

# CICA 2025 Student Essay Contest winners

The Captive Insurance Companies Association (CICA) has announced the winners of its annual Student Essay Contest at the 2025 CICA International Conference.

The competition tasked college students with choosing one of three case study topics and developing a captive insurance solution to tackle risk management challenges. University of Wisconsin-Madison students Rachel Claire Gibson and Ella Pernsteiner received first-place honours and a US\$2,500 prize.

Captive Insurance Times is honoured to be an official media partner with CICA and to have the privilege of showcasing a Q&A with each of the students and publishing each of the finalists' essays.

2024-2025

# CICA STUDENT ESSAY CONTEST

Captive Insurance Solutions for Today's Risk Management Challenges



UNIVERSITY OF WISCONSIN-MADISON:

**Rachel Claire Gibson &  
Ella Pernsteiner**

**SEAGRASS LODGES**

SPONSORED BY





**Rachel Claire Gibson**



## Rachel Claire Gibson

*Rachel Claire Gibson is a sophomore at the University of Wisconsin-Madison, studying Risk Management and Insurance, Data Science, and Economics. She serves as the president of the Wisconsin Evans Scholars Chapter and works in events and outreach for the Risk Management and Insurance Society. This summer, Rachel will join Mercer as a health consultant in Portland. In her free time, she enjoys playing intramurals, weightlifting, and coaching middle school volleyball.*

### **What interested you about the CICA essay contest Captive Insurance Solutions for Today's Risk Management Challenges?**

While risk management is gaining prominence in college programs and coursework, I believe the education surrounding captive insurance and its value to businesses remains underrepresented in university curricula. Competing in this case competition offered me a focused, hands-on opportunity to deepen my understanding of the functions and real-world applications of captive insurance, bridging the gap between theoretical knowledge and practical experience.

### **How was captive insurance helpful for your chosen organisation?**

By combining a captive insurance structure with reinsurance, Sea Grass Lodges successfully consolidated their lower-impact and niche risks. This approach allowed them to avoid higher premiums while ensuring effective coverage for their assets.

### **What did you learn about captive insurance while researching and writing your essay?**

I gained valuable insight into the various captive insurance structures and the complexities businesses like Sea Grass Lodges face when insuring their risks. While niche risks pose significant challenges, I also developed a deeper understanding of the disparities caused by global warming and its impact on increased

hazards, premiums, deductibles, and natural disaster perils. I learned how these exposures often need to be managed outside of a captive structure to ensure effective insurance solutions for coastal companies.

### **How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?**

Before researching and writing this case, I had almost no prior knowledge of the captive insurance industry. While my introductory course briefly touched on the subject, it never fully highlighted the significance of captives or their impact on businesses. Through this project, I gained a deeper appreciation for the freedom captives provide companies and the autonomy they restore, empowering businesses to manage their risks more effectively and strategically.

### **Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?**

I would definitely consider a career in captive insurance. While I am still exploring the full range of opportunities available in this field, I firmly believe that greater awareness and education about the industry could benefit my generation. Captive insurance offers unique and valuable career paths, and investing in this knowledge could open doors for innovative risk management solutions.

### **How does your college coursework align with a career in captive insurance?**

My university offers an excellent selection of coursework in risk management and captive insurance. However, I strongly recommend that any student interested in captives participate in this competition. The hands-on experience and practical knowledge it provides are far more impactful and valuable than what can be gained through coursework alone.



**Ella Pernsteiner**

## Ella Pernsteiner

*Ella is a sophomore at UW-Madison, majoring in Operations Technology Management and Risk Management & Insurance. Through certificates and minors in consulting and sustainability, she applies continuous improvement with strategic problem-solving to real-world challenges. Her background includes internships in risk management and operations, and student organisation leadership where she has focused on fostering collaboration and driving impactful action. Ella is passionate about creating innovative, sustainable solutions for everything she does.*

### **What interested you about the CICA essay contest Captive Insurance Solutions for Today's Risk Management Challenges?**

This essay contest interested me due to its focus on creating innovative, practical solutions for current and evolving risk management issues. This opportunity is a great way to apply knowledge that was learned in the classroom to real challenges that a company faces and contribute to the evolution of risk management strategies.

### **How was captive insurance helpful for your chosen organisation?**

Captive insurance was extremely useful for Seagrass Lodges as it allowed us to address the multiple specific exposures the hotel chain was currently experiencing. After determining that a captive insurance programme was feasible, we worked to tailor the coverage to exactly what this company needed and through captive insurance that was possible.

### **What did you learn about captive insurance while researching and writing your essay?**

Through the research completed when writing our essay, I learned how vast the captive space truly is and the number of options available for companies to select from. I also found out how to determine whether a captive is the best option for a company through a set of requirements.

Once a captive is selected, it can be tailored to what the company needs based on its structure.

### **How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?**

My knowledge of captive insurance and its industry has grown sustainably since working on the CICA competition.

Before starting this experience, I had some in-class knowledge of the industry and how companies set up captives, but was lacking in certain aspects of captives like what makes a company a good fit for this insurance and how it benefits them in the long-term.

Since completing my research, I feel more confident in my knowledge and my ability to make decisions in this industry.

Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

I would consider a career in captive insurance as it genuinely interests me. Because there is such a wide array of options when it comes to captive insurance, I could learn something new every day. Because this space is a niche area of insurance.

There is a tightly knit community of professionals and I appreciate that as someone who is newly entering the workforce.

### **How does your college coursework align with a career in captive insurance?**

The coursework at UW-Madison has a wide variety of relevant coursework and materials relating to the use of captives.

An overview of captives, their structure, and how they work was presented as early as our introductory risk management course.

Furthermore, through higher-level courses, students get a deeper understanding of the industry and can participate in the UW Risk Management and Insurance Society, speaker events in which professionals from many risk management and insurance fields come in and share their expertise.

The professors throughout the Wisconsin School of Business like Carl Barlett, Jim Swanke, and many more work to set up students for success and are always willing to talk about the industry.

## **Introduction**

In this paper, the feasibility and benefits of Seagrass Lodges establishing a captive insurance program will be explored by addressing several key areas. First, the rationale for a captive will be examined, focusing on why Seagrass Lodges is well-suited for this approach, including its geographic exposure, operational risks, and potential cost savings. Second, the optimal structure for the captive will be evaluated, including direct and reinsurance captives, feasibility studies, and financial projections. Third, the logistics of the insurance program will be detailed, including how premiums will be set, risk retention levels, and the role of reinsurance, such as excess loss coverage and parametric insurance. Finally, the regulatory and compliance aspects will be considered to ensure the captive meets domicile regulations, maintains tax benefits, and aligns with Seagrass Lodge's overall risk management strategy. This analysis will provide a comprehensive roadmap for understanding how a captive can enhance Seagrass Lodge's financial stability and risk management capabilities. By adopting a proactive approach, Seagrass Lodges can gain greater control over its insurance costs, enhance risk mitigation, and secure a more stable financial future in an evolving hospitality insurance market.

## **Seagrass Lodges Key Risks**

Seagrass Lodges ("Seagrass") is a premier collection of 15 oceanfront hotels along the picturesque West Coast of the United States. Each location offers approximately 50 uniquely designed rooms alongside a restaurant and bar, creating a luxurious and memorable experience for guests. The company employs 900 professionals and attracts a steady flow of high-end clientele.

Seagrass faces multiple insurance challenges due to its corporate structure and diverse operations. Key risks include managing liquor liability from alcohol service in on-site bars and restaurants, protecting against natural disasters and guest-related incidents through property and general liability, and addressing employee safety risks across hotel, restaurant, and maintenance staff through workers' compensation. These specialized risks make it difficult for Seagrass to secure fair and consistent insurance premiums, particularly for unpredictable liabilities like liquor-related claims. Additionally, the geographical and operational diversity of Seagrass properties complicates efforts to apply uniform risk solutions across all locations.

## Challenges in the Insurance Marketplace

Recently, shifts in insurance legislation have significantly impacted the hospitality industry, forcing insurers to adjust pricing models. Richard Look, president and chief strategist at Vertibrands, emphasized the growing need for de-risking strategies, stating, “Insurers in some markets may need to adopt de-risking strategies, such as adjusting premiums or limiting coverage, to offset the effects of rising catastrophe claims” (Panteloucos, 2024). To avoid substantial premium hikes, Seagrass must proactively assess its risk exposures and consider alternative risk financing strategies across its properties.

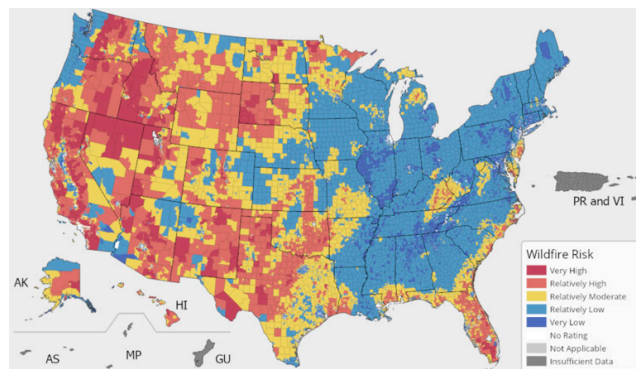
## External Factors

The hospitality insurance market is experiencing significant disruptions due to various external factors. These include regulatory changes with new legislation impacting coverage terms and insurer risk appetite, environmental challenges with increased frequency and severity of wildfires, floods, and other natural disasters, and economic and political shifts following the national election, resulting in potential tax reductions that could expand insurer capacity or tariffs that could strain international insurance markets and significantly drive up the cost of claims. These external pressures have resulted in rising premiums, restricted coverage availability, and, in some cases, entire regions being deemed uninsurable, creating major obstacles for Seagrass in securing affordable, comprehensive coverage.

