Spotlight on **Captives** 2025

Embracing Opportunity, Taking Control

BROUGHT TO YOU BY

Commercial Risk
Insurance & Risk Management News

GlobalRiskManager
MULTINATIONAL & SPECIALTY INSURANCE PERSPECTIVES

PARTNERED BY

ZURICH

ZURICH

Zurich Captives
Your risk. Our global strength.

Organizations are facing ever-greater global risks and volatile markets.

A solid risk management strategy is crucial to ensure your company and people are well protected and prepared.

Captives and risk financing are powerful solutions to help you manage risk successfully.

Click here for further information on Zurich Captives

Commercial Risk
Insurance & Risk Management News

Spotlight on Captives: Embracing Opportunity, Taking Control

The world in 2025 is marked by rising complexity. Heightened geopolitical tensions, climate risk, and societal divisions are reshaping the world we operate in.

The World Economic Forum's *Global Risks Report 2025* paints a stark picture of the decade ahead, warning of a "bleak outlook across all three-time horizons". Extreme weather events, armed conflicts, misinformation and supply chain disruptions are converging to create an environment of uncertainty – one in which resilience is not optional but essential.

Given this context, captives have never been more vital. They provide organisations with the ability to take control, stabilise volatility and respond with agility to shocks that the traditional insurance market is struggling to absorb. Our *Captive Spotlight Report* explores how captives are being used to do exactly that: financing climate adaptation, incubating emerging risks, and aligning with ESG goals.

This year, we highlight multinational property programmes, the growth of cell captives and the powerful role captives are playing in funding employee benefits and well-being initiatives. We explore how market pressures are accelerating the adoption of group captives, and how more organisations are expanding into third-party business.

Captives are no longer just alternative risk transfer vehicles. They are tools of strategic foresight, designed to help businesses anticipate risk, build resilience, and create value in a volatile world.

As a global leader, we are proud to stand at the forefront of this transformation – partnering with organisations to rethink the narrative of risk and use captives as platforms for long-term stability, innovation, and growth. The future of risk management will belong to those who can see around corners, act decisively and build systems that endure. Captives are one of the most powerful tools to make that future possible.

Let's shape that future – together.

By Adriana Scherzinger
Group head of captives
Zurich Insurance Company

IN THIS REPORT

COMMERCIAL RISK PROJECT TEAM

Tony Dowding, editor, *Global Risk Manager*
tdowding@commercialriskonline.com

Andrew Ryan, head of production
aryan@commercialriskonline.com

Annabel White, head of events, operations
awhite@commercialriskonline.com

Stewart Brown, managing director
sbrown@commercialriskonline.com

ADDRESS

Commercial Risk, Unit 5
Parsonage Farm Business Centre
Ticehurst, East Sussex, TN5 7DL, UK

MEMBER: Beacon International Group, Ltd.

The global risk landscape

Captives vital tool to manage uncertainty and provide control

The global risk landscape in 2025 is marked by heightened geopolitical tensions, a global trade war, climate risk and societal divisions.

There are also growing concerns over misinformation and disinformation, the role of AI, cyber risks, armed conflicts and supply chain disruption. All of these risks are becoming increasingly interconnected, leading to instability, uncertainty and disruption.

These risks are highlighted in the World Economic Forum's *Global Risks Report 2025*, which sees extreme weather events and geopolitical instability as risks of most concern.

The report, which draws on the views of over 900 global risk experts, policy-makers and industry leaders, paints a "stark picture" of the decade ahead, and talks of a "bleak outlook across all three time horizons – current, short term and long term". Nearly two-thirds of respondents anticipate a turbulent or stormy global landscape by 2035, driven in particular by intensifying environmental, technological and societal challenges.

"From conflicts to climate change, we are facing interconnected crises that demand coordinated, collective action," says Mark Elsner, head of the Global Risks Initiative at WEF. "Renewed efforts to rebuild trust and foster cooperation are urgently needed. The consequences of inaction could be felt for generations to come," he says.

State-based armed conflict is the most pressing immediate global risk for 2025, with nearly a quarter of respondents ranking it as the most severe concern for the year ahead. Extreme weather events, geo-economic confrontation, misinformation and disinformation, societal polarisation and economic downturn completed the top six.

Complexity

The interconnected nature of the risks, ongoing uncertainty, rapid advancement of technology plus increasing severity and frequency of events, continue to add complexity to the risk landscape, according to Penny Seach, group chief underwriting officer at Zurich Insurance Company. She says risk takers are spending more time now than ever thinking through the interplay of these risks and modelling scenarios to understand vulnerabilities and possible impact.

Seach sees three main areas where global risks are increasing most significantly:

- Geopolitical Risks: Unsurprisingly, state-based armed conflict or war, together with the uncertain impact on global trade resulting from trade tariffs, will continue to dominate the risk landscape in 2025.

Penny Seach, group chief underwriting officer at Zurich Insurance Company, says risk takers are spending more time now than ever thinking through the interplay of these risks and modelling scenarios to understand vulnerabilities and possible impact

• **Environmental Risks:** Environmental threats dominate the long-term risk outlook. These include extreme weather events, biodiversity loss, ecosystem collapse and pollution. Climate-related disasters are not only more frequent but also more severe, posing direct threats to human health, food security and economic stability.

• **Societal and Technological Risks:** Misinformation and disinformation continue to be top short-term risks, undermining trust in institutions and fuelling societal polarisation. Additionally, cyber-espionage, cyber-warfare, and potential unintended consequences of artificial intelligence are emerging as critical technological threats. These risks are deeply interconnected with societal vulnerabilities, such as inequality and civic unrest.

WTW's *Emerging and Interconnected Risks* survey highlights just how wide the risk agenda has become. It states: "There are no surprises in the list of emerging risks shared – the surprise was that organisations see everything as an emerging risk. None of the risks occur in isolation; organisations need to move away from a siloed approach to risk and rethink the narrative of risk."

Peter Carter, head of climate practice & head of captive & insurance management solutions, WTW, says: "Just half of respondents felt prepared for today's risks, climbing to 80% unprepared for the world in ten years' time. With asset values and protection gaps growing, that leaves capital exposed. As traditional insurance struggles to keep pace, seven in ten respondents were not confident they have access to insurance and risk transfer solutions. Against that context, captives can offer flexible, tailored solutions," he says.

Controlling volatility

With such a growing range of global risks and associated volatility, corporates need stability and certainty, as well as the ability to build resilience and adapt to the new norms. For organisations looking to manage their risks, there are also challenges in the insurance markets, with concerns from insurers over nat cat risks, transition risk, social inflation and cyber risk.

In such an economic and market risk landscape, organisations are increasingly exploring alternative risk transfer mechanisms and turning to their captives to help manage and mitigate the risks and provide certainty of cover, some control over the volatility of insurance markets, and the ability to incubate new risks.

Karl DeGiovanni, director of client solutions, EMEA, Aon, says that since 2020, insurers have recalibrated their business models to ensure profitability, becoming more selective in the risks they underwrite. While the risk landscape remains complex and volatile, capacity has returned to the market, and most lines are now in a softer phase of the cycle.

