SIIA CAPTIVE SURVEY SHOWS STEADY INDUSTRY GROWTH

Written By Caroline McDonald

The 2024 SIIA Captive Industry Survey & Trend Report by the Self-Insurance Industry of America, Inc., continues to show consistent growth and a positive outlook for the captive industry.

This year 40 individual captive companies, service providers, brokers and owners – up from 30 last year – provided feedback on important topics in the world of captives.

The survey was divided into three areas: general industry trends, SIIA activities, and captive and policy owners.

Anthony Murrello, government relations manager at SIIA, explained that "the captive committee has really focused on using the survey to gather data that reliably shows year-over-year trends." The best way to do this, he said, is "consistency in the survey, both in the questions being asked and the respondent pool." Now that the current survey format has been in use for several years, "we are beginning to see some of these market trends take shape. Some trend results confirmed previously held beliefs, while some were eye-opening," Murrello said.

Simon Kilpatrick, president at Captivedge LLC, who heads the captive survey working group, noted, "For me, the standout trend is continued growth. Everyone is bullish about captives. The average last year was nine out of 10 were very bullish and this year it's also nine out of 10, and interest in captives will continue for a while, no sign of it waning."

SURVEY STANDOUTS

What stood out, Murrello said, were the responses to the captive client growth question. "Over the last few years, the results showed marginal year-over-year increases in the average number of captive clients being served by their organization," he said. "However, this past year saw a huge increase, nearly doubling the previous year's total."

Murrello said that he particularly noticed this year that staffing and hiring were down. "Considering the majority of survey responses and industry sentiment indicates growth, it is interesting that hiring would be down," he said. "This year 64% of respondents reported staff hirings in 2023, down from 74% the previous year," he noted. "This is the first time in the last 3 years that the response to the question, 'have you hired staff?' decreased from the previous year."

On the other hand, "There is still a high demand for workers, and unemployment is historically low, and that is not unique to this industry," said George Belokas, president at GPW and Associates, Inc.

CAPTIVE FORMATIONS

"A common trend with captives is that they continue to be in vogue," Kilpatrick said. "The interest in captives and the new

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formations has been high, and that is continuing. So those in the captive industry and those that use captives are doing well."

He also observed that "We are seeing a lot more captives being formed than being closed. Closures are slowing down."

What's more, Kilpatrick added, "Captives are growing across the board, from single-parent to rent-a-captive cells to joint group captives. Every mode is being utilized."

EMERGING RISKS

This year, property stood out as an emerging risk, Belokas said.

"From a client standpoint, what I've seen is that we have a lot of clients struggling with their property insurance."

In some catastrophe-prone areas, he added, many property policies are not being renewed, or their rates are substantially higher. "They are struggling to get flood or wind and hail coverage at all, at any rate. We've been working with clients to develop more unique solutions using captive insurance to either layer into a property program or somehow leverage them to participate in the risk," he said.

"From an emerging risk standpoint," Belokas said, "I would say that was somewhat expected, but certainly a shift from what we've seen in past surveys."

Kilpatrick noted that one of the changes is that property has become a bigger concern than cyber. "Cyber is less of a concern because the traditional industry has finally created solutions for cyber."

There is also "a problem insuring property in the commercial market – property in general," Kilpatrick said. "There are natural disasters – fires and floods, things are more extreme environmentally than they used to be."

Also, he added, "A hurricane in Florida doesn't just affect Florida rates. The way insurance works is that they reinsure globally, so everyone feels the pain if there is a large hurricane or fire."

The hope is that "a captive can come in and maybe share that risk with the commercial market. Maybe use the captive for the small stuff – on a million-dollar property, maybe the captive covers the first $100,000 - $200,000 to cover the small fire or small damage," Kilpatrick said. "Then still buy insurance to cover catastrophic damage."

INFLATION

While not a major concern, "Inflation is happening all around us, at the grocery store, in insurance purchasing and in captive insurance," Belokas said. "As inflation happens and exposure bases go up, and as premiums go up in commercial markets, people might be more willing to put that risk into the captive at the higher premium rate because now they are getting more premium for the coverage being provided."

Inflation is in its own category, he said. For example, "If you're using payroll as an exposure base for pricing workers' compensation insurance, and inflation is causing payroll to go up, you have the same number of employees, but you are having to pay them more because it's more expensive for them to live." The reason, he said, is that "workers' compensation premium is a rate per $100 of payroll."

And later when claims happen, Belokas added, "Not only are you having to cover that higher payroll for workers' comp, but if they've got to seek medical care, medical inflation is right alongside the inflation we're seeing everywhere else. So, it's causing claims to be more expensive and as a result, it's causing premiums to rise."

SERVICE PROVIDER REPORTS

This year's survey is the first one reaching out to brokers specifically, Kilpatrick said. "All the brokers that use them expect captives to continue to be interesting and for demand to continue over the next five years," he said.

Although he had previously believed that those brokers that didn't do captives "didn't do so because they were not being compensated. That did not come across in the survey."

The majority of brokers in the survey, Kilpatrick explained, "said they think captives could help their clients, they just weren't sure how to get involved or learn about captives in a way that they could present them to clients."

The takeaway, he said, "is that people need to get educated. SIIA has a wealth of information and a library with resources – discussion papers, articles, short videos of interviews and things available on the website for anyone interested."

Murrello noted that SIIA and its captive committee "remain actively involved in advocacy and education for its members and the broader captive industry." He added that SIIA "works to develop and release materials such as resource documents, presentations, and webinars in order to keep administrators and participants updated on a consistent basis."

Additionally, "SIIA's staff works to maintain constant communications with industry leaders and stakeholders and are always available to answer questions and/or discuss the latest updates concerning the captive Industry," Murrello said.

SURVEY HIGHLIGHTS

• **Captive Formations Again Outpacing Closures** For the fourth year in a row, captive formations have significantly outpaced closures. Survey respondents reported an average of nearly 3 new captive formations for every 1 captive closure per respondent in 2023. This was slightly down from last year's survey when respondents reported an average of 4 new captive formations for every 1 captive closure.

• **Group Captive Formation** 38% of respondents reported cell captives as the captive structure most formed in 2023, with group and single-parent captives coming in a close second at 29%. This is the third straight year in which respondents have selected a different structure as the most formed (Group in 2022, Single Parent in 2021).

• **Captive Client Growth** The average respondent reported 548 captive clients being served by their organization in 2023. This is a large increase from last year's survey, which reported an average of 206 clients served, as well as 2021 which reported 137 served. The total number of captive clients served by all respondents in this year's survey was 7,665. This is a significant increase from last year's total of 5,377.

• **Broker Insight** The majority of brokers (without Captives) reported they believe offering captive insurance could enhance relationships with clients. ■

Caroline McDonald is an award-winning journalist who has reported on a wide variety of insurance topics. Her beat includes in-depth coverage of risk management and captives.