Captive Insurance FAQs

Captive insurance is a complex topic, and there are several common questions that frequently come up when discussing it. Here are ten of the most frequently asked questions about captive insurance:

1. What is captive insurance?
- Captive insurance is a form of self-insurance where a company creates its own insurance company (captive) to cover its risks rather than purchasing traditional insurance from third-party insurers.

2. Why would a company choose captive insurance?
- Companies often choose captive insurance to gain more control over their insurance programs, potentially reduce costs, customize coverage, and access reinsurance markets.

3. What types of risks can be covered by a captive insurance company?
- Captive insurance can cover a wide range of risks, including property and casualty risks, product liability, employee benefits, and even unique or hard-to-insure risks specific to a particular industry.

4. How does a captive insurance company operate?
- Captives typically collect premiums from the parent company and pay claims when necessary. They may also purchase reinsurance to spread risk further and ensure financial stability.

5. What are the different types of captives?
- There are various types of captives, including single-parent captives, group captives, rent-a-captives, and cell captives, each with its own structure and purpose.

6. What regulatory requirements apply to captive insurance companies?
- Captives are subject to regulatory oversight, and the specific requirements vary depending on the domicile in which they are established. Common domiciles for captives include Bermuda, the Cayman Islands, and Vermont.

7. Are there tax benefits to using a captive insurance company?
- Captives can provide potential tax benefits, such as deductions for premiums paid, but the tax implications vary by jurisdiction and the specific structure of the captive.

8. How can a company determine if a captive is a good fit for its insurance needs?
- Deciding whether a captive is suitable involves a thorough risk assessment, financial analysis, and legal considerations. Companies often seek the advice of captive insurance experts.

9. What are the risks associated with captive insurance?
- While captives offer advantages, they also carry risks, including underestimating insurance needs, regulatory compliance issues, and financial challenges if not properly managed.

10. Can captives be used in conjunction with traditional insurance?
- Yes, many companies use captives alongside traditional insurance to create a hybrid risk management strategy that combines the benefits of both approaches.

It's essential for businesses considering captive insurance to conduct a comprehensive evaluation and seek professional advice to determine if it aligns with their specific needs and objectives.

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