However, he believes that even as pricing stabilises and capacity increases, captives remain a core tool in risk management strategies. "Many organisations now better understand how premiums, deductibles and retentions impact their balance sheets and are more confident in retaining risk, aided by improved data and analytics. This has led to an increased use of captives and parametric solutions."

Capacity in the primary insurance market has disappeared entirely for certain risks in some geographies, says DeGiovanni. For example, wildfire exposure has seen significant insurer pullback due to heavy losses, forcing some companies to reduce or forgo coverage.

Aon data shows a 114% rise in captives writing environmental liability in 2023, driven largely by the natural resources sector. Similarly, as medical insurance costs surge, multinationals are exploring captives to fund wellbeing initiatives.

Risk managers value captives

While hard markets drive captive formations to an extent, the value of existing captives continues despite softening prices in the traditional market. The president of Belgian risk management association Belrim, and head of insurance and risk at Umicore, Bart Smets, speaking at *Commercial Risk's* Risk Frontiers Benelux 2025 Conference, said that a lot of companies will continue to utilise captives, even if the market softens significantly, because they have proved their value.

He explained that Umicore has added more lines to the captive over the last few years and is looking to add more risks and increase retention levels yet again, to further reduce insurance spend.

The captive value is also about retention strategies and managing deductibles. Oliver Wild, president of Amrae and chief risk, insurance and compliance officer at the water and energy utility Veolia, stresses that companies with an operational captive in place have a stronger negotiating hand when it comes to insurance deductibles.

Speaking as part of *Commercial Risk's* Risk Frontiers Europe survey of leading risk managers, he says: "Better rates are definitely the key to the battle in future renewals. If a company has a captive and a good risk management strategy, deductibles are not really the issue."

"Many organisations now better understand how premiums, deductibles and retentions impact their balance sheets and are more confident in retaining risk, aided by improved data and analytics. This has led to an increased use of captives and parametric solutions"

Karl DeGiovanni, director of client solutions, EMEA, Aon

Wild continues: "Also, using deductibles with your operational people on the ground makes them more sensitive and better aware of the risk. Taking your share of your risk at a local level is part of the risk management strategy. The captive can mutualise risks across several operational sites, and then the rest can be transferred to the market. To have the right risk culture, everyone must have skin in the game… They make companies smarter in their dialogue with the market."

Ludovic Jung, group head of risk and insurance at Naval, which set up a captive in France in 2023, told the survey: "The captive works as a shock absorber. We operate with a long-term perspective. Our construction works take several years to be completed, so we need to have visibility with our insurers. With the captive, we offer them that visibility."

Jung added: "We have seen the impact of huge ups and downs in the market that made our insurance budgets hardly viable. We needed to find a vehicle that enabled us to cushion that. The captive is, in that sense, a tool that maintains the sustainability of our insurance plans."

Captive landscape

It is estimated by EY that captives now represent nearly 25% of the overall commercial insurance market (E&Y's *2024 Global Insurance Outlook* report).

Last year was described by US captive consulting firm Captive Insure as a milestone for captive insurance growth, with significant expansion across the industry. According to Captive Insure, captive formations significantly outpaced closures for the fourth consecutive year, with an average of nearly three new captive formations for every closure.

Marsh saw 92 new captives last year, with gross premiums up by nearly 6% from $73bn to $77bn, according to the Marsh *Captive Solutions 2025 benchmarking report*.

Alongside the growth in new captives comes increasing premium volume. Gross written premium in Marsh-managed captives increased 6% in 2024, to $77bn. Marsh highlighted four premium growth areas:

- Property, (+10% from 2023);
- Workers comp, (+11%);
- Auto liability, (+80%);
- Excess liability, (+24%).

Additionally, Marsh data shows that third-party risks increased by double digits.

Robert Geraghty, international sales and consulting leader, Marsh Captive Solutions, said they are not seeing any slowdown in terms of growth, both in terms of new setups and in the utilisation of current captives, driven by companies who are taking on more retention and more risk.

He added that for the last several years, captives have taken on more exposure and higher limits, especially for excess liability, cyber and property, and this trend is expected to continue. Marsh data shows a lot of companies adding new lines of business like employee benefits and new risks such as cyber, supply chain, political risk, trade credit and D&O to captives.

"We have seen the impact of huge ups and downs in the market that made our insurance budgets hardly viable. We needed to find a vehicle that enabled us to cushion that. The captive is, in that sense, a tool that maintains the sustainability of our insurance plans"

Ludovic Jung, group head of risk and insurance at Naval

Airmic survey

The value of captives, and the important role they play in risk financing, is highlighted in Airmic's 2025 captives survey, which finds that captives are a valued and trusted risk financing tool for UK companies. The *Airmic member survey* finds UK firms spend more than an estimated £5.1bn in annual premium through their captives, and hold more than £22.6bn in assets under management in captives domiciled around the world.

More than a quarter of respondents write between £2m and £5m in annual premium through their captives, while 17% write more than £50m. The survey notes that almost half of Airmic captive owners have a 'captive first' policy, where the captive is the default option to insure group risks.

"A captive-first approach allows insureds to centralise and concentrate the risk financing strategy of the group, and then assess whether to put in place reinsurance structures, quota share arrangements or utilise the commercial market in other ways to support the captive's involvement," explains Airmic.

Among those who do not currently own a captive, 72% said their organisation is currently exploring the possibility of forming a captive now or in the future. And 31% of Airmic respondents that currently utilise a captive say their organisation owns more than one.

Captive stats

According to *Business Insurance's Captive Managers and Domiciles Rankings + Directory 2025*, the total number of captives worldwide grew from 6,179 in 2023 to 6,290 in 2024, not including microcaptives, series captives or individual cells of cell members in protected cell companies. US domiciles tended to add more captives than their European counterparts in 2024.

Captive locations (2025)

US	55.1% (3,466)
North American Offshore	29.8% (1,874)
Europe	10.9% (683)
Asia Pacific	3.4% (212)
Canada	0.8% (48)
Africa	0.1% (7)

Source: Business Insurance survey

The *Business Insurance* report reveals that captive formations increased again last year despite the slowdown in some commercial insurance rates, with owners making broad use of the alternative risk transfer vehicles as they sought to control costs and manage risks strategically across their organisations.

Property exposures remained a growth driver despite stabilising insurance pricing, as weather-related claims made insurers more selective about risks. Captives also wrote an increasing volume of liability lines as owners restructured their risk management programs to address rising jury awards. And the rising cost of healthcare led more businesses to integrate employee benefits into captives, often using cell structures to fund medical stop-loss exposures.

The total number of captives worldwide increased 1.8% to 6,290. Growth varied among domiciles, with US domiciles generally adding more captives than their European counterparts.