## Insurance Marketplace

The insurance marketplace for hospitality businesses, like Seagrass Lodges, is experiencing significant disruptions caused by multiple external factors. A prime example of this is the rising frequency and severity of natural disasters, like wildfires and floods seen on the West Coast

**Figure One**



(reference Figure One). These natural disasters have been increasing premiums and tightening coverage availability, with certain at-risk areas deemed ‘uninsurable’. Additionally, in the wake of the national election,



many economic and international policies may play a role in the shift of the insurance industry. For example, if President Trump lowers taxes it may allow carriers to increase their optimization and risk appetite. On the contrary, the tariffs he has proposed would dampen the abilities of international insurance firms because material and supply chain availability will be at an all-time low (Panteloucos, 2024). The result of this is that insurance prices will skyrocket because domestic insurance companies are not able to meet the demand for coverage required in the States.

### **Captive Insurance Solution**

As tariffs are implemented and premiums rise, managing risk is an ever-present challenge. Due to the high-risk region Seagrass Lodges operates in, upward pressures on pricing, and macroeconomic factors, it is likely that transferring risk via insurance is both more expensive and restrictive. Creating a captive insurer provides Seagrass Lodges with a valuable alternative to the insurance market, offering greater flexibility and control over their risks. The primary objective is to free up capital, allowing Seagrass to make strategic decisions while reducing the financial impact of risk transfer on the company.

Captive insurance allows a company to insure itself through its own insurance subsidiaries, providing greater autonomy over risk strategies through personalization. A captive is owned and controlled by its parent organization and is created to insure the risks of the parent or its affiliates. This approach enables a deeper understanding of personal risks and exposures, allowing for more intentional and effective risk management strategies.

The first step in analyzing a captive's viability is conducting a captive feasibility study. This study evaluates potential cost savings, tax implications, risk exposures, and potential coverage gaps, creating an in-depth foundation for decision-making. Insights gathered from this study aid in tailoring coverage options that may be unavailable in the traditional insurance market. After this is done, a cost-benefit analysis should be conducted. The outcome of the feasibility study allows for further confidence in this analysis, aiding Seagrass in adapting to market fluctuations and increasing stability by mitigating premium volatility.

Captives can be structured in a variety of ways. The most common is a single-parent captive, in which a single company forms a captive to insure its own risks. In contrast, group captives are formed by multiple organizations that join to share insurance coverage, pooling their risks for mutual benefit. A key benefit of captives is cost savings, as companies can avoid paying additional fees and profit margins charged by primary insurers. Companies with predictable and large risk profiles are well-suited to captives, as they can stabilize insurance costs and protect against volatility in the commercial insurance market (National Association of Insurance Commissioners, NAIC, "Captive Insurance Companies: An Introduction").

It is crucial to note that captives come with disadvantages that businesses should consider. Establishing a captive requires a large initial investment. Captives are also subject to varying regulations depending on the captive's domicile (domestic or offshore), which can bring forth compliance challenges. Captives are not a one-size-fits-all solution and may not be viable for smaller companies or those with unpredictable risk profiles (NAIC, "Captive Insurance: The Basics"). Success with a captive relies on effective risk management, a thorough understanding of potential claims, and the ability to forecast future exposures (Insurance Information Institute, "Captive Insurance").

### **Why a Captive?**

Seagrass Lodges is well-suited for the captive marketplace because of the company's size, geographic spread, and diverse operational risks. With 15 hotels along the West Coast, Seagrass is located in a high-risk environment that is prone to weather-related incidents, natural disasters, and liability exposures. According to our predicted result of a present value analysis, a captive insurance program would allow Seagrass Lodges to control its risk management strategy, customize coverage to suit its specific needs, and potentially reduce costs over time.

A present value analysis would give Seagrass a clear projection of the long-term financial impact of forming a captive. This analysis would compare the setup and operating costs of the captive with potential savings from lower premiums, reduced administrative expenses, and more efficient claims handling. As noted by the Captive Insurance Companies Association (CICA), companies with captives often see a reduction in overall insurance costs after a few years due to the retention of underwriting profits and the ability to control claims.

First, Seagrass will have the ability to tailor insurance coverages to its precise needs, rather than relying on off-the-shelf policies. Second, by retaining more risk internally, Seagrass could generate underwriting profits in the captive, which would be retained rather than paid out to third-party insurers. Furthermore, a captive offers a more stable and predictable cost structure, insulating Seagrass Lodges from fluctuating premiums and restrictive coverage terms in the traditional insurance market. Another significant advantage of establishing a captive insurance program is the potential tax benefits associated with it. According to the Captive Insurance Companies Association (CICA), premiums paid to a captive insurance company can generally be deducted as business expenses under IRC Section 162, reducing taxable income for the insured company (CICA, 2017). This tax deductibility can provide substantial financial relief, allowing Seagrass Lodges to allocate more resources towards other critical areas of its operations. However, it's crucial to ensure that the captive arrangement qualifies as genuine insurance, meeting requirements such as risk transfer, risk distribution, and risk retention (CICA, 2017). Proper compliance with IRS regulations is essential to maintain these tax benefits and avoid potential penalties.

By leveraging the tax deductibility of captive insurance premiums, Seagrass Lodges can enhance its financial stability and reinvest the savings into further improving its risk management strategies and overall business operations (CICA, 2017). Ultimately, a captive would provide long-term financial benefits, greater control over risk management, and an opportunity for Seagrass Lodges to gain a competitive edge by managing the risks inherent to its business.

### **Captive Structure**

To ensure that this hybrid captive structure is financially viable, Seagrass needs to conduct a feasibility study and develop a parametric insurance solution. According to Captive.com, a feasibility study focuses on regulatory requirements, including financial assumptions, actuarial support for loss projections, reinsurance details, and compliance with domicile capital requirements, essentially serving as a business plan. According to Marsh Captive Solutions, such studies are crucial for understanding the financial benefits and potential risks associated with establishing a captive, especially for businesses with multiple locations and diverse risks. Parametric insurance is a type of coverage that pays for the occurrence of a specific, pre-defined event, such as a

natural disaster, based on objective data rather than actual loss assessments (Swiss Re). For example, based upon triggers like geographic areas or wind speed exceeding 65 mph, parametric insurance can provide quick payouts, reducing the time and complexity involved in claims processing. The reinsurer writes the policy, providing an additional layer of protection (*Basis Risk in Parametric Insurance: Challenges and Mitigation Strategies Content*).

This coverage would act as an extra safeguard, complementing the more traditional coverage provided by the gross line captive, which is paired with reinsurance. Together, these solutions help the company manage extreme weather events that could otherwise lead to costly delays and downtime for its hotels. By integrating parametric insurance into their risk management strategy, Seagrass Lodges can enhance their financial stability and ensure a more efficient response to natural disasters, ultimately supporting their goal of securing affordable, comprehensive coverage.

A gross line captive will help lower costs by decreasing expenses associated with fronting insurers, simplifying claims management, and enhancing financial stability. Meanwhile, a reinsurance policy will add flexibility and cost savings for managing property, liability, and business interruption risks. Utilizing both a gross line captive and reinsurance structure allows for Seagrass the ability to complement traditional insurance with a parametric insurance solution.

### **Insurance Program Logistics**

In a captive arrangement, Seagrass would pay premiums to the captive to cover its core risks. These premiums would be calculated based on factors such as the size and value of the properties, the company's claims history, and exposure to specific risks like coastal weather events, guest injuries, and employee-related accidents. While exact premium amounts would vary depending on the specifics of coverage and retention levels, Seagrass Lodges could expect to pay a substantial amount to the captive annually, with funds used to cover smaller, more frequent claims.

A fronting insurance company will likely be required by counterparties such as banks and landlords. Since Seagrass' business counterparties will require A-rated insurance and licensed policies for certain risks, partnering



with an AM Best-rated fronting company would help meet these standards. There are two main reasons why a fronting company would be beneficial for a business like Seagrass. Fronting companies excel in underwriting niche risks with sophisticated risk analysis, often justifying slightly higher premiums of 3-5%; and the premiums paid to fronting companies are tax-deductible, increasing the company's liquid capital for reinvestment. Two strong options for fronting companies are Old Republic and Markel. As noted by Chris Weber (2021), “Fees charged by the fronting carrier are intended in large part to cover its internal costs to issue the policy and are usually much less than traditional risk transfer policy premiums.” Since fronting fees are lower than full-risk transfer premiums, companies must implement effective risk controls and closely monitor state laws to mitigate vulnerabilities like those faced by Seagrass Lodges.

For property coverage, Seagrass’s captive policy would insure against damage to its hotels from natural disasters such as floods, earthquakes, and storms. Given the high cost of insuring oceanfront properties, the captive enables Seagrass to retain more risk and mitigate exposure to volatile pricing in the commercial market. A Per-Risk Excess of Loss (XOL) Treaty would be used to manage large individual claims, with the captive covering routine property losses while reinsurance steps in for catastrophic events exceeding a predetermined threshold, such as \$5 million to \$10 million per occurrence.

