical stop-loss
- Cyber - exclusions & limitations
- Crypto - protection from fraud and theft

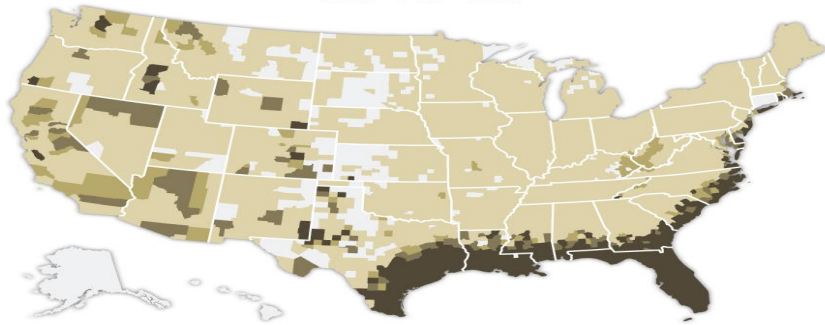
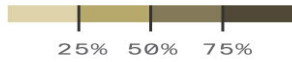
### What's Ahead

- Higher claims costs from escalating verdicts and rapidly evolving ESG issues
- Effects of inflation and interest rates on P&C portfolios
- AI/Chat GPT
- Micro insurance (GIG Economy)

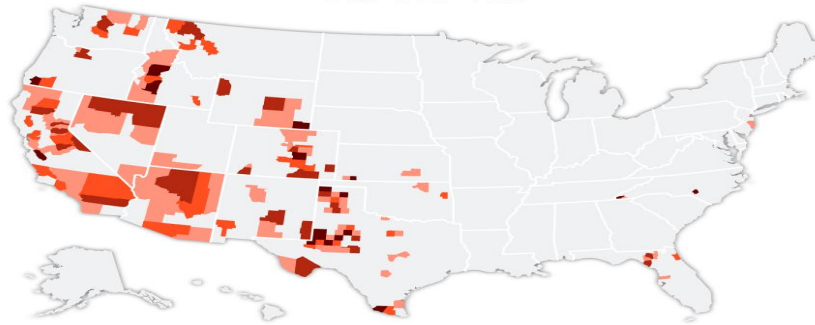
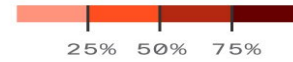
### Share of properties at risk of an insurance rate increase or non-renewal, 2023

Estimated; By county  No properties affected or no data

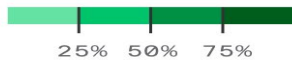
Because of wildfire, wind or flood



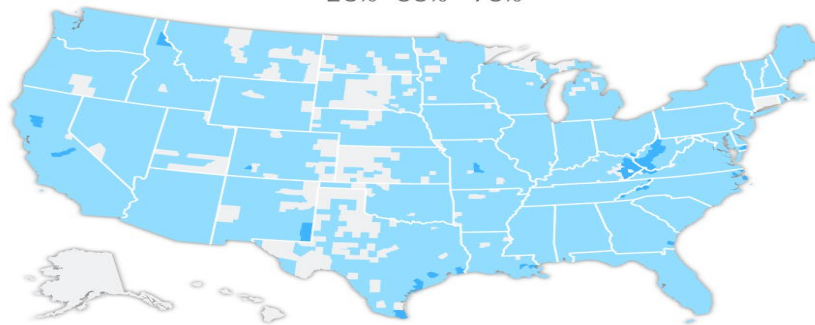
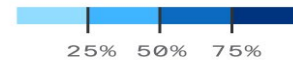
Because of wildfire



Because of wind



Because of flood



A significant number of U.S. homes are facing higher insurance rates due to flood risk

## Captive Industry Trends – Property

### Conventional

- Increased retentions
  - Deductibles
  - Quota-Share
- Coverage carve-outs
- Excess/ increased capacity

### Evolving

- Excess/ increased capacity
- Coverage carve-outs
- Differences in Conditions
- Parametric triggers  
*(See next slide)*
- CAT/ Named Storm specific policies

# Captive Industry Trends – Agriculture

## Commodity Production

- Actuarial structure of USDA-RMA overprices the risk of adverse weather events for Large Farmers – over 10,000 acres
- Recognition of geographical and commodity diversification of Large Farmer enterprises
- Custom designed risk management program of an individual farm operation