Domicile Ranking

Rank	Domicile	2024	2023
1	Vermont	683	659
2	Cayman Islands	670	658 i
3	Bermuda	631 i	633 i
4	Utah	462	439
5	North Carolina	293	311
6	Delaware	285	283 ii
7	Barbados	273	261 ii
8	Hawaii	272	263
9	South Carolina	231	221
10	Arizona	201	176

i From website ii Restated

Source: Business Insurance survey

New domiciless

Much of the growth in captives in recent times has been seen in the US, where many states have become leading captive domiciles. Indeed, around 55% of the world's captives are based in the US, according to *Business Insurance*, with more than 30 US states acting as captive domiciles.

European captives saw little growth in 2024 in terms of numbers of new captives, but the success story of the captive sector in recent times in terms of domiciles has been France, which now has around 19 captives since adopting captive legislation in 2023. Italy has started granting captive licenses, and Germany, Netherlands and Spain are thought to be considering captive legislation.

It is clear that as the global risk landscape continues to become more volatile and complex, and risks such as cyber and climate become increasingly challenging, more and more organisations are turning to captive solutions

Top European Captive Domiciles

Rank	Domicile	2024	2023
1	Guernsey	197i	204 i ii
2	Luxembourg	197	195
3	Isle of Man	95	98
4	Dublin	61	63
5	Sweden	30	28

i From website ii Restated

Source: Business Insurance survey

There are hopes that the success of France will be replicated in the UK following the announcement in July this year that a captive regime is to be introduced, with new rules planned for 2027. The UK government said it will introduce a "dedicated, competitive framework for captive insurance in the UK" that balances speed of "implementation with quality".

The UK government said the idea is to allow a wider range of firms to establish captives and permit a broader set of risks to be insured through the vehicles than originally foreseen. Aon has already established a captive management company in the UK in preparation for the new rules.

It is clear that as the global risk landscape continues to become more volatile and complex, and risks such as cyber and climate become increasingly challenging, more and more organisations are turning to captive solutions.

Building resilience to climate risks

Captives' dual role: risk financing and funding loss prevention

Climate risk and extreme weather events are intensifying, disrupting supply chains, increasing insurance costs and exposing businesses to operational and financial losses. Last year was the warmest on record globally, and the first calendar year that the average global temperature exceeded 1.5°C above its pre-industrial level, breaching the Paris Agreement from 2016. Wildfires, flooding, storms and extreme heat are all on the increase.

Economic losses from extreme weather events totalled €45bn in 2023 across 38 countries in Europe, according to analysis by the European Environment Agency, which says accumulated losses since 1980 totalled €790bn. But insurance covered less than half of the cost of damage for most countries, and for 17 countries, including Spain, Italy and Poland, more than 90% of the bill was uninsured between 1980 and 2023.

The annual average loss from global natural catastrophes from 2017 to 2024 has cost insurers $146bn, suggesting a 'new normal' approaching $150bn per year, according to Gallagher Re's 2024 *Natural Catastrophe and Climate Report*.

Tackling a wildfire in California, US

Risk mitigation

It is becoming clear that climate and extreme weather risk is no longer a distant long-term threat but is here now, making the need to implement solutions urgent. This was highlighted in the World Economic Forum's (WEF) latest *Global Risks Report 2025,* in which extreme weather events feature prominently. Such events are ranked as the second-most important risk for 2025, second over the short term (two years), and top risk over the next ten years.

Climate change and extreme weather events impact commercial property but also create greater exposure to companies' supply chains and supplier networks.

All of this is creating a greater impetus for proactive and forward-looking risk mitigation strategies, says Dirk De Nil, global head of Zurich Resilience Solutions, Zurich Insurance Company. These include better protection to infrastructure and facilities and a more strategic view on the development of new sites and partnerships with suppliers.

"Planning and adaptation strategies leveraging climate data and weather models is something more organisations are taking a hard look at to help make better long-term decisions that can positively impact their insurance programmes in the long term," he says.

Risk managers have been urged by Ferma to take climate change into the core of their strategies rather than treating it as a peripheral concern. Its inaugural *NEXT (New EXposure Trends) Report* says that while the urgency of mitigating climate risks is widely acknowledged, the reality of implementing risk management strategies presents significant hurdles.

The report states that climate-related risks represent systemic threats that intersect with economic stability, geopolitical shifts and social structures. "As climate-related disasters increase

Total economic and insured losses ($bn)

	2024	2023	Previous 10-yr average
Economic losses (total)	**328**	**303**	**254**
Natural catastrophes	318	292	242
Man-made catastrophes	10	11	13
Insured losses (total)	**146**	**125**	**108**
Natural catastrophes	137	115	98
Man-made catastrophes	9	10	10

Source: Swiss Re Institute

"Climate change is here, it's now and it's reshaping how companies operate, insure, reinsure and think about resilience. This is exactly where captives can shine"

Adriana Scherzinger, group head of captives at Zurich Insurance Company

in frequency and severity, insurers face mounting losses, potentially leading to reduced coverage availability and higher premiums for buyers. This dynamic creates a systemic risk within a systemic risk, where the financial protection that companies have traditionally relied upon is itself under threat," it states.

Victoria Ohorodnyk, director, AM Best, says that the increase in natural catastrophe loss costs prompted reinsurers to address pricing and terms and conditions in their own enterprise risk management efforts to fortify balance sheets. She adds: "Commercial insureds that had the foresight to establish alternatives such as captives or cells benefited by offsetting some of the capacity costs and constraints for their required risks."

Addressing the challenges

As captives most often participate in multinational property programmes that cover physical damage or loss of corporate assets and business interruption loss from natural catastrophes or severe weather events, many if not most captives are already playing a role in climate risk.

Risk management challenges intensify as traditional insurance market capacity, particularly in the nat cat space, becomes a rare and less affordable commodity, says Andreas Ruof, head of captive value proposition, Zurich Insurance Company.

"This is reflected in the availability of nat cat insurance and exclusions that can lead to protection gaps against more frequent and severe nat cat and severe weather events such as floods, windstorms and wildfires. Captives offer opportunities to strategically address these challenges as they facilitate powerful strategies to tailor programme coverages for climate risk, finance nat cat risk, access reinsurance and alternative risk solutions, and facilitate assessment of climate risk and effective loss prevention," he says.

The captive's role

"The role of captives is no longer just about insurance; it's about enabling business strategy," states Adriana Scherzinger, group head of captives at Zurich Insurance Company, speaking on a webinar hosted by *Commercial Risk* with Zurich Insurance Company on *The Role of Captives in Mitigating Climate Risks.*

"As organisations pivot their business models to adapt to the risks and opportunities associated with climate change, the evolution of captives continues," said Scherzinger. "Climate change is here, it's now and it's reshaping how companies operate, insure, reinsure and think about resilience. This is exactly where captives can shine. They help build flexible solutions, they can support long-term resilience and they have a way to assume risks when the market won't or can't."

There are various ways in which captives can take on these exposures or play a part in their mitigation:

Retentions and cost savings

A captive can enable a company to retain a portion of their climate risk exposures while transferring excess risk to the reinsurance market. This approach can result in cost savings and more effective risk management.