The general liability coverage would be handled in a similar fashion, with Seagrass Lodges retaining smaller, more frequent claims within the captive and purchasing excess loss reinsurance for larger claims. This approach helps to stabilize premiums and manage costs, as it effectively allows Seagrass Lodges to control its risk retention levels while benefiting from the financial protection provided by reinsurance for catastrophic events. For general liability, the company might structure its reinsurance to cover losses above a set threshold, such as \$1 million, ensuring that the captive can absorb smaller claims without significant cash outflows.

When determining the appropriate attachment point for reinsurance, Seagrass Lodges can assess its risk appetite and analyze its loss distribution using a Monte Carlo simulation. This method helps identify which risks should be retained within the captive and which require excess loss coverage. By isolating potential losses, the simulation provides insight into the optimal percentile for reinsurance attachment. Reinsurance allows Seagrass

Lodges to protect against large, unpredictable losses while maintaining control over its risk management program. Premiums depend on retention levels, coverage type, and specific policy terms. The company would likely pay an additional premium based on the size and scope of coverage. Reinsurance policies often use parametric triggers which are numeric thresholds such as dollar amounts, wind speeds, or other weather-related factors to determine payouts. These triggers would be set on a per occurrence basis, providing an automatic payout once met, ensuring Seagrass Lodges has immediate capital to begin rebuilding after a catastrophic loss. By retaining more risk in-house and using reinsurance for extreme events, Seagrass Lodges could lower long-term insurance costs, particularly as its captive accumulates surplus and improves its loss experience.

To address Seagrass Lodges' workers' compensation risk, they need a mitigation strategy that complements their captive and allows them to retain control over workers' comp risks. The captive would issue a deductible reinsurance policy, covering a large deductible of one to two million, allowing Seagrass to finance the risk while meeting legal requirements. This strategy will also reduce their overall premium charged for workers compensation and allow them to retain smaller losses. A broader risk management plan will further reduce insurance costs by addressing key risks such as slip-and-fall incidents and workers' compensation claims. Proactive measures like, slip prevention strategies, and employee safety training—have been shown to lower claims and insurance costs over time (O’Fallon & Rutherford, 2009). Implementing this strategy will lower workers' compensation costs, enhance employee safety, and ensure long-term financial stability.

### **Where to Domicile?**

Vermont stands out as the best domicile for Seagrass Lodge’s captive, mainly due to its reputation as a leading jurisdiction in the captive insurance industry, as well as having a great regulatory and tax environment. Vermont is home to over 1,000 registered captives, making it the largest captive insurance domicile in the world and a key global player in the sector (Vermont Captive Insurance Association, 2023). The state’s Department of Financial Regulation (DFR) is known for its pragmatic approach to regulation, providing oversight that is both rigorous and flexible, ensuring that captives are managed efficiently while still maintaining the necessary standards for solvency and risk management (Vermont Department of Financial Regulation, 2023).

According to the Vermont Captive Insurance Association, Vermont's regulatory framework allows for customized policies, making it easier for companies with complex risk profiles, like Seagrass Lodges, to create a tailored insurance program that meets both their specific operational needs and long-term goals (Vermont Captive Insurance Association, 2023). Vermont also offers a competitive premium tax structure, typically at 0.5% of gross premiums for captive insurers, which is lower than many other states. Furthermore, the Vermont Department of Taxes reports that captives within the state have substantial tax advantages, especially as they begin to accumulate underwriting profits, which can be reinvested into the business or used to further enhance the company's risk management capabilities (Vermont Department of Taxes, 2023).

### **Initial Capitalization**

According to the International Risk Management Institute, "A captive issues policies directly to the insured entities rather than reinsuring an insurance carrier that issued the policies (IRMI, n.d.)." Vermont has a minimum capital requirement of \$250,000 for a captive, though it is important to note that in many instances companies pay more than that due to an actuarial study, deeming that they are valued at a much higher loss level than the minimum capitalization.

### **Risk Management Techniques**

Seagrass Lodges employs several risk management techniques to enhance financial stability and control insurance costs. Captive insurance allows the company to insure itself through its own subsidiary, providing autonomy and tailored risk strategies. To ensure accuracy in risk assessment, effective underwriting is essential, with skilled underwriters properly evaluating exposures. Additionally, Seagrass Lodges leverages the tax deductibility of captive premiums, gaining a competitive edge by reinvesting savings into risk management initiatives. Parametric insurance further strengthens financial resilience by using predefined triggers, such as wind speed or earthquake magnitude, to ensure rapid payouts after natural disasters. Reinsurance plays a crucial role in protecting against large, unpredictable losses while maintaining control over the risk management program. Through a deductible insurance policy, Seagrass Lodges retains a high deductible of \$1–2 million, lowering workers' compensation premiums and allowing for greater financial flexibility. A proactive risk mitigation

strategy, including slip prevention measures and employee safety training, helps reduce claim frequency and insurance costs; as noted by the *National Restaurant Association* (2020), businesses with strong risk management practices enjoy reduced premiums and better protection. Lastly, the company benefits from domicile tax advantages, as captives within certain jurisdictions receive favorable tax treatment, enabling profits to be reinvested in business operations or risk management improvements. By integrating these techniques, Seagrass Lodges effectively balances risk retention and transfer, ensuring long-term financial sustainability.

## **Conclusion**

In conclusion, a captive insurance program offers Seagrass an effective solution to the issues they are currently facing in the market, allowing the company to control costs, customize coverage, and retain more risk internally. By choosing a high deductible for workers' compensation and establishing a gross line captive with reinsurance for broader risks like property and liability, Seagrass can stabilize premiums, enhance claims management, and tailor coverage to its specific needs. With a strong risk management plan, Seagrass can reduce claims, strengthen financial stability, and secure long-term success in an increasingly unpredictable insurance market.

While establishing a captive insurance company has significant benefits, a feasibility study should be done to determine its true value for the organization. An analytical analysis should be employed to assess the company's size, risk exposure, and long-term financial implications. However, it's important to note that captives are not a one-size-fits-all solution. Approximately 25% of companies that conduct feasibility studies ultimately find that forming a captive is not necessary, and in many cases, maintaining traditional insurance coverage may prove to be more cost-effective. Thus, careful evaluation is critical to ensure that the decision to create a captive is truly the best financial strategy for the organization.



## Works Cited

- Araullo, K. "S&P Warns of Rising Climate Risks for P&C Insurers Despite Diversification Efforts." Insurance Business America, 11 Sept. 2024, <https://www.insurancebusinessmag.com/us/news/reinsurance/sandp-warns-of-rising-climate-risks-for-pandc-insurers-despite-diversification-efforts-505155.aspx>.
- Basis Risk in Parametric Insurance: Challenges and Mitigation Strategies Content.*
- Captive.com. (2025). *What are the key elements of a captive feasibility study?* <https://www.captive.com/captives-101/what-are-the-key-elements-of-a-captive-feasibility-study>
- Captive Insurance Companies Association (CICA). "Captives and fs' Compensation." CICA World, 2023, <https://www.cicaworld.com>.
- Captive.com. "Reinsurance Captives: Structure and Benefits." Captive.com, 2023, <https://www.captive.com>.
- Chris Weber, V. P. (2021, May 24). *Fronted policies – when it makes sense*. Fronted Policies – When It Makes Sense. <https://www.orm.com/blog/fronted-policies-when-it-makes-sense>
- Insurance Information Institute. "Captive Insurance." Insurance Information Institute accessed 12 Nov. 2024, <https://www.iii.org/article/captive-insurance>.
- Insurance News. "The Role of Risk Management in Insurance Premiums: A Case Study." Insurance News, 2019.
- International Risk Management Institute. (n.d.). *Direct captive*. In *IRMI Risk & Insurance Glossary*. Retrieved November 15, 2024, from <https://www.irmi.com>
- Irving , F. (2019, August 20). *Utilising a captive for workers compensation large deductible programmes*. Captivereview. <https://captivereview.com/features/utilising-a-captive-for-workers-compensation-large-deductible-programmes/>
- Marsh & McLennan Companies. "Captive Insurance: How Businesses Can Control Their Own Risk." Marsh & McLennan Companies, 2021.

Marsh Captive Solutions. "Feasibility Studies and Captive Insurance: A Guide for Businesses." Marsh, 2023, <https://www.marsh.com>.

National Association of Insurance Commissioners (NAIC). "Captive Insurance Companies: An Introduction." National Association of Insurance Commissioners, accessed 12 Nov. 2024, [https://www.naic.org/captive\\_insurance.htm](https://www.naic.org/captive_insurance.htm).

National Association of Insurance Commissioners (NAIC). "Captive Insurance: The Basics." National Association of Insurance Commissioners, accessed 12 Nov. 2024, <https://www.naic.org/captive.htm>.

National Association of Insurance Commissioners (NAIC). "Captive Insurance Overview." National Association of Insurance Commissioners, 2023, <https://www.naic.org>.

O'Fallon, M. J., and D. G. Rutherford. Risk Management in the Hospitality Industry. Pearson Education, 2009.

Panteloucos, N. "How Will Trump's Second Term Impact the Insurance Industry?" Insurance Business America, 7 Nov. 2024, <https://www.insurancebusinessmag.com/us/news/breaking-news/how-will-trumps-second-term-impact-the-insurance-industry-513032.aspx>.

