

THE CAPTIVE INSURANCE OPPORTUNITY

Most corporate buyers of insurance have heard the terms “Captive Insurance” or “Captive Insurance Program”. However many business owners, including Dunkin’ Donuts franchisees, may have differing levels of understanding of this concept. The goal of this article is to help all Dunkin’ franchisees gain clarity on the subject of captive insurance programs and provide basic knowledge on just how a captive program could benefit their business performance and profitability.

WHAT IS A CAPTIVE?

A captive is an insurance company created and wholly owned by one or more non-insurance companies to insure the risks of its owners (example: a group of Dunkin’ franchisees could form a captive). Captives are a form of self-insurance (with full reinsurance protection) whereby the insurer is owned wholly by the insureds. They are typically established to meet the risk management and insurance needs of the owners or members.

A main reason many businesses form a captive program: to earn underwriting profits and investment income based on their individual company’s performance. Because members have the potential to earn underwriting profits and investment income, participation in a captive insurance program can turn the insurance expense line of your P&L into a profit source.

HISTORY OF CAPTIVES

The term “captive” was coined by Fred Reiss, known as the father of captive insurance, when he formed American Risk Management in 1958. During this time, US regulations made it too expensive to form and operate captives in the United States. Bermuda ultimately assisted Mr. Reiss in forming the first modern day captive in 1962. By the end of the 1960’s there were over 100 captives formed, with Bermuda and the Cayman Islands being the leading domiciles.

By 1978 Bermuda became the first country to formally establish the captive industry with comprehensive legislation, licensing and oversight procedures. The growth trend continued and by the 1980’s there were about 1,000 captives, operating mostly outside of the US.

Today there are over 7,000 captives operating in the world with more than \$10 billion in annual premiums. Bermuda is still the largest domicile, with over 900 captives. However, there are now over 2,000 captives domiciled in over 30 states in the United States.

The tremendous growth in captives domiciled both in the US and worldwide can be seen in both large organizations (over 90% of Fortune 500 companies own captives) and mid-sized companies (Group Captives, which insure mid-sized companies are the fastest growing segment of the captive marketplace).

A SUCCESS STORY: THE RESTAURANT FRANCHISE CAPTIVE PROGRAM

The Restaurant Franchise Captive Program (RFCP), an exclusive program of York Risk Services Group, is an excellent example of a group captive that was formed for the benefit of restaurant franchisees. This program began in the midst of California’s ‘hard market’ in 2004, at a time when workers’ compensation insurance rates were skyrocketing, forcing many employers out of business.

Two franchisees - one a Carl’s Jr. and the other a Denny’s - partnered to start the RFCP and began writing insurance business on July 1, 2004. The primary goal of this venture was to gain control of their own insurance costs. By getting access to and embracing claims management and safety services, they were able to drive the cost of their workers’ compensation, general liability and property insurance to the lowest possible level.

Now, after almost 11 completed program years the RFCP has been phenomenally successful in delivering:

- A successful, growing captive insurance program with over \$15 million in annual premiums
- Underwriting returns to members of \$10.4 million to-date
- Historical loss ratios of 30% compared to 55-60% industry norms (this is the ratio of claims costs to premiums paid – so lower is better!)
- Over 1,500 locations in over 30 states
- Over 20 restaurant brands insured in the program

A CAPTIVE PROGRAM THAT EXCEEDED ALL EXPECTATIONS

The RFCP program has more than exceeded the expectations of the members when formed back in 2004. As a result of member efforts working with their program manager and broker to manage claims and safety issues, they've received millions of dollars in underwriting profits that went right to their companies' bottom line, increasing overall profitability.

The RFCP members have literally turned what was a business expense into a profit center. As stated by one of the founding members of the program: "Getting into the RFCP was one of the best decisions I've made as a business owner. I have been in the program since its start in 2004, and the RFCP has done more to enhance my profitability than any other single thing I could have done."

A CAPTIVE INSURANCE PROGRAM - BENEFITS TO YOU

Captives are the fastest growing segment of the commercial insurance marketplace. Why? As illustrated in the RFCP example above, these kinds of programs can bring tremendous benefits to operators of restaurant franchises like Dunkin' Donuts, such as:

- **Underwriting Profits** that directly enhance your company's profitability
- A **market-competitive** insurance rate
- **Superior Safety and Claims Management Services** that reduce your claims frequency and drive costs to the lowest possible level
- **Comprehensive coverage** designed to meet the insurance requirements of your franchisor (for Workers' Compensation, General Liability, Property & Auto Coverage)
- Full insurance and **reinsurance protection** from an "A" Rated insurance carrier
- **Greater control and say** in how your claims are managed
- The **lowest net cost for insurance**, which gives you a competitive advantage in the franchisee marketplace

I hope now, with a little more knowledge about captive insurance programs, you're in a better position to decide if a captive is something that might be a good fit for your company and meet your business and insurance needs. If the answer is 'yes', we encourage you to learn more. For many franchisees, a captive program can offer a much greater degree of control over insurance costs and be the single biggest profit opportunity your company may have.

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