Tailored coverage

Traditional insurers are increasingly withdrawing from high-risk regions, raising premiums and imposing exclusions. Captives can tailor a company's own coverage to address certain critical exposures material to their specific business, and can 'plug' coverage gaps, exclusions, or prohibitive costs in the traditional markets through the provision of broad nat cat coverage. Coverage can also be tailored to cover business interruption and supply chain disruption events, legal and regulatory risk and environmental liability risk.

Financing catastrophic risk

Captives can provide additional capacity excess of traditional insurance layers, especially on nat cat cover for climate risk exposed locations. Captive capacity in a mezzanine layer can serve as a buffer and lift up attachment points of traditional risk transfer layers.

Access to reinsurers

A captive can reinsure its risk with the broader reinsurance market via retrocessions. This can provide additional capacity and access to expert knowledge from reinsurers, the ultimate climate risk takers. In addition, reinsurance markets are often able to support more bespoke covers.

Access to alternative risk transfer

The captive can become the conduit for alternative forms of risk transfer such as parametric solutions, or weather bonds providing extra capacity supported by financial markets. Captives can provide an ideal platform for structuring parametric insurance solutions, which provide payouts quickly on predefined triggers such as wind or rainfall.

> **"Resilience building through a captive solution is an essential element to foster long-term stability and creating a risk mitigation approach across the enterprise"**
> **Dirk De Nil, global head of Zurich Resilience Solutions, Zurich Insurance Company**

Risk mitigation

As captives participate in the increasing risks related to climate change, they can invest significantly into risk mitigation and loss prevention measures, such as climate-resilient infrastructure. For businesses, building resilience and the ability to adapt to the new climate norms is crucial.

Parametric insurance

Weather risks are particularly suited to parametric solutions, which can provide bespoke cover for specific risks such as flooding, hail or wind. Such solutions can provide broader coverage and faster claims. Captives provide an ideal platform for structuring parametric insurance solutions.

Faster payments can help businesses get back up on their feet quickly after a natural disaster, and as Tom Keist, chief commercial officer, SRS Altitude, explained in a webinar earlier this year: "If you have a captive, the last thing you want is complex loss adjustment processes after a nat cat event. You want to provide the service to your parent companies or to your group entities, that provides a reliable and fast remuneration or indemnification against damage they have had to their assets. And with the parametric reinsurance, you have the simplified loss adjustment process because, essentially, there is no loss adjustment."

Building resilience

The captive has a much broader role to play than simply financing the risk. Climate risk impacts property, assets, supply chains, employees and customers. Building resilience and adaptation is crucial. As companies look to mitigate climate risks, and increasingly look at adaptation measures, there is a clear role for captives – they can collect data, provide encouragement and financial incentives for risk improvements, and fund prevention and adaptation measures.

Captives are increasingly used as strategic enablers to manage and mitigate climate change-related commercial risks, says Ruof. Due to the captive's central role in the property and nat cat programme, it can gain access to valuable, good-quality data on claims and loss incidents. Such centrally-pooled data can then be enhanced with relevant external risk data, professionally analysed to provide meaningful risk insights on general and climate-related risk.

The captive is then in a position to initiate climate risk assessments and targeted risk prevention measures to reduce the probability and severity of climate risk-related loss events.

Zurich's De Nil stresses the importance of proactive risk reduction and resilience building and planning short- and long-term mitigation and adaptation strategies. "A captive will bring a strategic planning element through risk engineering specialists that look at and assess key risk factors and build programmes in partnership with the company to address them. Resilience building through a captive solution is an essential element to foster long-term stability and creating a risk mitigation approach across the enterprise," he says.

Captives can be used as strategic finance vehicles to pre-fund resilience projects or to enable immediate response through the self-insurance mechanism during potential supply chain disruptions. For example, offering third-party insurance to suppliers in order to build resilience. Providing coverage to smaller suppliers who may be a crucial part of the captive owner's operations can help them recover and resume operations quickly in the event of a disruption.

Michael Matthews, Artex Risk Solutions commercial director, EMEA & APAC, points out that captives don't just pay claims – they can actively drive better risk management. "By making business units more aware of the costs of risk, captives encourage smarter decisions, like investing in prevention, adapting operations, or improving data. They can also fund resilience projects directly, support pilot programmes, or offer incentives for meeting risk-reduction goals. When structured well, a captive becomes more than an insurer – it's a catalyst for building a stronger, more adaptable business."

Funding resilience through captives

Successful captive operations generate capital reserves that can strategically be allocated to fund capital projects that bolster organisational risk resilience. For example:

- Installing flood barriers or elevating critical infrastructure
- Retrofitting buildings for seismic or wind resistance
- Upgrading to fire-resistant materials or systems
- Investing in renewable energy or microgrids for operational continuity.

Source: Zurich Insurance Company

Supporting the transition to net zero

Captive role in centralising data and incubating risk

The transition to net zero challenges organisations with litigation risks, issues relating to the use of new and untested technology and the need to overcome a lack of data. New technologies bring potential new exposures that need to be identified and mitigated. But there are also opportunities for companies that take a lead in this area.

Transition risk may be defined as the risks associated with an organisation's move to a lower carbon footprint and becoming a more sustainable organisation. The objective may be to achieve carbon "net zero" state in a given time frame, i.e. by 2050.

Despite headlines about companies scaling back, or even dropping, their sustainability initiatives, recent surveys suggest this may not show the true picture. PwC's recent *Second Annual State of Decarbonisation Report* reveals that there remains a strong commitment to sustainability as a source of business value, with 84% of companies standing by their climate commitments.

The number of companies making climate commitments continues to grow, the report shows. More than 4,000 reported targets to the Carbon Disclosure Project (CDP) in 2024, up nine-fold over the last five years, and 37% of companies are increasing their ambitions while only 16% are decelerating their goals.

"Companies may be talking less about their climate pledges, but most are focused on addressing rising energy demands, protecting value at risk, responding to evolving customer expectations and designing their operations to secure long-term growth and resilience," says the report.

PwC says we are entering an era of "quiet progress". In other words, companies are continuing with their climate commitments and sustainability goals, driven by opportunities, customer demand and regulatory commitments, but are no longer publicising it as actively as they did before.

Transition risks

The main risks associated with this transition are around getting an understanding of emissions across the full value chain and finding low-carbon alternatives to energy intensive processes, including efforts to increase resource circularity and energy efficiency.

"A fluid policy landscape, the use of prototypical low-carbon technologies and the rising cost of raw materials are just some sources of potential risk," says Daniel Eherer, senior sustainability manager, Zurich Insurance Company.

Companies face very individual challenges in their transition, depending on industry, business activities and local regulatory conditions. Individual transition plans will be shaped by an organisation's particular geographical footprint, their value chain and business model, which may need to be fundamentally altered, with significant associated risks. There are also risks associated with technological changes, new laws and regulations, litigation and possible reputational damages.

Arooran Sivasubramaniam, head of Zurich Resilience Solutions, Zurich North America, says: "When considering risks, we often think about execution risk, or new technological developments needed. The former is something each company can control, while the latter is less controllable but still can be advanced with investments. The bigger challenge is often in areas we cannot control, such as consumer preference and extreme weather."

