

CICA Releases Results of 2013 Market Study

Palm Springs, March 12, 2013 – A summary of the results of the annual survey conducted by the Captive Insurance Companies Association (CICA) was discussed today at CICA's 2013 International Conference in Palm Springs, California. The 2013 CICA survey, previously known as the "Fronting Survey", was renamed the "Market Study" because it has evolved from just a fronting survey to address a number of market topics, including reinsurance and employee benefits.

Survey Methodology: The survey was drafted and approved by a CICA committee and was conducted by the independent consulting firm of Veris Consulting, LLC, of Reston, VA. Participants were solicited through communications from CICA and through the collaborative efforts of a number of captive domicile trade associations. All participants were guaranteed anonymity and the results were compiled by Veris Consulting without identifying any of the participants.

Overview: A majority of respondents represented single parent captives (63%), followed by segregated cell captives (17%), risk retention groups (13%), association captives (6%) and agency captives (1%). 79% of respondents reported being domiciled in a US jurisdiction, with 21% domiciled off-shore. 51% of respondents have been in existence for 10 or more years, 29% in existence for 6-10 years, 14% in existence for 1-5 years, and 6% in existence for less than one year.

Disclaimer: *This summary, of necessity, covers only a small portion of the total survey results. Full survey results will be made available only to CICA members on the CICA website (www.CICAworld.com) as a benefit of membership. These results are based entirely on the information provided by respondents to the survey, who may or may not reflect a statistically accurate sample of the captive industry. Survey findings are also subject to interpretation and these results should not be used to predict future events or influence underwriting or marketing decisions.*

Market Survey Objectives

- Track the use of fronting and the purchase of reinsurance by captive owners.
- Identify the current fronting companies and reinsurers serving the captive insurance industry.
- Determine the overall value of fronting and reinsurance to captive owners.
- Understand the challenges faced by captive owners.

Key Findings

- Exactly half of this year's survey participants reported using a fronting company as part of their captive insurance program. The increase in utilization over the prior two surveys is attributed to the increase in participants whose captives are new (< 1 year in existence) as well as the increase in participants who utilize fronting selectively. Nearly two-thirds of this year's participants reported using fronting only for covers where the benefit of rated, admitted paper, or another compelling reason, outweighed the cost.
- Whether a conscious proactive marketing strategy by fronting carriers, or the result of customer demand, the survey participants reported using four companies, albeit to differing degrees, to meet both their property casualty and employee benefits fronting needs.
- Slight degrees of dissatisfaction, in relation to relative importance, with fronting carrier policy issuance turnaround time, regulatory premium tax compliance and policy language autonomy were reported by the survey participants. Nonetheless, 97% of the participants perceive the value of their fronting relationship as excellent or moderate and 87.9% perceive the price as reasonable or

inexpensive. The survey participants who use fronting report being generally satisfied with their carrier relationships.

- For the majority of survey participants, fronting costs remained unchanged over the prior year, with some reporting modest increases of less than 5%. The survey participants attributed the increases to tighter insurance market conditions, increased reinsurance costs at fronting carriers and the minimum charges established by carriers for fronting services.
- The tighter market conditions mentioned with respect to fronting were more pronounced for those survey participants that purchase reinsurance, where nearly 50% of them experienced some increase in costs over the prior year. Most of these survey participants reported marketing their program, increasing the retention in their captive or raising the attachment point for their reinsurance program as strategies used to mitigate some of the cost increases.
- Slightly more than a quarter of the survey participants reported that they marketed some portion of their captive insurance program this year. Most survey participants reported that they determined when to market their fronting programs on a reactive (service issues, price increases, changes in personnel, etc.) rather than proactive (good governance) basis.
- The three biggest challenges in owning a captive, as reported by the survey participants, are retention/growth/expanded utilization (20.6%); regulatory issues, including Dodd Frank/NRRA and Solvency II (17.6%); and collateral (11.8%). These challenges make perfect sense given the continued lackluster economy, the current myriad of international, federal and state regulatory issues, and the ongoing tight lending environment due to current monetary policy. There was, however, an inkling of expanded utilization; a few survey participants reported cyber liability, a current hot topic in risk management circles, as an “other coverage” being placed in their captives, most likely because of a lack of availability in the commercial insurance market.
- Placing employee benefits coverage in their captives continues to be an area of exploration for the survey participants with 25% reporting that they will likely or possibly place medical stop loss in their captive in the next three years; 22.1% reporting that they will likely or possibly place disability benefits in their captive in the next three years; and 20.6% reporting that they will likely or possibly place accident & health in their captive in the next three years. The fact that medical stop loss topped the list is not surprising given the continued uncertainty surrounding the implementation of the Patient Protection and Affordable Care Act.

Summary: A summary of the 2013 CICA Market Study can be found on the CICA website.

Full Report: CICA members can access the full, compiled results, including open-ended responses and a breakout for single parent captives on the “Members Only” section of the CICA website: www.CICAworld.com. The full report will be available for purchase by non-members for \$50.

Acknowledgment: CICA would like to thank Great American Alternative Markets and Willis Captive Consulting for their generous financial contributions which provided significant underwriting for the out-of-pocket costs of conducting this year’s market study.

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