Staff, CICA. "When Are Premiums Paid to a Captive Insurance Company Deductible for Federal Income Tax Purposes?" *CICA*, 30 Sept. 2020, [www.cicaworld.com/when-are-premiums-paid-to-a-captive-insurance-company-deductible-for-federal-income-tax-purposes/](http://www.cicaworld.com/when-are-premiums-paid-to-a-captive-insurance-company-deductible-for-federal-income-tax-purposes/).

Swiss Re. "Parametric Insurance Solutions for the Hospitality Industry." Swiss Re, 2023, <https://www.swissre.com>.

Vermont Department of Financial Regulation (DFR). "Captive Insurance Regulation and Oversight." Vermont Department of Financial Regulation, 2023, <https://dfr.vermont.gov>.

Vermont Department of Taxes. "Captive Insurance Tax Incentives and Benefits." Vermont Department of Taxes, 2023, <https://tax.vermont.gov>.

Wiley Online Library. "Reducing Insurance Costs through Risk Management." *Journal of Risk and Insurance*, 2022. <https://alaineqnovelia.pages.dev/yiwimg-wildfire-map-usa-2024-map-zqytnm/> (figure 1)

---

2024-2025

---

# CICA STUDENT ESSAY CONTEST

Captive Insurance Solutions for Today's Risk Management Challenges



CONNECTICUT  
COLLEGE

CONNECTICUT COLLEGE:

**Matthew Sharretts &  
Samuel Brockelman**

---

**ACADIA FIELD**

SPONSORED BY







**Matt Sharretts**

## Matt Sharretts

*Matt Sharretts is a junior at Connecticut College double majoring in Quantitative Economics and German. Matt interned at RenaissanceRe's New York City branch last summer and will work at Convex Insurance's office in Luxembourg this summer.*

*Outside of the classroom, he plays on his college's varsity soccer team and is working towards founding a Gamma Iota Sigma chapter at Connecticut College. Matt is from New Hampshire and enjoys hiking in his free time.*

### **What interested you about the CICA essay contest Captive Insurance Solutions for Today's Risk Management Challenges?**

The act of writing the essay, which sort of resembled a feasibility study, required us to think critically about a given captive structure.

This meant that simply repeating information wouldn't cut it. As a result, Sam and I saw the competition as an opportunity to learn about an interesting topic in a relatively short time period.

Most importantly, we had to actually apply the knowledge.

### **How was captive insurance helpful for your chosen organisation?**

Captive insurance allowed Acadia Field to manage its risks using a fronting insurer.

This could possibly be a more affordable and profitable choice for Acadia Field over a long period of time when compared to traditional insurance.

### **What did you learn about captive insurance while researching and writing your essay?**

I learned about the types of captive structures, their purposes, advantages and disadvantages, and when they should be used. In addition, we spent a lot of time on our domicile choice and learned about a variety of different domiciles along with their pros and cons.

### **How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?**

Before the competition, my teammate and I hardly had any knowledge of captives. As a result, we spent at least a few hours daily researching before beginning the essay. My knowledge of the captive insurance industry significantly improved.

### **Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?**

I would absolutely consider a career in captive insurance. I'm interested in an international career, and some up-and-coming domiciles especially interest me.

### **How does your college coursework align with a career in captive insurance?**

At the moment there is no coursework for insurance or risk management at Connecticut College, so my teammate and I are both self-taught.



**Sam Brockelman**

## Sam Brockelman

*Sam Brockelman is a junior at Connecticut College majoring in Quantitative Economics and Hispanic Studies. On campus, he is part of various clubs and activities, including playing on the men's soccer team and serving as a Team Impact Fellow. Last summer, Sam interned for an insurance agent at American National, learning the ins and outs of running an insurance book of business. This summer, he will intern at OdysseyRe in an underwriting rotational programme.*

### **What interested you about the CICA essay contest Captive Insurance Solutions for Today's Risk Management Challenges?**

What interested me most about the CICA essay contest was how the competition gave me the chance to learn more about captive insurance through a real-world example. Explaining the reasoning behind the implementation of captive insurance demands that you learn in depth about what captive insurance is and using a practical scenario furthers the learning experience. With the combination of learning a new topic and critically thinking about how to apply this new knowledge, the CICA Essay contest piqued my interest.

### **How was captive insurance helpful for your chosen organisation?**

Captive insurance was helpful for our chosen organisation because it allowed Acadia Field to have its specific needs for the high-risk exposures that come with a stadium, retain underwriting profits from effective loss prevention and risk management, as well as maintain financial control over its insurance costs and not having to focus on unpredictable premium prices in the commercial insurance market.

### **What did you learn about captive insurance while researching and writing your essay?**

While researching and writing our essay, something I learned about captive insurance was how it can be used to cover niche and unique risks for a business that traditional insurers may not be able to. For example, in our case study of Acadia Field, we were able to address the niche risks associated with a large stadium, instead of being concerned with whether an insurance company

can provide the same coverage. I was unaware of this aspect of captive insurance before writing the essay, but I now understand that it is one of the key elements that make captive insurance so attractive to businesses.

### **How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?**

This expanded knowledge that I have of captive insurance now is a drastic change to my understanding before I began writing this essay. I had never heard of captive insurance before writing this essay and I am grateful that through the format of the competition, I was able to learn so much about captive insurance in such a short amount of time.

### **Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?**

I would consider a career in captive insurance because it would give me the ability to help a wide range of businesses strategically manage their risk. One of the reasons a career in captive insurance is appealing to me is because it is a niche part of the broader insurance industry that is not as well known as I believe it could be. This niche industry has what seems to be a ton of growth potential and the future of risk management, which makes a career in captive insurance quite appealing.

### **How does your college coursework align with a career in captive insurance?**

My coursework at Connecticut College aligns well with a career in captive insurance. As a double major in Quantitative Economics and Hispanic Studies, my background in economics will allow me to have a better understanding of what is happening in the global insurance market as well as the different risks associated with large-scale events such as natural disasters, pandemics, and infrastructure accidents. Furthermore, my background in Hispanic Studies will allow me to use my Spanish-speaking skills to communicate with a wider range of people and communicate effectively with professionals in the US and other Spanish-speaking countries.

**– Acadia Field Captive Proposal –**

Matt Sharretts and Sam Brockelman

CICA Student Essay Contest

7 February 2025

**Introduction:**

The owners of Acadia Field face a question encountered by many large arenas: how can consistent profits be generated while creating a positive and safe experience for spectators and protecting the business and consumers from risks? Acadia Field is the home of the Maine Lobsters and the United States' 9th largest stadium complex with a seating capacity of 100,000, therefore answering this question is no small task. Acadia Field employs and is responsible for 1,700 people, while it also hosts over 600 events annually with more than 1.6 annual million attendees. These events include – but are not limited to – professional games, high school tournaments, concerts, state high school tournaments, and stadium tours.

Since Acadia Field is a large venue that hosts a variety of performances and sporting events each year, it faces an extensive amount of insurance risks. These risks include safety, weather, operations, transportation, technology and more. Acadia Field is also facing increasing insurance premiums for several of its top risks as well as limited coverage options from traditional insurers. The risks that struggle with rising premiums and limited coverage options the most are entertainment, general liability, liquor and food safety, weather/event cancellation, and production and event equipment. In order for Acadia Field to run successfully, be profitable, and provide value to the community, it must ensure an adequate risk management program that recognizes the unique and specific needs of the stadium's risks.

Due to rising insurance premiums and limited coverage options available, many companies are looking for alternative ways to mitigate risk and maintain protection while not spending a fortune on insurance. Especially during a hard market, companies may find it difficult to find flexible and affordable coverage, particularly in property lines.<sup>1</sup> This has resulted in the increasing popularity of captive insurance. In its most basic form, captive insurance involves a

---

<sup>1</sup>(“Risk Management Magazine - Navigating the Hard Market in 2024” 2024)

policy (which occurred in the wake of the 9/11 attacks). In general, stadiums tend to be sites of high profile, high traffic activities, and face numerous risks with varying degrees of severity and frequency. In 2017, the Manchester Arena bombing resulted in the loss of 22 lives as well as millions of dollars of insured losses.<sup>4</sup> While modern crowd control measures have greatly reduced stadium disasters, many stadiums are still susceptible to events involving widespread mortality or injury of patrons. Looking ahead, a report by climate research group Climate X estimates that NFL stadiums could experience \$11 billion worth of cumulative losses – a significant portion of which could stem from accelerating climate threats.<sup>5</sup>

**Risk Examination:**

Low frequency risks such as terrorist attacks are only a small portion of the stadium's risk, as Acadia Field's exposure is largely driven by its day-to-day operations. Firstly, Acadia Field faces numerous liability risks associated with those that use its facilities. Spectator liability risks arise from spectators, who could be involved in slips, falls, or injuries during stadium events. In addition, events involving athletes or performers introduce a new layer of risk, which could induce claims from either spectators, attendees, or other individuals on the premises. Vendor or contractor liability could arise from a stadium that relies on various vendors and contractors for services such as food, cleaning, and security. For example, a liability could arise in the event that a foodborne illness or security breach results from a vendor or contractor's harmful actions.