"When considering risks, we often think about execution risk, or new technological developments needed. The bigger challenge is often in areas we cannot control, such as consumer preference and extreme weather"
Arooran Sivasubramaniam, head of Zurich Resilience Solutions, Zurich North America

Consumer preference for services, and prices, will have a material impact on any commercial entity's ability to transition. Extreme weather can have an even bigger impact, causing large scale disruption to physical assets and supply chains, which can delay execution by months if not years but also cause a shift in capital allocation requiring companies to reallocate production facilities and key assets.

Challenges

Regulation

The regulatory landscape is complex and ever-changing. There is considerable uncertainty over supranational, international and local policies and regulations, such as the Corporate Sustainability Due Diligence Directive, the Corporate Sustainability Reporting Directive and other regulations and standards.

New technologies

Technologies are advancing rapidly but they can often be untested and expensive. There is a lack of historical data, especially for new sustainable technologies and materials that underpin the transition such as solar panels, wind farms, hydrogen fuel and storage as well as new construction techniques.

Reputation/litigation

There are risks associated with both over or under committing to net zero from activists and shareholders.

Extreme weather

Extreme weather risks, including hail, flooding and high winds, are a major threat to the infrastructure underpinning the global economy, including to the renewable energy installations crucial for successful decarbonisation.

Opportunities

On the positive side, there are opportunities too, including the ability to gain a market share by being a successful early mover, potential government subsidies/tax breaks, and the chance to drive brand loyalty by aligning with customer sentiments.

Companies that navigate these risks successfully could open up major strategic opportunities but this requires coordinated management of risks and investment, said Justine Kelly, head of sustainability, Zurich Commercial Insurance and group underwriting, in a recent *Commercial Risk* webinar on *Climate transition plans: The risks and opportunities around the move to net zero.*

Extreme weather risks, including hail, flooding and high winds, are a major threat to renewable energy installations

"Early movers can gain competitive and market advantages while aligning their brand with changing consumer preferences. Meanwhile, a low-carbon business model will achieve long-term efficiencies and cost reductions as well as benefiting from regulatory and fiscal incentives," she said.

New technologies

One of the biggest problems in terms of insurance is the perceived lack of cover for renewables and the new technologies required to achieve net-zero transition. Risk managers complain about a lack of new products and solutions, while insurers point to the lack of data for new technologies and the need for a diversified book of business which may not be available with a new product and a limited number of early adopters.

Michel Josset, director of insurance & loss control, FORVIA Faurecia, and vice-president (ESG/climate), Amrae says: "It is true that obtaining adequate coverage for the new technologies developed for the decarbonation of the economy is tricky as insurers have low appetite for innovations: large solar farms, large-scale windmills development, hydrogen sector, new low carbon construction materials, etc. This is a real issue as the lack of insurance coverage is a clear obstacle to decarbonation. Amrae believes that continuous technical dialogue between the insurers' engineering

Peter Child, CEO, SRS Europe and managing director SRS Guernsey, says a captive will often be willing to rate and write a risk based upon its parent-specific test and risk data, when the commercial market would prefer to rely on a wider spread of sources

departments and industrial experts will help solve this difficulty."

However, it is clear that there have been improvements as insurers learn more about the new technologies. The insurance sector is actively working on new solutions and some insurers are offering specific coverage solutions for renewables and transition risks. For the transition to work, insurers will be crucial partners in terms of covers and the services they can provide.

The reality is that the introduction and scaling of technology is complex. The availability of insurance is certainly one element which can help management of risk and ultimately impact the availability of funding.

Zurich's Daniel Eherer explains that the current speed of technological advancements means it is a constant race to keep on top of developments. "The insurance sector is actively working on new solutions and the boundary of what is considered "new" technology is constantly shifting. Solar, wind, hydrogen, CCS or some new methods of construction are all examples where products are already available in fairly standardised fashion.

Some tech, like offshore wind-turbines, is developing so quickly that claims data can't keep up with new standards and model versions. By the time loss experience is available from one generation of turbines, they will already have been superseded by a new and more advanced generation. So having access to timely data of adequate quality and quantity to assess and price risks will continue to be a key challenge," he says.

The solution to the problem is the early involvement of insurers in projects to help build an understanding, and to be able to collect data in the early stages of development. Collaborations with industry bodies is also key to understanding the challenges of sectors as they transition.

And insurers like Zurich are not just providing insurance cover but also looking to provide innovate solutions. For example, Zurich and Aon's pioneering clean energy insurance facility, which provides comprehensive coverage globally for blue and green hydrogen projects with capital expenditures of up to $250m, which aims to accelerate the development of clean hydrogen projects.

The captive role

But there is also a key role for captives in centralising the loss data and incubating the risk. Marsh's Rob Geraghty thinks captives will play a part but notes even the insurers are in the early stages with a lot of these products. "The captive can play a part either in incubating or in quota share or side by side with insurers. There's definitely a part for the captive to play; it's early days and limited usage but will increase over time," he says.

The captive structure incentivises companies to think long term, so captives are a natural leader in the net-zero transition, according to Zurich's Sivasubramaniam. He believes captives can play a critical role in strategic planning through their long-term outlook and can support tailoring insurance coverage to address certain extreme weather exposures material to their specific business.

Even more importantly, they can mitigate or prevent losses from such events by understanding portfolio level exposure across multiple scenarios and perils, both short and long term, and by proactively engineering solutions for higher priority assets, he says.

Captive managers believe there is a big role for captives in helping companies move towards net zero, supporting emerging green technologies by covering risks that the traditional market is often not covering – like performance guarantees or new supply chain exposures.

Michael Matthews, Artex Risk Solutions commercial director, EMEA & APAC, says: "By acting as an incubator, captives let organisations trial and de-risk innovations without relying on third-party insurers. We're starting to see this in practice, especially in sectors investing in renewables, carbon capture, or cleaner transport – captives are stepping in where the market is hesitant, helping accelerate the transition."

Peter Child, CEO, SRS Europe and managing director SRS Guernsey, says a captive will often be willing to rate and write a risk based upon its parent-specific test and risk data, when the commercial market would prefer to rely on a wider spread of sources. "It can therefore write policies for new technologies that at least partially protect the parent during the early stages of adoption. The captive can also pioneer alternative approaches such as parametric insurance policies, and act as a proving ground prior to their adoption by the commercial markets," he says.

First-ever sustainability-linked insurance contract

Swiss Federal Railways' captive pilots performance-based insurance

An innovative and exciting new concept was announced late last year in which Swiss Federal Railways' (SBB) direct insurance captive is to pilot the first-ever sustainability-linked insurance contract, which introduces an additional bonus/penalty component linked to the achievement of the group's greenhouse gas emissions targets.

The aim is to transfer the concept of sustainability-linked bonds or loans to the insurance markets, adapting the concept from the financial markets.

SBB will pilot the sustainability-linked insurance with insurers and if successful, the plan is to use the sustainable insurance contract for all property and casualty reinsurance contracts purchased by SBB's direct insurance captive – SBB Insurance AG – from 2026.