## Processors

- Risk Management for trade area against production through-put loss due to adverse weather events
- Financial collateral for annual operating expenses
- Custom designed risk management to protect margins in the event of adverse weather events

## ESG Risks – Production Agriculture

- Current marketplace does not have regulatory oversight of data, methodology or outcomes
- Large liability exposure to unsupported Sustainability / Regenerative claims
- Data intensive – data sensitive - invasive record keeping – non-standardized methodology – exposed to adverse weather events
- Custom designed risk management programs to address Sustainability Claims, Carbon Intensity Scores and Carbon Credits



## Parametric Insurance

### How does Parametric Insurance Work?

Based on an independent parameter, metric or index, parametric insurance provides a payout immediately following a pre-defined event

EVENTS



Torrential Rain



Floods



Hurricanes/  
Tornados



Wildfires



Earthquakes



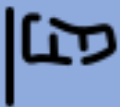
Snow, Frost,  
Hail



Drought

Claim payment is fixed and is triggered automatically once the agreed threshold is reached

TRIGGERS



Wind Speed  
(Cat. 5)



Temperature  
(10 days > 100°)



Flood Depth  
(> 2 Ft.)



Richter  
(> 5.5  
Magnitude)



Crop Yield  
(+/- X%)



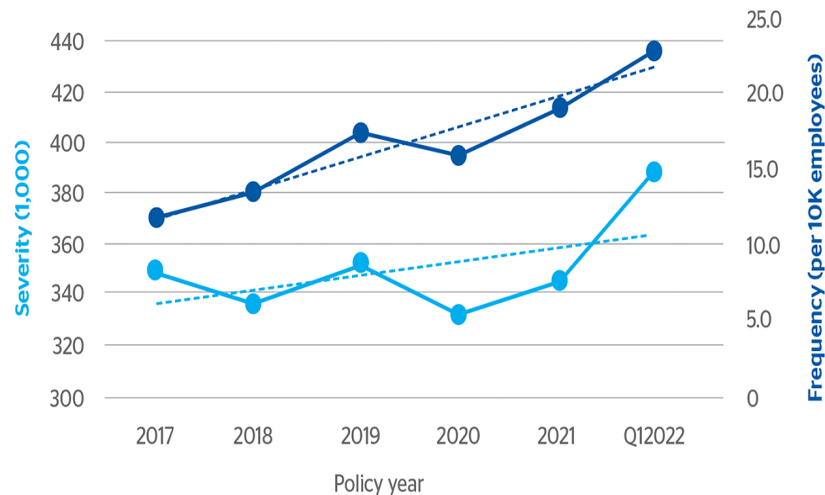
Brand  
Sentiment

### Key Advantages of Parametric Insurance

- Broad coverage provides wide range of protections
- Quick payouts (typically less than 30 days)
- Significantly fewer restrictions and exclusions
- Pays out with or without policyholder sustaining any damages or losses
- Guaranteed payout when conditions are met
- Compliments traditional insurance coverages

### Healthcare Trends

**Neoplasms stop loss claim frequency/severity**  
 (\$200K deductible)



**Alarming upward trend:**

QBE's percentage of employers with at least one member that had over \$1M in claims.

2018	3.5%
2019	6.4%
2020	7.9%
2021	11.6%
2022	12.4%

### Drug Costs

Diagnosis	Drug name	Approval date	Approximate cost
Hereditary Retinal Dystrophy	Luxturna	December 2017	\$950K (\$475K per eye)
Spinal Muscular Atrophy	Zolgensma	May 2019	\$2.2M
Beta Thalessemia	Zynteglo	August 2022	\$2.8M
Cerebral Adrenoleukodystrophy	Skysona	September 2022	\$3.0M
Hemophilia B	Hemgenix	November 2022	\$3.5M
Bladder Cancer	Adstiladrin	December 2022	\$160K to \$260K*
Dystrophic Epidermolysis Bullosa	Vyjuvek	May 2023	\$631K**
Duchenne Muscular Dystrophy	Elevidys	June 2023	\$3.2M
Hemophilia A	Roctavian	June 2023	\$2.9M