Along with its patrons, the stadium faces risks related to its employees. The stadium's employees have numerous roles, including the security, maintenance, and event setup. Workers' compensation insurance – a common policy covered in captive insurance structures – is legally

---

<sup>4</sup> (Koblensky 2017)

<sup>5</sup> (Ltd 2024)



required to cover employee injuries sustained during work. A captive can customize workers' compensation to include specific coverages for the wide range of roles. Next, property damage risks arise from a number of sources. At a basic level, natural disasters and catastrophic events such as hurricanes, floods, and earthquakes pose a threat to the stadium, which can cause significant amounts of structural damage. Acts of vandalism and potential terrorism require coverage as well, as stadiums tend to be high profile targets. As a result of property damage, the stadium may be subject to further revenue loss from an event's abandonment. This prompts the need for event cancellation and business interruption protection. Cancellations may stem from natural disasters, security threats, or pandemics, in turn causing revenue loss. Business interruption coverage can help hedge against the chance of significant revenue loss, and certain scenarios may be excluded in normal insurance policies. Lastly, a captive structure formed to protect against cybersecurity risk – which is increasingly managed using captive insurance – may be beneficial towards the stadium, which likely holds large amounts of consumer information from ticketing and the sales of merchandise.

### **Revenue Sources:**

Acadia Field pulls in revenue from a number of different sources, including ticket sales for concerts, sporting events, and performances, food and beverage sales, raffle tickets, selling sponsorship and advertisement rights, team and performer merchandise, event parking, media and broadcasting rights, stadium tours, interactive fan experiences, retail and restaurant leases in the stadium, and charity events. All these put together generate an immense amount of revenue for Acadia Field. On average, a NFL stadium generates \$172 million a year in revenue<sup>6</sup> and NFL stadiums seating capacities range from 61,500 up to 82,500.<sup>7</sup> With Acadia Field's seating

---

<sup>6</sup> (Neufeld 2024)

<sup>7</sup> (Scott 2024)

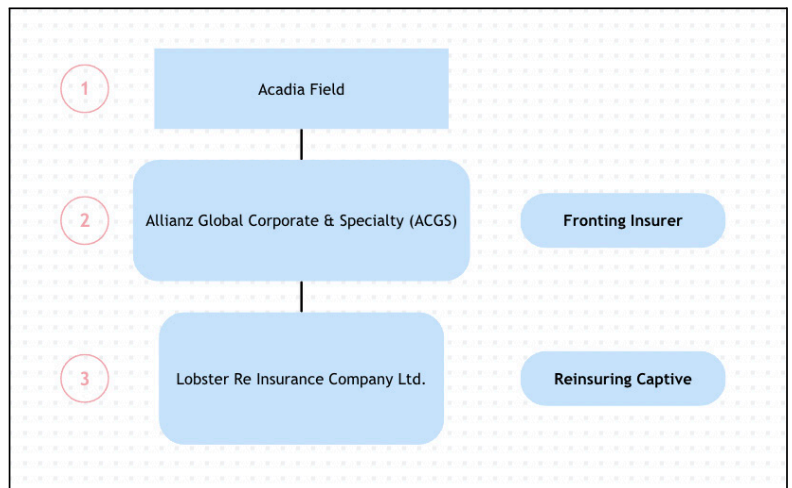
capacity of 100,000 for its professional football team, the Maine Lobsters, the revenue from ticket sales alone will rank among the top ticket revenue amongst the rest of the professional football stadiums. With the seating capacity and the wide range of revenue sources, it is imperative that Acadia Field's revenue sources have systems and practices in place that protect them.

### **Captive Structure:**

Before pursuing a captive, an in depth examination of the structure's feasibility should be conducted containing pro-forma financial projections, an actuarial assessment, as well as capital requirements and the overall financial viability of a captive structure for Acadia Field. Most

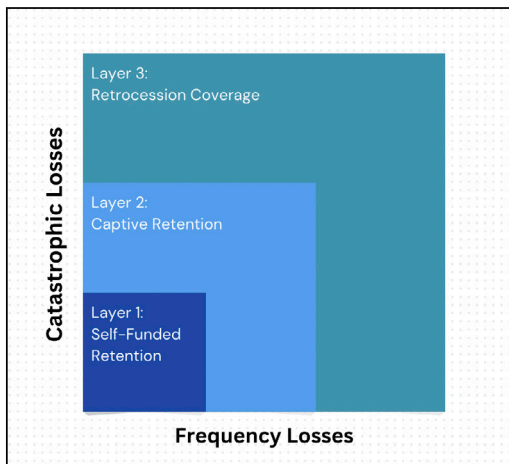
well-established captive domiciles require a feasibility study as a part of the captive's approval process.

We propose a single parent, pure captive structure to act as a subsidiary of Acadia Field. This captive would exist to insure the risks of the stadium and potentially some of its related entities (such as the Maine Lobsters or management subsidiaries associated with the operations of the Maine Lobsters and Acadia Field). This structure provides control over the risk management and claims handling processes, allowing Acadia Field to tailor policies to its unique needs. In addition, improved cash flow management can be gained from the utilization of this



captive structure, and underwriting profits can be reinvested into the stadium's risk management efforts or can act as a financial incentive for the stadium's employees, who can receive a dividend following years with positive underwriting outcomes. Depending on its use, this mechanism can be used to further incentivize risk management and loss prevention efforts among those responsible for the stadium.

In addition, we suggest the pursuit of a partnership with a licensed fronting insurer who will issue insurance policies on behalf of the reinsuring captive. Our chosen fronting insurer, Allianz Global Corporate & Specialty, is a well established player in the global captive marketplace. Since the captive is an unlicensed, nonadmitted insurer except in its own domicile, the reinsuring captive will use the fronting insurer as a vehicle to issue policies. This may also expedite claims handling and administration processes, which is presumably conducted



efficiently at a large, well-established insurer. The cost of utilizing a fronting insurer is often based on a percentage of gross written premiums (GWP), and may be somewhere between 5 to 15 percent of each premium dollar.<sup>8</sup> In this structure, premium payments would flow from Acadia Field to the fronting insurer, and claim payments would flow the opposite way. A similar story would exist between the fronting insurer

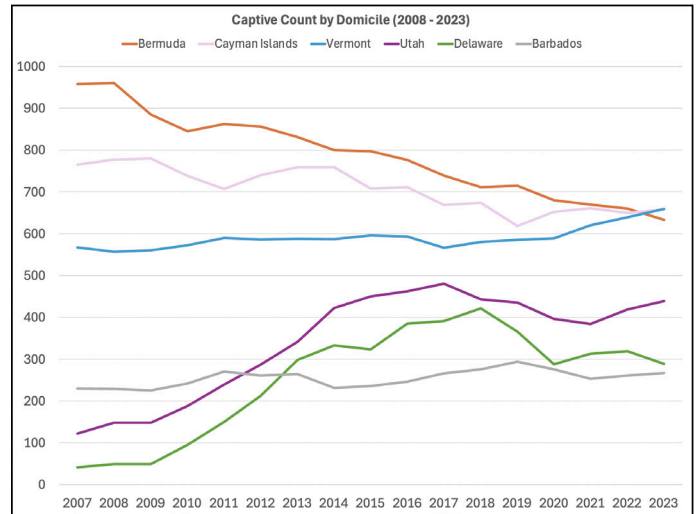
and captive reinsurer, as net premium payments would flow from the fronting company to the captive reinsurer. Finally, potential underwriting and investment income from Lobster Re could return to Acadia Field. For higher risk exposures or catastrophic events, Lobster Re should elect to purchase retrocession if exposure levels are high, passing on higher attachment points to the

<sup>8</sup> ("What Is a Fronting Arrangement and Why Do Captive Insurers Use Them?," n.d.)

reinsurance markets. Ideally, Allianz’s pre-established relationships should prove helpful in attaining retrocessionary (reinsurance) coverage for Lobster Re.

### Domicile Analysis:

Over the last ten to fifteen years, there has been a gradual increase in the domestic use of captives, while the count of captives in numerous offshore domiciles has stayed stagnant or decreased slightly. The offshore captive staples – most notably the Cayman Islands, Bermuda, and Barbados – provided appealing, flexible legislation and options for various captive



licenses in the early years of captives’ formations. Recently, US jurisdictions have become more captive friendly, mirroring legislation of some of the more established, offshore domiciles. While Vermont acted as a pioneer for captive-friendly, domestic legislation in the late 1960s, many other states including Utah, Delaware, Hawaii, and North Carolina expanded or adjusted their legislation to make themselves more captive-friendly. The passing of certain legislation, such as the Dodd-Frank Act, along with state-specific tax-positions, US jurisdictions are increasingly creating captive legislation to improve their relevance in the captive market.<sup>9</sup>

The leading captive domicile of Vermont would provide Acadia Field with a well-established, trusted regulatory body in a nearby state. Vermont’s Department of Financial Regulation (DFR) has deep expertise in the captive field and is staffed with regulators who are experienced with captive structures. Overall, the domicile possesses transparent, flexible

<sup>9</sup> (“The Growth of US Captive Insurance Domiciles” 2021)

regulation and cost structures, while also boasting an approximate average setup time of 30 days for captives. The domicile hosts a dense network of captive managers, actuaries, accountants, and law firms with captive expertise. Vermont is also a stable domicile with access to reinsurance markets.