Under the contract, SBB Insurance AG's includes a separate component supplementing the premium that is linked to the group's sustainability performance targets. SBB is aiming to reduce operational greenhouse gas emissions by 50% by 2030 through a transition to renewable energy, alongside an increase in energy efficiency and electrification.

According to the contract, beating greenhouse gas emissions targets will trigger the supplementary bonus component and lead to a payment from (re)insurers to support SBB sustainability projects. However, if SBB fails to meet its sustainability targets, the captive pays a 'malus' or financial penalty to the insurers for the benefit of sustainability projects. In both cases, the environment benefits, said Eigenheer.

Robert Eigenheer, chairman of the board of directors at SBB's captive – SBB Insurance AG, who pioneered the concept, said: "The new component of a bonus-malus payment linked to sustainability target achievement is very new in the insurance industry. The only difference is that the link in financial markets is to the interest payment, while in insurance it is linked to the premium.

The targets need to be measurable and influenceable, says Eigenheer. He adds that there are five core components for implementing a sustainable insurance solution: key performance indicators (KPIs), such as greenhouse gas emissions; the calibration of sustainability targets, based on an organisation's sustainability goals; insurance characteristics, such as adjustment to terms and conditions; reporting; and verification.

The hope is that other insurers, captives and risk managers will follow suit. Eigenheer will be "spreading the idea" within the captive and risk management profession and is already talking with academics and regulators interested in the project.

He adds that several (re)insurers have been vocal about the value they attribute to captives being able to demonstrate a potential client's dedication to risk management and sophistication when it comes to risk financing, which makes them a more attractive proposition.

Companies investing in emerging green technologies like hydrogen, carbon capture or battery storage face high up-front costs and uncertain future cashflows, but captives can provide cover that traditional insurance might be wary of, sufficient to attract investors and finance early-stage performance shortfalls, says Peter Carter, head of climate practice and head of captive & insurance management solutions, WTW. This can help collect more information about associated risks with these technologies, which will support future underwriting and risk modelling.

According to Karl DeGiovanni – director of client solutions, EMEA, Aon, the captive structure enables companies to assess, manage and fund the emerging risks associated with the transition while promoting innovation and behaviour change internally.

"Captives can establish a framework to measure and underwrite transition-related risks, applying insurance discipline to improve risk understanding, volatility management and internal reporting. By incorporating net-zero-related metrics into underwriting and pricing decisions, captives help embed sustainability goals into capital allocation, modelling and performance tracking. This approach not only enhances transparency but also incentivises internal action – highlighting areas of the organisation that may hinder transition pathways or jeopardise sustainability targets," says DeGiovanni.

Incubators of risk

Captives, acting as incubators, can pilot and support new green technologies, fund early-stage risks, and create prefunding mechanisms for transition-related exposures, with several organisations already adopting this approach – integrating sustainability criteria into their insurance programmes. Some captives have even become signatories of the United Nations' Principles for Sustainable Insurance.

And there are clear benefits to using a captive to cover sustainability and ESG risks. Research by Marsh using data from Marsh's *ESG Risk Rating* tool reveals that organisations that use a captive consistently outperform peers without a captive when it comes to ESG. Its research revealed that captive owners show higher median scores across ESG dimensions than non-captive owners.

"We are already seeing captives owned by parents in affected industries being used to address coverage gaps, exclusions, climate-related perils, third-party coverages and renewables. We fully expect this trend to grow over time as carbon-intensive businesses transition to a low-carbon future," said Marsh. "In addition, alternative structures such as protected cell captives may be used for certain risks, and other transformative vehicles such as ILS may be used to access alternative capital to protect against extreme weather events."

Cells: The fast and flexible solution

Cell captives have been around for nearly 30 years in various forms, whether in the form of protected cell companies, segregated account companies, or sponsored captives. Cell captives continue to lead the way in terms of formations, with solid growth around the world.

Cell captives were the most formed structure (38%) globally last year, according to US captive consulting firm Captive Insure. And Artex's state-of-the-market report, *The Alternative View* reveals that in Europe, new cell captives and cell formations have outpaced that of single-parent captives, a trend the captive manager says will continue. Cell captives have proved to be a "game changer" for the alternative risk transfer market, as corporates increasingly use them to tackle emerging risks and more challenging coverages, according to Artex Risk Solutions.

For Marsh-managed captives, cells grew by about 15% in terms of the number of cells and about 5% in terms of premium growth. And the broker notes that a number of bigger clients are looking at cells and using them alongside captives.

Uses of cells

The flexibility offered by a cell captive means that it is a risk mitigation solution for all sizes of companies. They offer a fast and cost-effective entry point for small and mid-sized companies looking to gain benefits at lower capitalisation costs, while large multinational corporations can also benefit from having a cell captive to ringfence specific risks by geography or line of business, often as a secondary captive.

The uses to which cell captives have been put have grown considerably. It was originally thought that cell captives would attract smaller and medium-sized companies to the captive solution – allowing them to gain the benefits of self-insurance without all the costs of establishing a full captive and also allowing medium-sized companies to test the captive water, before perhaps establishing a full captive insurer.

Cell captives are particularly attractive to companies seeking cost-efficient, flexible and segregated risk solutions but lacking the scale or appetite to establish a standalone captive. These features have consistently made cell captives a preferred option over single-parent captives, especially for small and mid-size entities that may not have sufficient risk volume or resources to justify a standalone captive.

Cell captives are particularly attractive to companies seeking cost-efficient, flexible and segregated risk solutions but lacking the scale or appetite to establish a standalone captive

Cell captives on captive manager platforms have become quite prolific for small- to medium-sized enterprises (SMEs) needing customisable coverage on a smaller scale than the traditional market may provide efficiently, says AM Best in its latest report, *Captive and Alternative Risk Entities Continue to Emerge and Excel*.

Types of cell captives

The first cell captives were developed in Guernsey in 1997. There are now 47 domiciles worldwide that have enacted some form of cell legislation out of the 72 captive domiciles worldwide, according to Business Insurance's *Captive Managers and Domiciles Rankings + Directory 2025*.

All of the top ten domiciles have cell captive legislation, including Bermuda, Cayman, Vermont and Guernsey. Of the 31 US onshore domiciles, 25 offer cell captives. In the EU on the other hand, only Malta has cell legislation.

There are a variety of different names for cell captives, often dependent on the domicile, but all based on protected cell companies:

- Guernsey *(right)* has protected cell companies and incorporated cell companies;
- Cayman Islands has segregated portfolio companies;
- Vermont has sponsored captives;
- Bermuda has segregated account companies.

All of these cell captives provide legal separation of cells so that assets in one cell cannot be used to pay liabilities of another.

It says specific cases where certain risks may be quite meaningful to a business owner but somewhat remote can draw opportunities for self-insuring these types of risks in cells. Examples include key-man risk, loss of a major customer or loss of a critical employee, or lower-level business interruption.

