**Captives: embracing the new**

By AXA Insurance; November 05, 2020

As the world heads into another uncertain few months, risk managers are expecting a challenging time at their upcoming insurance and reinsurance renewals. Many are considering expanding the use of existing captives or setting up new ones to mitigate the effects of a changing insurance market, as well as their own shifting risk profiles.

Even before the global COVID-19 pandemic, we were frequently hearing that risk managers were thinking about putting more risk – both in terms of volume and lines of business – into captive programs. And in this new and unprecedented environment, these considerations have become even more pertinent.

The pandemic, and its macro and micro-economic effects, has contributed to a hardening of rates and tightening of terms and conditions that was already being seen in the traditional market. It also has highlighted to many companies that they were not adequately covered for this type of event. In addition, many clients have been exploring ways to transfer other emerging and difficult-to-place risks.

Captives can offer a degree of pricing stability and also an efficient way to cover unusual or emerging risks. And the data that captives can accrue about some of these non-traditional risks can be hugely useful in identifying areas where practices can be changed to better manage risks and where terms and conditions can be refined to more closely meet the exposure.

Another benefit to clients in self-insuring a portion of their risks in a captive is that it demonstrates to the insurance market that the two parties’ interests are aligned; it shows that the client is committed to managing the risk and reducing their exposure. This makes the client a much more appealing prospect to the insurance market and can result in them receiving beneficial treatment with regards to rates and terms and conditions.

A captive can also give the risk manager a greater degree of transparency of their own costs – a valuable tool for them in their discussions with their C-Suite and Treasury teams.

**Increased interest**

Even before the global pandemic crisis began to take effect, many of our clients had been expanding the use of their captives alongside traditional insurance and reinsurance programs.

There are several reasons for this increased use of, and interest in, captives. For example, the more risks written within a captive, the more premium is available should a large, unexpected loss occur. Also, the diversification benefits of writing more business lines within a captive have also fueled interest in expanding captives. Diversification offers not only risk management advantages but can also result in less stringent capital requirements for those captive vehicles that fall under the scope of Solvency II.

As clients face evolving and emerging risks, we ‘ve seen them exploring new ways to transfer and manage these exposures using their captives. For example, we’ve worked with colleagues at AXA Climate to devise parametric solutions for some of our clients’ risks.

**Communication and transparency**

As clients seek to use their captives more, transparency and communication will be key to their success.

Clear communication between all the stakeholders – including client, broker, advisors, captive manager, and fronting insurer – can help to ensure that the best possible solution is found to the client’s risk.

Communication and coordination between all the stakeholders also helps to improve transparency and ensure that the governance of captives is robust. In addition, insurers can give the risk manager a realistic view of pricing and provide quality claims management.

The COVID-19 pandemic has brought with it restrictions on the movement of people and changes to how we all work, communicate and “meet.” But it’s still vitally important for captive owners to find ways to share knowledge and ideas with peers.

Virtual events and discussion forums can give risk managers valuable insights into trends and challenges. Workshops, surveys, and reports can help to inform decision making, and arm risk managers with fodder for all-important talks with the C-Suite.

Even though we might not all be able to meet in person for some time, it’s important to keep talking as many captives move into new and exciting phases of their development.