### **Initial Capitalization and Financials:**

For this captive structure, initial capitalization involves the setting aside of sufficient funds to ensure the captive arrangement can fulfill its reinsurance obligations. In the domicile of Vermont, costs include an initial capitalization fee of \$250,000, the initial/annual licensing fees (each \$500), as well as an actuarial application review for \$6,000.<sup>10</sup> The initial capitalization fee can be funded through cash, a letter of credit (LOC), preferably liquid investments, or a mix of the listed sources. The actuary will be responsible for determining the captive's premium structure and required capital levels, ensuring that initial capitalization and regularly paid premiums (as well as the captive's reserves) align with expected losses. The actuary performs this analysis by examining Acadia Field's loss experience and loss exposure. With regards to its fronting insurer, additional collateral (which often equals expected liability) ranging between 50% to 100% of the reinsured amount should be set aside. For a stadium like Acadia Field with significant liability and catastrophic exposure, market data suggests that minimum capital could realistically range from \$1 million to \$5 million. Vermont's low, competitive captive tax rates also benefit Acadia Field. While Vermont has a minimum annual premium tax of \$7,500, tax payment is also capped at \$200,000. Tax credits worth \$5,000 are awarded in the first two years of licensure. Given Acadia Field is utilizing a captive reinsurer, taxes on their assumed premiums in Vermont will be even lower in comparison to direct premiums. As an onshore captive, Lobster Re would not face a federal excise tax (FET).

---

<sup>10</sup> ("Forming & Operating a Captive," n.d.)

Given the information presented regarding Acadia Field, a balance sheet and income statement covering the Lobster Re Insurance Ltd. captive structure is provided below:

[illegible]

### **Risk Management and Captive Planning:**

As a result of the large amount of risks posed by the venue, it is vital for Acadia Field to maintain an active risk management plan. Having these plans in place is an aspect of their business that must be constantly reassessed, as 75% of executives predict that their business continuity planning and crisis management will change drastically.<sup>11</sup> Many measures can be taken by the owners and managers of Acadia Field to ensure that their risk is as limited as possible. For example, those responsible for Acadia Field must ensure they are protected from cyber risk by installing systems that guarantee secure ticket purchasing and payment systems. Also, hiring extensive amounts of security personnel in training them, as well as limiting alcohol consumption and incorporating surveillance systems to ensure safety within the stadium will help to prevent security risk. Another measure to limit safety risk is by having emergency response plans in place and training staff to deal with unexpected events such as severe weather, medical emergencies, a security breach, and more. By taking precautionary measures such as these to mitigate risks before they happen, the underwriting profits of Lobster Re will be greater and Acadia field will retain underwriting profit. If Acadia Field did not have a captive, they would have less of an incentive to have a strong risk management plan because their underwriting profits for mitigating the risk would go to a primary insurance company. The combination of a captive and a holistic risk management plan will allow Acadia Field to retain profit for successfully managing their risks and minimizing their losses.

### **Conclusion:**

By using a captive, Acadia Field will be able to personalize coverage to meet its specific risks of the stadium as well as retain profits from Lobster Re for developing and executing a

---

<sup>11</sup>(Overvest 2023)



successful risk management plan. Despite captives being a lesser known solution to rising insurance premiums and limited coverage, Acadia Field could benefit from implementing this innovative risk management tool.

## Bibliography

“Forming & Operating a Captive.” n.d. Vermont Captive Insurance.

<https://www.vermontcaptive.com/forming-operating-a-captive/>.

“Golden Goal Finance Ltd.” 2019. Artemis.bm - the Catastrophe Bond, Insurance Linked Securities & Investment, Reinsurance Capital, Alternative Risk Transfer and Weather Risk Management Site. December 2, 2019.

<https://www.artemis.bm/deal-directory/golden-goal-finance-ltd/>.

“Insurance Topics | Captive Insurance Companies | NAIC.” 2024. Naic.org. 2024.

<https://content.naic.org/insurance-topics/captive-insurance-companies>.

Koblensky, Will. 2017. “Manchester Bombing – the Insurance Fallout.”

Insurancebusinessmag.com. Insurance Business. May 24, 2017.

<https://www.insurancebusinessmag.com/us/risk-management/news/manchester-bombing-the-insurance-fallout-68485.aspx>.

Ltd, Climate X. 2024. “Climate.” Climate X. October 16, 2024.

<https://www.climate-x.com/articles/industry/report-projects-11-billion-financial-losses-for-nfl-stadiums-by-2050-due-to-climate-risks>.

Overvest, Marijn. 2023. “Risk Management Statistics 2024 — 45 Key Figures.” Procurement Tactics. October 27, 2023. <https://procurementtactics.com/risk-management-statistics/>.

“The Growth of US Captive Insurance Domiciles.” 2021. Captiveinternational.com. August 26, 2021.

<https://www.captiveinternational.com/the-growth-of-us-captive-insurance-domiciles>.

“What Is a Fronting Arrangement and Why Do Captive Insurers Use Them?” n.d.

Www.captive.com.

<https://www.captive.com/captives-101/what-is-a-fronting-arrangement-and-why-do-captive-insurers-use-them>.

Neufeld, Dorothy. 2024. "Ranked: U.S. Sports Stadium Revenue, by League." Visual Capitalist. July 25, 2024. <https://www.visualcapitalist.com/u-s-sports-stadium-revenue-by-league/>.

"Risk Management Magazine - Navigating the Hard Market in 2024." 2024. Magazine. 2024. <https://www.rmmagazine.com/articles/article/2024/02/01/navigating-the-hard-market-in-2024>.

Scott, William. 2024. "Ranking Every NFL Stadium by Seating Capacity." GiveMeSport. June 3, 2024. <https://www.givemesport.com/nfl-stadiums-seating-capacity-ranked/>.

2024-2025

# CICA STUDENT ESSAY CONTEST

Captive Insurance Solutions for Today's Risk Management Challenges



ST. MARY'S  
UNIVERSITY

ST. MARY'S UNIVERSITY:  
**Isabella Martinez & Skilee Soto**

**ACADIA FIELD**

SPONSORED BY





**Skilee Soto**



## Skilee Soto

*Skilee Soto is a senior at St. Mary's University majoring in Finance and Risk Management. She has completed internships in finance and risk management, which have allowed her to build valuable skills and knowledge in these fields. As a proud San Antonio native, Skilee is passionate about giving back to her community, dedicating over 30 hours per semester to service. She strives to make a positive impact in both her industry and community.*

### **What interested you about the CICA essay contest Captive Insurance Solutions for Today's Risk Management Challenges?**

I was interested in participating in the CICA essay contest because I knew it would broaden my knowledge on captive insurance and I was eager to learn more about it.

I am a senior with a Finance and Risk Management major, and this past summer I had an internship with Valero Corporation as a Risk Management intern. I was exposed to terms and processes I didn't know much about and it was a great experience for me to absorb new concepts hands-on.

This upcoming summer, I will be interning with Munich Re which is a global reinsurance company and I will be working on the claims side. I'm thrilled that this essay competition is preparing me for the insurance industry and I am looking forward to sharing our essay with industry professionals.

### **How was captive insurance helpful for your chosen organisation?**

Captive insurance was instrumental for Acadia Field by providing a strategic, tailored approach to managing complex and high-stakes risks. It allowed the venue to stabilise costs, retain underwriting profits, and directly invest in risk mitigation measures.

For example, Acadia Field could address general liability risks by funding crowd management training and installing surveillance systems. The flexibility of captive insurance also enabled the venue to craft policies for weather-related event cancellations, security for VIP guests, and food and liquor safety, addressing gaps traditional insurers could not adequately cover.

### **What did you learn about captive insurance while researching and writing your essay?**

Researching and writing the essay revealed that captive insurance is not just a financial tool but a strategic risk management asset. Captive insurance allows organisations to control their risk exposure by tailoring policies to specific needs, investing in preventative measures, and building reserves for future challenges. Additionally, the essay highlighted the long-term operational benefits, such as enhancing stakeholder trust and resilience through proactive safety and security investments.

### **How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?**

Before entering the competition, my understanding of captive insurance was limited to it being a cost-saving mechanism for organisations. After researching, I now recognise its broader applications, including its ability to address coverage gaps, support proactive risk management, and provide financial flexibility.

### **Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?**

Yes, I would consider a career in captive insurance. What appeals to me is its focus on strategic problem-solving and its impact on organisational resilience. The ability to design innovative solutions for unique risk exposures, contribute to long-term financial stability, and work closely with diverse industries makes it an intellectually rewarding and dynamic field.

### **How does your college coursework align with a career in captive insurance?**

My coursework in Business Finance and Risk Management directly aligns with a career in captive insurance. Classes such as managerial accounting, financial analysis, and risk management principles have equipped me with the skills to analyse financial risks and evaluate cost-efficiency strategies.



**Isabella Martinez**

## Isabella Martinez

*Isabella Martinez is a junior at St. Mary's University in San Antonio, Texas, double majoring in Finance and Risk Management, as well as Management. After graduation, she plans to pursue a career in the insurance industry, combining her interests in problem-solving and strategic thinking.*

*Outside of academics, Isabella enjoys live music, exploring new books, and writing.*

*She is passionate about continuous learning, building meaningful connections, and embracing new challenges to grow both personally and professionally.*



### **What interested you about the CICA essay contest Captive Insurance Solutions for Today's Risk Management Challenges?**

What drew me to the contest was the opportunity to tackle a real-world problem and apply creative solutions within the field of risk management. I was excited to work on a case that required using the knowledge I've gained in class while also conducting research to deepen my understanding of the subject.