\* Preliminary estimated cost  
 \*\* Anton Health published, <https://antonhealth.com/fda-approves-new-topical-gene-tx-vyjuvek>

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## Cyber Insurance Trends

Premiums:

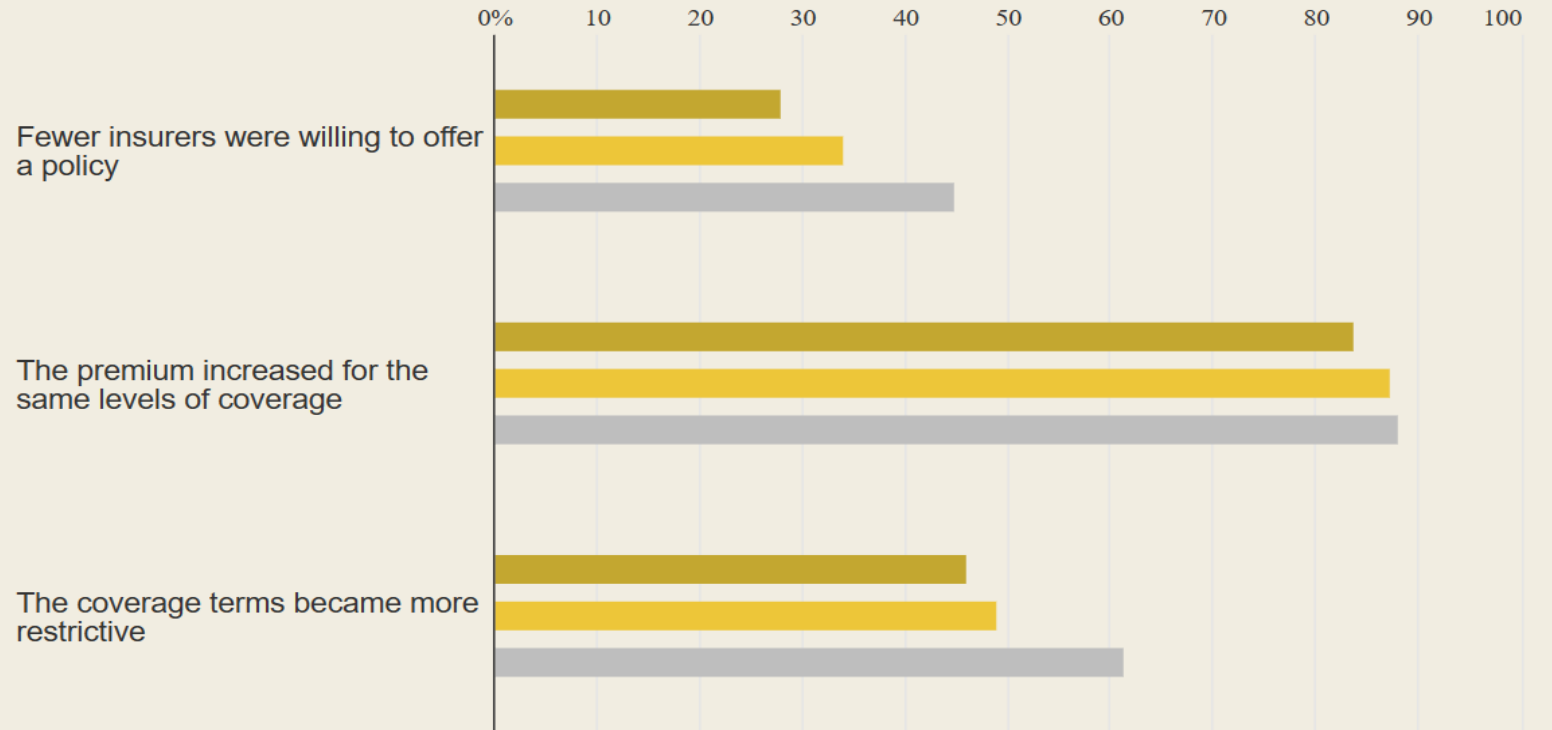
UP

Coverage:

DOWN

What occurred during your organization's last cybersecurity insurance renewal?

