March 2014

The Captive Insurance Companies Association (CICA) again engaged Veris Consulting to conduct its confidential Annual Captive Insurance Market Study from December 10, 2013 to February 7, 2014. The following presents highlights of the results from 133 survey participants. CICA members can access the full, compiled results, including open-ended responses and a breakout for single parent captives, on the members-only section at www.cicaworld.com.

Key Findings

- 45% of this year’s survey participants reported that they use fronting as part of their captive insurance program; 9% reported using a front for their entire program. The results are indicative of a general trend seen in recent surveys toward less utilization of fronting. This is reflective of the overall maturity level of the captives represented in the survey (77% in existence 6 or more years). It also reflects the creativity of the survey participants in using their captives to solve many unique risk management issues not adequately addressed by the traditional insurance market.
- The survey participants named two carriers that could meet both property casualty and employee benefits fronting needs. Whether this is a proactive marketing strategy on the part of these carriers, the result of customer demand or mere coincidence is not addressed by the current survey, but something CICA believes is worth delving into in future surveys.
- 98% of the survey participants perceive the value of their fronting relationship as excellent or moderate. However, some degree of dissatisfaction, relative to importance, with respect to claims handling, policy issuance turnaround time and regulatory premium tax compliance were noted by the participants. Reflective of their disappointment in not getting the level of service they believe they are paying for, 10% of the participants perceive the price of fronting as expensive.
- For 60% of the survey participants fronting costs remained unchanged over the prior year, with 30% reporting increases of up to 15%, but only 10% reporting decreases of up to 15%.
- 59% of this year’s survey participants reported that their captives purchase reinsurance. And, 42% reported purchasing this reinsurance from a company other than an affiliate or their fronting carrier.
- A variety of Bermuda Market reinsurers were the predominant choice for this year’s participants’ reinsurance programs, followed by Lloyds of London.
While 50% of this year’s participants reported that their reinsurance costs remained unchanged from the prior year, 26% reported increases, mostly of up to 15% but with some in excess of 25%, and 21% reported decreases, mostly in the less than 5% range.

The survey participants reported the price / value relationship of reinsurance as balanced, with 88% of them reporting the price as reasonable or inexpensive and 87% reporting that the value was excellent or moderate. The frustration expressed by some survey participants was the perceived limited options available for acquiring appropriate reinsurance for their captives. This is surprising given that reinsurers are flush with capital and are seeking opportunities to replace the business they are losing to alternative capital. Perhaps this perception is the result of a flawed marketing strategy and not due to the lack of interest by reinsurers.

The survey participants reported limited, and inconsistent, integration of important clauses, designed to minimize the downside risk to their captive, in their reinsurance agreements. Surprisingly 15% of the participants indicated that not one of these clauses was included in their agreements.

More than a quarter of the survey participants reported that they marketed some portion of their captive program this year. Most marketing continued to be driven by reactive reasons (price, service, collateral) rather than proactively as part of good governance.

While only a small group of survey participants reported actually writing employee benefits in their captives, a much larger group reported exploring several possible options in the intermediate term. Further delays, and continuing changes, in the implementation of the Patient Protection and Affordable Care Act are causing ongoing uncertainties around the impact on various constituencies. This has caught the attention of the survey participants, as Stop Loss was by far the largest area of employee benefits interest expressed by this year’s participants.

The top five challenges in owning a captive cited by the survey respondents were (1) regulatory issues, (2) ongoing justification of the benefits of the captive to management (3) collateral (4) low interest rates and (5) tax. Despite these challenges survey participants’ comments reflect a high level of commitment to, and great appreciation for the benefits derived from, their captives.
Participants Reported that their Captive was Domiciled:

- Inside the USA: 79.7%
- Outside the USA: 20.3%

Participants Reported that their Captive had been in Existence for:

- < 1 year: 4.5%
- 1 – 5 years: 18.1%
- 6 – 10 years: 26.3%
- > 10 years: 51.1%

❖ Result Highlights

Fronting Utilization*

- 54.9% No
- 45.1% Yes

*9.0% of the survey participants reported utilizing a fronting company for their entire captive insurance program.

Participants Who Use Fronting for Property Casualty Reported Utilizing the Following Carriers:

- AIG/Lexington: 29.3%
- Great American: 20.7%
- Zurich: 20.7%
- ACE: 19.0%
- Old Republic: 12.1%
- Liberty Mutual: 10.3%
- Arch: 6.9%
- FM Global: 5.2%
- The Hartford: 5.2%
- All Other Carriers: 36.2%

Participants Who Use Fronting for Employee Benefits Reported Utilizing the Following Carriers:

- Generali: 45.5%
- Zurich: 36.4%
- Minnesota Life: 18.2%
- Aetna: 9.1%
- ALICO: 9.1%
- John Hancock: 9.1%
- Prudential: 9.1%
- Unum: 9.1%
- All Other Carriers: 27.3%

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Perceived Price / Value Relationship

Year-over-Year Change in Costs
Participants Who Purchase Reinsurance from another Reinsurer Reported Utilizing the Following Companies:

<table>
<thead>
<tr>
<th>Company</th>
<th>Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bermuda Market</td>
<td>85.6%</td>
</tr>
<tr>
<td>Lloyds of London</td>
<td>52.7%</td>
</tr>
<tr>
<td>Swiss Re</td>
<td>27.3%</td>
</tr>
<tr>
<td>Hannover Re</td>
<td>25.5%</td>
</tr>
<tr>
<td>PartnerRe</td>
<td>21.8%</td>
</tr>
<tr>
<td>Munich Re</td>
<td>18.2%</td>
</tr>
<tr>
<td>ACE-Tempest U.S.</td>
<td>16.4%</td>
</tr>
<tr>
<td>TransRe</td>
<td>16.4%</td>
</tr>
<tr>
<td>QBE Re</td>
<td>12.7%</td>
</tr>
<tr>
<td>Odyssey American Re</td>
<td>10.9%</td>
</tr>
<tr>
<td>London Market (non-Lloyds)</td>
<td>10.9%</td>
</tr>
<tr>
<td>Berkley Re</td>
<td>9.1%</td>
</tr>
<tr>
<td>All Other</td>
<td>50.9%</td>
</tr>
</tbody>
</table>

Important Clauses included in Reinsurance Agreements Purchased by Captives:

<table>
<thead>
<tr>
<th>Clause</th>
<th>Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbitration</td>
<td>50.9%</td>
</tr>
<tr>
<td>Extra Contractual Obligations (ECO)</td>
<td>41.8%</td>
</tr>
<tr>
<td>Loss in Excess of Policy Limits (XPL)</td>
<td>34.5%</td>
</tr>
<tr>
<td>Allocated Loss Adjustment Expense included in the Loss Amount</td>
<td>34.5%</td>
</tr>
<tr>
<td>Allocated Loss Adjustment Expense in addition to the Loss Amount</td>
<td>29.1%</td>
</tr>
<tr>
<td>Clash</td>
<td>25.5%</td>
</tr>
<tr>
<td>Right of Offset</td>
<td>20.0%</td>
</tr>
<tr>
<td>Special Termination</td>
<td>18.2%</td>
</tr>
<tr>
<td>Funding of Reserves</td>
<td>18.2%</td>
</tr>
<tr>
<td>Commutation</td>
<td>16.4%</td>
</tr>
<tr>
<td>Contingency</td>
<td>14.5%</td>
</tr>
<tr>
<td>None of the above clauses are included</td>
<td>14.5%</td>
</tr>
</tbody>
</table>
Of the 28.6% ...

- 68.4% Marketed fronting for one or more lines of business
- 52.6% Marketed reinsurance for one or more lines of business
- 7.9% Marketed both fronting and reinsurance for one or more lines of business
- 31.6% Marketed one or more service providers (TPA, Broker, Captive Manager, Auditor)
- 10.5% Marketed other aspects of their program

Reasons for Marketing Fronting Programs*

- Pricing Increase
- Service Issues
- Collateral Issues
- Carrier Financial Issues
- Carrier Change in Leadership
- Claims Oversight Issues
- Withdrawal of Carrier
- Other
- Routine Basis as part of Good Governance

*32.2% of participants that report utilizing fronting also report that they have never marketed their program.
Contacts

For more information about the CICA 14th Annual Captive Insurance Market Study, contact Dennis Harwick, President, Captive Insurance Companies Association at dharwick@cicaworld.com, Carol Frey, Chair – CICA Annual Captive Insurance Market Study Committee at cfrey@gaic.com or Carol Pierce, author of the 14th Annual Captive Insurance Market Study – Result Highlights at piercecm@verizon.net.

About CICA

CICA – the Captive Insurance Companies Association – is the only domicile-neutral captive insurance association. CICA is free from jurisdictional or commercial ties since it is not linked with a domicile or government entity. CICA was formed in 1972 to foster and support the development of captive insurance companies around the globe. Through the years, CICA has evolved along with the industry to offer alternative risk professionals the latest viewpoints on captive insurance. CICA’s expanding membership is a tribute to its growing number of educational offerings and to its efforts to keep top professionals informed of the latest developments or challenges in the captive insurance industry. Further information is available at www.cicaworld.com.

About Veris

Veris Consulting, Inc. was formed in 2000 and consists of technology-based survey and research services (such as CICA’s market study), forensic accounting and litigation support, outsourced internal auditing and accounting, and information technology consulting. It serves a diverse clientele throughout the United States, as well as clients in Europe and the Caribbean. Services are provided from its headquarters in Reston, Virginia. Further information is available at www.verisconsulting.com.

About Underwriting Support

CICA thanks Great American Alternative Markets, Milliman and Willis Global Captive Practice for their generous financial contribution which provided significant underwriting for the out-of-pocket costs associated with conducting this year’s market study, with particular thanks to Carol Frey, Joel Chansky and Sean Rider of the CICA Captive Insurance Market Study Committee for their assistance in obtaining this underwriting support.
About Participant Support

CICA acknowledges the ongoing support and participation of CICA members in the annual market study, as well as the captive domicile associations that encouraged their members to participate in the 2014 Market Study, including the Connecticut Captive Insurance Association, the Captive Insurance Council - DC and the Vermont Captive Insurance Association. CICA also acknowledges those captive owners who participated via the link on CICA’s website. The survey results are only representative of this year’s participants and may, or may not, reflect all constituencies within the captive insurance industry. Associations that wish to participate in future studies should contact Dennis Harwick, President, Captive Insurance Companies Association at dharwick@cicaworld.com.

CICA 2013 – 2014 Annual Captive Insurance Market Study Committee

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The CICA 2013 – 2014 Annual Captive Insurance Market Study Committee extends a special thanks to William Hodson, USA Risk Intermediaries, for his counsel and advice in updating, expanding and interpreting the reinsurance section of the 2014 Market Study.