Large companies

Cell captives are also being used by large companies to write specific risks, split liability classes from property, or by multinationals for their subsidiaries.

Joshua Nyaberi, head of captive fronting, Zurich Insurance Company, says he has seen large customers utilise a cell captive as an interim solution in recent times. "This approach allows them to implement insurance programmes quickly while navigating the more time-consuming process of establishing a standalone captive. Once the standalone captive is ready, they can transfer, or novate, the coverages from the cell captive to the new entity," he says.

> **"Using a cell captive as an interim solution allows large customers to implement insurance programmes quickly while navigating the more time-consuming process of establishing a standalone captive"**
>
> **Joshua Nyaberi, head of captive fronting, Zurich Insurance Company**

He adds that cell captives can also address the needs of larger companies, particularly when they face short-term or finite-duration risks, or companies with short-term projects requiring temporary coverage, with the flexibility to create and later decommission the cell, avoiding long-term commitments.

Cell captives are also ideal for joint ventures or startups trialling new risks, as well as for brokers providing cells for clients. Larger companies can use cell captives to ringfence specific risks by geography or line of business or offer customer insurances.

Unique benefits

Cell captives have many of the advantages that standalone captives offer, but also have some unique benefits, not least the much-reduced capital requirements compared to establishing a stand-alone captive, as well as lower operating costs, which opens up the captive solution to a much broader range of organisations, and offers a fast and cost-effective entry point for small and mid-sized companies.

But perhaps the biggest advantage is how quickly a cell captive can be set up. Establishing a single parent captive can be a long process, not least as a result of the regulatory application and approval process, and can take many months, or even a year. But for cell captives, it can be much quicker, and this can be crucial when responding to market turmoil, renewal difficulties or newly emerging risks.

"I think what's helped cells in recent years is speed to market," says Marsh's Rob Geraghty. "They continue to grow but the speed to market has really helped. It used to be a couple of months or a number of weeks to set up a cell. Now you're into days and hours. So the speed of being able to set one up has really improved and being able to do that quickly has really added to their popularity."

Unique cell benefits

- Lower capitalisation costs
- Statutory protection
- Speed to market
- Lower operating costs
- Segregated risks
- Easier to close down and exit business

Emerging risks

Cell captives can, and do, write a broad range of insurable risks, including traditional risks such as property and liability together with motor and professional indemnity, and increasingly cyber risk.

It is mostly in the area of emerging risks that cells are showing their flexibility and popularity. Cell captives are increasingly used to isolate and manage emerging risks that traditional insurers struggle to price or cover due to uncertainty, complexity or rapidly evolving exposure landscape.

Cell captives are well suited for emerging risks, for various reasons:

- By offering segregation possibilities, they prevent contagion risk where, for example, new technology risks may be of such a magnitude as to use up cell financial resources;
- Speed-to-market in setting up a cell captive enables faster responses where urgent needs arise;
- Emerging risks, by their niche nature, often lack adequate actuarial data to enable modelling and the cell captive can accommodate bespoke pricing and wording for emerging risks.

Nyaberi points to artificial intelligence and technology liabilities from algorithm bias, autonomous system incidents, climate change and ESG liabilities where specific perils such as greenwashing litigation can be covered. Cells also write

third-party affinity programme risks such as extended warranty and device protection.

Esme Gould, head of captives, Zurich Insurance Company UK, says cell captives can be attractive to firms entering new markets or launching innovative products where traditional insurance may be limited or unavailable, such as technology, life sciences and ESG-related covers. She says piloting these covers via a cell captive structure can be a quick and simple way to explore the risk before scaling it across the organisation or seeking cover in the traditional insurance market.

Sustainability

Captive managers say cells are increasingly being looked at in terms of emerging and newer risks. For example, cells are being used in the emerging risk area of sustainability. Oliver Schofield, CEO & Managing Partner, RISC CWC, says they are working with a range of different companies in the broad construction, infrastructure and built environment as they look to integrate sustainable materials into existing or new buildings.

Other start-ups who are designing new products and materials geared towards combating the impact of climate breakdown are using cell captives to incubate the risk, enabling them to gather sufficient data to be able to approach the insurance market with underwriting data two to three years down the line, he says.

Michael Matthews, Artex Risk Solutions commercial director, EMEA & APAC, says emerging risks like cyber, supply chain disruption, ESG liabilities and climate-related exposures are pushing more companies to look at cell captives.

Interest in employee benefits captives is higher than ever as companies increasingly explore alternatives to traditional pooling mechanisms

"These risks are tough to insure in the traditional market – expensive, limited or just unavailable. Cell captives offer a quick, flexible way to take control, test solutions and build a track record. They're also being used to back things like green tech warranties, IP risks and even pandemic-related cover – areas where innovation is moving faster than the market can keep up," he says.

Employee benefits

A potential growth area for cells is to cover employee benefits. Interest in employee benefits captives is higher than ever as companies increasingly explore alternatives to traditional pooling mechanisms, driven mainly by the flexibility of the captive model, governance and control over premiums and benefits.

Aon's *Global Benefits Trends Study 2025* highlights that captive arrangements are not used by all multinationals surveyed, as 52% do not own a captive and 37% stated set-up costs and ongoing captive operating costs are a barrier.

This has been recognised by some of the large brokers and captive managers who have established cell captives for their clients. Aon, for example, recently launched an employee benefits cell captive facility, allowing insureds to reinsure their global benefits programme through a protected cell.

Alternative risk financing

Cells are also beginning to be used in providing alternative solutions such as parametric covers, for example around weather and natural disasters. Cell captives provide a flexible and efficient platform for companies to implement parametric insurance solutions. By using a cell structure, organisations can quickly set up and manage programmes in a cost-effective and segregated manner, making them accessible even for specific projects or short-term risks.

There is also the potential for cell captives to act as a conduit for companies seeking to access capital markets, such as through insurance-linked securities (ILS) or catastrophe bonds, with the legal and operational segregation of risks within each cell allowing organisations to structure deals that appeal to investors, while maintaining clear boundaries between different risk portfolios. The cell structure makes it easier to try out these innovative models without a big upfront commitment.

Smoothing volatility and managing risk

Captives can create enhanced risk management culture

Property insurance has always been a mainstay for the captive sector, and in the last few years the hard market has driven more business into the captive sector.

The commercial property market is now becoming more competitive, with prices softening in 2025, but there is still concern from property insurers about increasing losses and aggregation in the face of rising nat cat losses and concerns over secondary perils. As a result, for nat cat loss-affected property risks, prices remain high and capacity is constrained.

And as Aon notes in its *Q2 2025: Global Insurance Market Overview*, while current market conditions are favourable, they are also fragile and likely to be temporary, and the systemic change in loss activity across property continues.