■ <\$50M Revenue ■ \$50M - \$1B Revenue ■ >\$1B Revenue



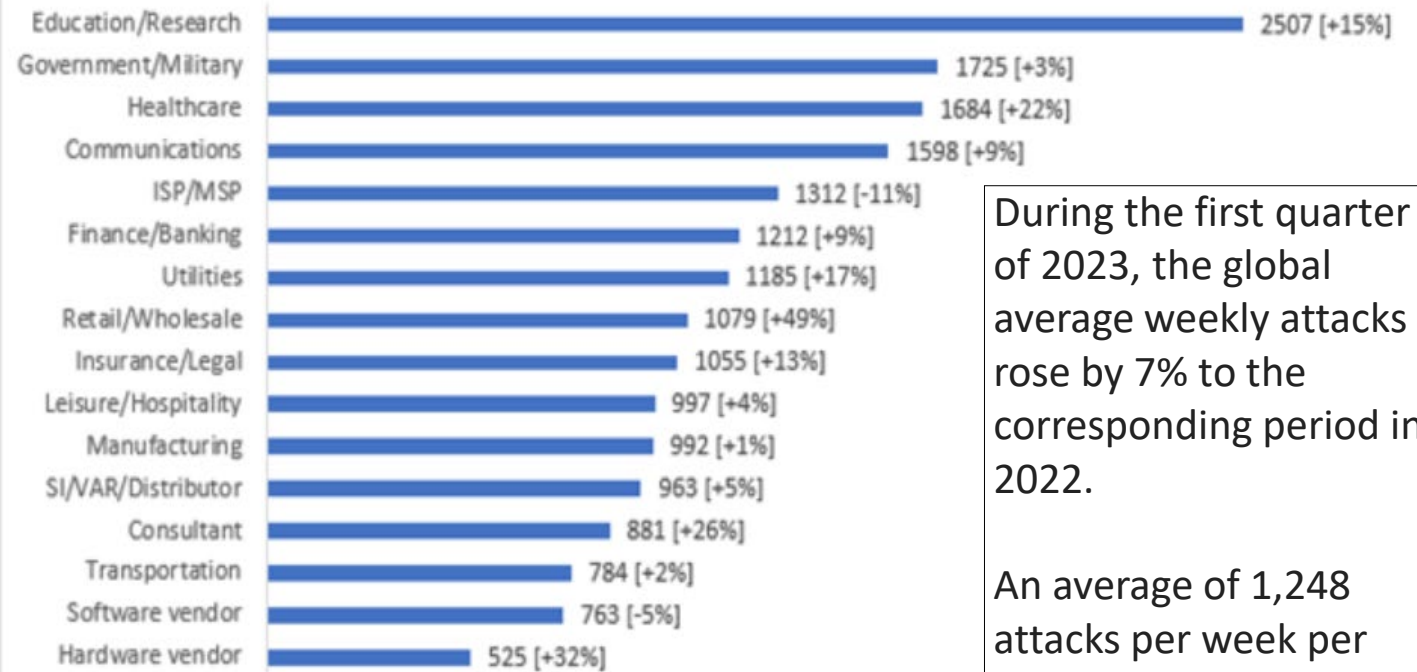
Source: WSJ Pro Research

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Security Spend Continues  
to Rise  
But So Do Breaches

Global Avg. Weekly Cyber Attacks Per Industry  
(2022 Q1 Compare to 2023 Q1)



During the first quarter of 2023, the global average weekly attacks rose by 7% to the corresponding period in 2022.

An average of 1,248 attacks per week per company.

## Regulatory Trends

### Federal Activities

- IRS Ongoing Scrutiny of 831(b) Captives
- Proposed Rule – Over 100 Comments Filed last June
- Reg. would make most 831(b) captives a “listed transaction” which comes with strict reporting obligations and harsh penalties for failure to comply.

### Trends

- Captive Conversions 831(b) > 831(a)
- CPA firms have stated they will not prepare tax returns for any company electing 831(b)
- Domiciles are seeing an increase in dissolutions of existing Section 831(b) captives
- Fewer formations of new 831(b) captives

### State & International Trends

- Increase or decrease in number of captives formed?
- What types of captives are being formed?
- New captive legislation
  - Expanding coverages?
  - Captive manager regulations?
- International vs onshore domiciles?

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## Questions & Comments

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**Thank You!**