Case studies like this are incredibly valuable because they don't just enhance learning, they also prepare you for the practical challenges you'll face in the industry. The contest felt like a unique chance to bridge the gap between academic concepts and real-world applications, an experience that aligns perfectly with my career ambitions and drives my enthusiasm for learning.

### **How was captive insurance helpful for your chosen organisation?**

Captive insurance gave Acadia Field the ability to handle its risks in a more tailored way than traditional insurance. It allowed the venue to adjust coverage for bigger events while saving on costs for smaller ones. It also supported initiatives like better crowd management and safety improvements, which helped lower claims and keep attendees safe. On top of that, it made dealing with weather-related risks easier by providing faster payouts for canceled events and setting aside funds for future issues. Overall, the captive gave Acadia Field more control, financial stability, and the tools to plan for the future.

### **What did you learn about captive insurance while researching and writing your essay?**

I gained a much deeper understanding of how captive insurance provides organisations with unmatched flexibility and control. It demonstrated how captives can address highly specific challenges by adapting solutions to meet the unique needs of each organisation. I learned that captives empower businesses to manage specialised risks, stabilise premiums, and even generate long-term financial benefits.

What stood out most was how captives encourage proactive risk management, allowing organisations to align their strategies with broader operational and financial goals. This made me realise just how powerful and adaptable captives can be.

### **How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?**

Before this competition, my understanding of captive insurance was quite limited. While I encountered the concept in class, I initially viewed it as a niche tool primarily suited for large corporations. Through the process of researching and writing for the competition, I gained a deeper appreciation for the practical applications of captive insurance.

I discovered how it can be tailored to meet the specific needs of different industries, effectively address unique risks, and support strategic decision-making while reducing dependence on volatile insurance markets.

This deeper insight has transformed my perspective, highlighting captive insurance as a dynamic and essential solution in risk management.

### **Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?**

Absolutely. What excites me most about captive insurance is how strategic and dynamic it is. It's not just about numbers, it's about using critical thinking and creativity to craft innovative solutions for unique challenges.

I love the idea of working in a field where you can directly see the impact of your efforts on an organisation's success and long-term stability. It's a rewarding combination of problem-solving, strategy, and tangible results.

### **How does your college coursework align with a career in captive insurance?**

My coursework in risk management has introduced me to key concepts like identifying and analysing risks and exploring ways to manage them effectively.

This foundation has helped me understand the broader principles of risk management, which are highly relevant to the flexibility and problem-solving focus of captive insurance, especially in terms of tailoring strategies to address unique organisational challenges.

# **Strategic Risk Management at Acadia Field: Leveraging Captive Insurance**

## **Introduction**

Acadia Field, a 100,000-seat venue hosting over 600 annual events, is a cornerstone of Maine's entertainment and sports landscape. Home to the Maine Lobsters football team, the venue welcomes over 1.6 million attendees annually and employs 1,700 staff. The venue faces significant risks across multiple dimensions, including general liability from large crowds, weather-related cancellations, VIP security concerns, food and liquor safety issues, etc. Traditional insurance has proven increasingly inadequate, with rising premiums and limited coverage exposing Acadia Field to financial and operational vulnerabilities.

Captive insurance offers an opportunity to address these challenges strategically. By creating a wholly-owned subsidiary to insure its specific risks, Acadia Field can craft customized policies, stabilize costs, and retain underwriting profits. Beyond these financial benefits, captive insurance empowers the venue to invest directly in proactive risk management strategies, fostering enhanced safety, operational efficiency, and stakeholder trust. This essay explores how a captive insurance model can effectively address Acadia Field's risk landscape, ensuring long-term resilience and leadership in the industry.

## **The Rise of Captive Insurance in High-Risk Sectors**

Captive insurance has gained prominence among organizations facing volatile insurance markets and complex risk exposures. Companies across various industries, including automotive, telecommunications, technology, retail, consumer goods, manufacturing, healthcare, pharmaceutical, and energy, increasingly utilize captive insurance to manage rising premiums, address coverage gaps, and build tailored risk solutions (*PwC 2025*). This approach allows

businesses to align policies with their unique operational demands, ensuring greater financial stability and risk control.

For venues like Acadia Field, with high-stakes and diverse risks, traditional insurers often impose restrictive terms, narrow coverage options, or prohibitively high premiums. Liability claims, revenue losses due to weather-related cancellations, and security threats to VIPs all demand flexibility that traditional insurance struggles to offer.

Captive insurance provides this flexibility while enabling direct investment in risk mitigation. Unlike traditional insurance, which requires companies to pay premiums to external carriers that frequently raise rates to match market conditions, captives allow businesses to reinvest in themselves. By utilizing captive insurance, companies can allocate premium dollars toward targeted risk management initiatives, such as advanced crowd management training, enhanced surveillance systems, and weather-monitoring technologies. These measures address risks at their source, reducing claim frequency and severity. Picard and Pinquet (2013) highlight this advantage in their article, “*Optimal Risk Financing in Large Corporations through Insurance Captives*”, emphasizing the financial and operational benefits captives provide. Captives also enable Acadia Field to proactively adapt to emerging challenges, such as evolving cybersecurity threats or regulatory shifts, ensuring long-term operational resilience and financial stability.

## **Addressing Key Risk Areas Through Captive Insurance**

### *1. General Liability*

With over 1.6 million attendees annually, Acadia Field faces significant general liability risks, including injuries, property damage, and crowd-related incidents. For example, a slip-and-

fall accident in the concourse could result in costly medical claims, while overcrowding at a high-profile concert could contribute to hazardous conditions that increase the risk of injuries, potentially leading to lawsuits and reputational damage. The sheer volume of visitors heightens the likelihood of such incidents, posing considerable challenges in risk management. Additionally, liability premiums for event venues have been rising by approximately 10% annually due to an increase in claims and higher settlement amounts (*Insurance Information Institute, 2023*).

Captive insurance provides a tailored and cost-effective solution for managing liability risks at Acadia Field. By establishing a captive, the venue can allocate higher coverage limits to high-risk events, such as sold-out concerts or championship games, where large crowds significantly increase exposure. At the same time, routine or lower-risk events can be insured at a reduced cost, optimizing premium expenditures. A key advantage of captives is their ability to leverage reinsurance capacity, further enhancing financial efficiency. For example, Acadia Field could implement a deductible reimbursement program, covering initial claims up to \$150,000 before the captive reimburses amounts up to \$500,000. For catastrophic losses exceeding this threshold, external reinsurance can provide additional protection. This strategic layering of coverage ensures that resources are allocated efficiently, balancing risk retention and transfer in a way that traditional, one-size-fits-all insurance policies cannot match.

Additionally, captives enable direct investments in proactive safety measures to reduce liability claims. For example, funds from the captive could be utilized to train staff in advanced crowd management techniques, install real-time surveillance systems to monitor risks, or implement physical barriers to enhance attendee safety during high-capacity events. Deloitte

(2023) reports that robust loss control programs can lower liability claims by up to 15% annually, underscoring the value of a proactive approach to risk management.

Adopting a captive insurance model not only reduces the financial impact of liability risks but also reinforces trust by demonstrating a commitment to safety and operational excellence. This strategy aligns with Acadia Field's goals of resilience and stakeholder confidence, enabling the venue to maintain its reputation as a safe and reliable choice for hosting large-scale events.

## *2. Weather and Event Cancellations*

Maine's unpredictable weather poses significant challenges for Acadia Field's outdoor events, with severe storms, heavy snowfall, or high winds potentially causing event cancellations and substantial financial losses. For instance, a sudden thunderstorm could force the cancellation of a high-revenue concert, while unexpected snowfall might disrupt a championship football game, resulting in ticket refunds, vendor losses, and operational delays. Traditional weather-related cancellation insurance is often prohibitively expensive and restrictive, particularly in regions prone to extreme weather. Insurers frequently limit coverage to specific scenarios and exclude many weather-related risks, leaving critical gaps in protection.

A captive insurance company provides a more flexible and effective solution. By utilizing parametric insurance policies, Acadia Field can secure coverage that pays out when predefined triggers occur, such as rainfall exceeding a certain threshold or extreme cold temperatures. Unlike traditional insurance, which requires lengthy claims processes and detailed damage assessments, parametric policies offer faster payouts and eliminate disputes over claim eligibility. This approach is also more cost-efficient—research by Kapphan et al. (2012) in "*Climate Change, Weather Insurance Design, and Hedging Effectiveness*" highlights that

parametric insurance can reduce costs by up to 25% compared to traditional policies, making it an ideal choice for managing weather-related risks.

One of the key advantages of captive insurance is the ability to establish dedicated reserve funds for weather-related risks. Unlike traditional insurance, where unspent premiums are forfeited to the carrier, captives allow organizations to retain and strategically reinvest those funds. Acadia Field can use these reserves to cover event cancellations or fund infrastructure upgrades, such as enhanced drainage systems to prevent flooding or snow-clearing equipment to maintain operations during winter storms. However, setting up a captive requires careful consideration of regulatory requirements. Most domiciles mandate a minimum premium-to-surplus ratio, typically ranging from 5:1 to 10:1, meaning that for every \$100 in premiums, the captive must maintain at least \$10 in surplus. This financial safeguard ensures the captive remains solvent while still offering the flexibility to proactively manage risks. By leveraging this structure, Acadia Field can strengthen its financial resilience, optimize risk retention, and ensure long-term operational stability.

Adopting a captive to manage weather-related risks would protect Acadia Field's revenue streams, eliminate the constraints of traditional insurance, and enhance its reputation as a venue capable of handling unpredictable weather. These measures ensure Acadia Field remains a reliable choice for event organizers and patrons, while maintaining financial stability regardless of environmental challenges.

### *3. VIP and High-Profile Security*

Managing security risks at Acadia Field presents unique challenges, particularly when accommodating VIP guests and mitigating high-profile incidents such as targeted harassment, privacy breaches, and physical threats. A breach in a VIP area during a major event could result

in costly lawsuits and damage the venue's reputation, potentially deterring future bookings by celebrities, corporate clients, or high-net-worth individuals who prioritize security and privacy. Consider a scenario where global superstar Taylor Swift attends a Kansas City Chiefs game. Given her high-profile status, any security failure, such as an unauthorized individual breaching the VIP section, could not only lead to legal and financial consequences but also cause significant public backlash, damaging Acadia Field's reputation. Traditional insurance policies often exclude or limit coverage for such high-risk scenarios, leaving venues with little financial protection in the event of security failures.

Captive insurance provides a tailored and comprehensive solution to address these gaps. Unlike traditional policies, which may cap payouts or exclude specific risks, a captive enables Acadia Field to design policies that directly target VIP-related exposures. These policies could cover expenses for real-time threat monitoring systems, increased staffing for VIP security, and liability for data breaches involving high-profile guests. Captive funds can also support investments in state-of-the-art infrastructure, such as access-controlled VIP zones, advanced surveillance systems with facial recognition, and secure transportation arrangements for VIP clients. These measures not only prevent incidents but also reassure VIPs and event organizers that their safety and privacy are a top priority at Acadia Field.

The importance of proactive security planning is underscored by events like the 2017 Manchester Arena bombing. As detailed in "*The Manchester Attack: Assessing Threats to Major Events and Soft Targets*" (TSG, 2017), venues that fail to invest in robust security measures face significant financial losses, reputational harm, and erosion of stakeholder trust. Captive insurance provides the financial flexibility needed to fund critical security initiatives without being constrained by the restrictive terms of traditional insurers. For example, a captive could establish

reserves to cover costs associated with enhanced pre-event risk assessments, crisis simulation exercises, and partnerships with local law enforcement to enable swift and coordinated responses to emerging threats.

Additionally, captives offer long-term advantages by allowing unspent reserves to be reinvested in upgrading security protocols or developing new technologies to address evolving risks. For instance, funds could be used to implement next-generation surveillance technology or to provide ongoing training for security teams on emerging best practices. This adaptability ensures Acadia Field remains at the forefront of venue security, maintaining its appeal to high-profile clients while reducing financial vulnerabilities associated with security failures.

#### *4. Liquor and Food Safety*

Food and beverage services are a vital revenue stream for Acadia Field, but they also carry significant risks, including foodborne illnesses and alcohol-related incidents. Traditional insurance often imposes high premiums for these exposures, as food and alcohol service in large venues involves considerable potential liability. The high volume of patrons, inconsistent vendor practices, and challenges in incident tracking all exacerbate these risks. Alcohol-related claims, such as those involving overserved patrons causing harm or property damage, can further lead to costly legal settlements, driving premiums even higher.

A captive insurance model provides Acadia Field with the flexibility to manage these risks more effectively. By leveraging a captive, the venue can offer coverage discounts to vendors that adhere to stringent safety protocols, such as maintaining proper food storage temperatures, conducting regular equipment cleaning, and training staff in safe food handling practices. These incentives encourage vendors to prioritize safety, reducing the likelihood of costly incidents. Alcohol-serving vendors can also be incentivized to implement responsible



practices, such as requiring bartenders to complete alcohol safety training and utilizing ID verification systems to prevent underage sales.

Captive funds can be directly allocated to support safety initiatives for food and beverage operations. For example, these funds could be used to provide staff training in food safety and responsible alcohol service, ensuring compliance with health codes and regulations. Captives can also cover the cost of regular vendor audits and inspections, which are often neglected due to budget constraints. Such efforts promote accountability and elevate safety standards across all operations. According to Cook (2007) in "*Regulating Supply: Paying the Tab—The Costs and Benefits of Alcohol Control*," venues that implement rigorous food and alcohol safety measures experience a 20% reduction in related claims. This demonstrates the cost-effectiveness of proactive risk management supported by a captive insurance model.

By adopting a captive insurance approach, Acadia Field can reduce the financial and reputational risks associated with food and beverage services. The model enables the venue to establish higher safety standards, incentivize vendor compliance, and foster a safer environment for patrons—all while lowering claims and stabilizing insurance costs.

### **Long-Term Benefits of Captive Insurance**

A captive insurance model offers Acadia Field lasting advantages that go well beyond immediate risk management. By taking control of its own policies, the venue can stabilize insurance costs and mitigate the impact of unpredictable premium hikes. This financial stability provides greater predictability, enabling more effective resource allocation and long-term strategic planning.

Underwriting profits generated through the captive can be **strategically allocated** into meaningful initiatives, such as advanced risk management technologies, specialized staff training, or critical infrastructure upgrades. These investments not only enhance the venue's operational efficiency but also boost its competitiveness in the industry. Additionally, captives build stakeholder confidence by signaling a strong commitment to proactive risk management. Employees, vendors, and patrons gain assurance that their safety and security are prioritized.

Beyond reinvestment, captives also provide financial flexibility by allowing surplus funds to be returned to the parent company through dividends or loan-back arrangements. These mechanisms enable the organization to capture the financial benefits of effective risk management while treating these returns as net profit. This dual advantage—strategic investment and potential profit realization—makes captives a powerful tool for both risk mitigation and financial growth.

Perhaps most importantly, captives provide the flexibility to adapt to emerging challenges, such as cybersecurity threats or shifts in regulatory requirements. Customizable policies ensure that Acadia Field remains agile and prepared, safeguarding its financial health and maintaining its position as an industry leader. This adaptability secures the venue's long-term resilience and reinforces its reputation as a trusted and forward-thinking organization.

## **Conclusion**

Acadia Field's wide range of risks calls for a flexible and innovative solution, and captive insurance provides exactly that. By adopting this model, the venue can address general liability through better crowd management, reduce weather-related disruptions with parametric insurance and reserve funds, enhance VIP security with tailored policies and advanced technologies, and improve food and liquor safety through vendor compliance and staff training. These strategies

not only minimize liability but also ensure smooth operations and protect the venue's reputation as a reliable destination for large-scale events.

Captive insurance also brings long-term benefits that go beyond immediate risk management. Stabilizing premiums, keeping underwriting profits in-house, and reinvesting in safety and infrastructure give Acadia Field a financial edge while building trust with employees, vendors, and patrons. This proactive approach strengthens the venue's role as a leader in risk management and shows a commitment to creating a safe and efficient environment.

As risks continue to evolve—from unpredictable weather to increasing security challenges—a captive insurance model gives Acadia Field the flexibility to adapt quickly. By taking control of its risks and future-proofing its operations, Acadia Field not only navigates current challenges but also stays prepared for what's ahead, maintaining its reputation and delivering exceptional experiences for everyone involved.

## Bibliography:

Picard, Pierre, and Jean Pinquet. "Optimal Risk Financing in Large Corporations through Insurance Captives." *The Geneva Risk and Insurance Review*, vol. 38, no. 1, 2013, pp. 48–86. JSTOR, <http://www.jstor.org/stable/41953535>. Accessed 12 Nov. 2024.

Cook, Philip J. "Regulating Supply." *Paying the Tab: The Costs and Benefits of Alcohol Control*, Princeton University Press, 2007, pp. 148–64. JSTOR, <http://www.jstor.org/stable/j.ctt7shzt.14>. Accessed 13 Nov. 2024.

Kapphan, Ines, et al. "Climate Change, Weather Insurance Design and Hedging Effectiveness." *The Geneva Papers on Risk and Insurance. Issues and Practice*, vol. 37, no. 2, 2012, pp. 286–317. JSTOR, <http://www.jstor.org/stable/41953179>. Accessed 10 Nov. 2024.

TSG. *THE MANCHESTER ATTACK: ASSESSING THREATS TO MAJOR EVENTS AND SOFT TARGETS*. Soufan Group, 2017. JSTOR, <http://www.jstor.org/stable/resrep10781>. Accessed 13 Nov. 2024.

Deloitte. (2023). *2024 Global Insurance Outlook*. Deloitte Insights. Retrieved 13 Nov. 2024 at <https://www2.deloitte.com/us/en/insights/industry/financial-services/financial-services-industry-outlooks/insurance-industry-outlook-2024.html>

Insurance Information Institute. (2023). *U.S. Auto Insurer Claim Payouts Soar Due to Increasing Inflation*. Retrieved November 11, 2024 at <https://www.iii.org/press-release/us-auto-insurer-claim-payouts-soar-due-to-increasing-inflation-092823>

Captive.com. (n.d.). *What is captive insurance? Captive Insurance 101*. Retrieved November 10, 2024, from <https://www.captive.com/captives-101/what-is-captive-insurance>

PwC (2025). "Captive Insurance and Risk Management." PwC, [www.pwc.com/us/en/industries/financial-services/insurance/captive-insurance-and-risk-management.html](http://www.pwc.com/us/en/industries/financial-services/insurance/captive-insurance-and-risk-management.html). Accessed 6 Feb. 2025.