Michel Josset says that since 2019 and the hardening of the insurance market, insurers have significantly reduced the coverage of natural hazard by increasing deductibles and reducing capacity in areas exposed to natural hazard

Michel Josset, director of insurance & loss control, FORVIA Faurecia, and vice-president (ESG/climate), Amrae

Nat cat losses

Global insured losses from natural catastrophes reached $137bn in 2024, according to Swiss Re Institute in its *Sigma* report. It warned that global insured losses from natural catastrophes could reach $145bn in 2025, 6% higher than the $137bn loss recorded in 2024 and 34% higher than the ten-year average of $108bn, driven by secondary perils, including January's wildfires in Los Angeles.

Global insured catastrophe losses in the first half of 2025 surged to at least $100bn, up from $71bn in the first half of 2024, according to Aon. This is the second-highest total on record, after the $140bn in first the half of 2011, and well above the 21st century first-half average of $41bn, the broker said in its first-half *Global Catastrophe Recap*.

Property pricing is softening for non-loss affected risks but rates for loss-affected European property hardened at 1 January 2025 reinsurance renewals, bucking the overall trend for softer rates. And at the mid-year reinsurance renewals, Guy Carpenter tracked risk-adjusted rate increases of 10% to 20% for loss-impacted programmes, while Aon said loss-affected property cat placements recorded flat to higher pricing at renewal.

Michel Josset, director of insurance & loss control, FORVIA Faurecia, and vice-president (ESG/climate), Amrae, says that since 2019 and the hardening of the insurance market, insurers have significantly reduced the coverage of natural hazard by increasing deductibles and reducing capacity in areas exposed to natural hazard.

He also points to an increase of premium and the reduction of scope of business contingency coverage, which is now often reduced to tier one supplier or customer. He says this has led to captive owners subscribing extensively to these risks that have been rejected by insurers.

It is not just increasing climate and nat cat risks that are causing concern. The recent changes to US trade policy, including tariffs, will also affect property risks associated with international supply chains. Tariffs may not only lead to significant delays in global supply chains but also impact the value of inventory and replacement costs for building and equipment, with higher values needing to be reflected with modified terms and conditions.

Greater control

The hard property market drove a shift towards alternative risk transfer, including captives, particularly on the commercial property side. While hard markets drive captive formations, use of captives continues during soft markets, not least because they afford customers more control over their programmes.

And if the insurance market is soft then the reinsurance market is also soft, which means captives can gain reinsurance protection at lower levels, with more comprehensive coverage and at a cheaper price.

Despite the softening market, captives are continuing to buy down deductibles for their subsidiaries as part of risk retention strategies. With uncertainty over whether market conditions will continue, or whether a major nat cat event could once again turn the market, having a captive provides options and the ability to smooth the underwriting cycle.


Flooding in Stourport-on-Severn, Worcestershire, UK after storms Ciara and Dennis

CREDIT: MATT RAKOWSKI / SHUTTERSTOCK.COM

Stephen Penwright, head of underwriting, US National Accounts, Zurich North America, says: "During the hard market we saw more captives being formed, in addition to utilisation of alternative risk transfer methods, such as structured property, parametric, and CAT bonds. Now that the property market is in transition, we haven't seen a drop off per se, but focus has been shifting to liability, especially in the structured space. On the property side, we continue to see clients use their premium savings from rate decreases and augment their traditional risk transfer programmes with parametric or CAT bonds.

AM Best's report *Captive and Alternative Risk Entities Continue to Emerge and Excel* says that although there is pricing stabilisation in the commercial property market segment, concerns persist due to the ongoing impact of catastrophes, particularly secondary perils and flooding, climate change, reinsurance costs, inaccurate risk valuations and sustained inflationary pressures.

Given these conditions, there has been an increase in the number of captives stepping in to provide various forms of property cover, says Best. "For example, captives can supplement their traditional property programmes via deductible reimbursement and deductible buy-down policies, filling in gaps in primary layers or providing excess coverages. As captives take on this exposure, the valuation of properties remains crucial to ensure that potential losses are accurately estimated, particularly as inflation could lead to higher-than-estimated losses," the report notes.

US broker and captive management firm Risk Strategies' *State of the Insurance Market 2025 Outlook* says the commercial property insurance market is expected to show increased responsiveness to innovative risk management strategies this year. "Following a challenging period marked by limited flexibility in pricing adjustments, the market appears to be shifting toward a more dynamic approach that rewards businesses willing to explore tailored risk solutions. If that materialises, captives will play a key role in the evolution, helping companies retain sizeable, yet manageable risks, with carrier partners offering broader protection. This shift enhances cost efficiency and aligns with the growing demand for customised, client-focused solutions."

Value of captives

Using a captive for commercial property coverage allows surplus capital to be invested in risk mitigation and ensure an

US industries leading the way on captives

- Manufacturing companies, with their significant investments in equipment and facilities, are often at the forefront of captive usage.
- Energy and utilities firms also rely heavily on captives due to their substantial physical assets and exposure to natural disasters and operational hazards.
- The construction sector benefits from captives' flexibility, accommodating the shifting project values and property exposures typical throughout development phases.
- Healthcare organisations, including hospitals and specialty labs, use captives to achieve premium savings and enhance risk oversight.
- Real estate and hospitality players – such as hotel chains and commercial property owners – leverage captives to manage extensive property portfolios and encourage loss prevention.
- Transportation and logistics companies with large warehousing assets are increasingly adopting captives to address their specific property coverage needs.

Source: Zurich Insurance Company

“Models have evolved such that they can provide captives with the necessary data points such as return periods, AALs, standard deviation and coefficient of variation to set adequate limits”

Stephen Penwright, head of underwriting, US National Accounts, Zurich North America

immediate benefit from any risk management or loss control measures put in place, reflected in the premium set by the captive. Captives can also encourage risk mitigating controls through a carrot and stick approach to rewarding/penalising operations’ attitude to risk management and loss control.

Another major benefit of using a captive in the property programme is the ability to provide customised coverage for complex risks, according to Kay Eisenstein, vice-president – captives & reinsurance manager, US National Accounts, Zurich North America. “Commercial property portfolios often include assets that are difficult to insure through standard markets – such as aging infrastructure, specialised equipment, or properties in high-risk zones. Captives provide the flexibility to design bespoke policies that address these exposures directly, including coverage for non-traditional business interruption events or cyber-physical losses,” she says.

By using a captive, an organisation is essentially retaining the risk on its balance sheet, and this encourages management and the business units to put effective mitigation measures in place in order to minimise the cost of a loss event.

As such, a captive can lead to an enhanced risk management culture, says Eisenstein: “Captive ownership fosters a more proactive approach to risk management. With direct access to claims data and a vested interest in loss outcomes, companies are incentivised to implement stronger safety protocols, conduct regular property inspections, and invest in resilience measures.”

Penwright adds: “If a captive is retaining the first $50m of any loss on their property programme and an engineering firm calculates a flood loss expectancy of $45m with the cost to complete the improvement action at $700,000, it would make sense for the captive or the parent company to fund that action. Fronting companies and brokers can help prioritise risk improvement or resilience actions if the captive lacks the sophistication.”

Nat cat in captives

With many of the problems in the property insurance market related to nat cat risks, the question is whether captives can effectively write catastrophic property insurance, or are there limitations?

The answer from the sector is that captives can write catastrophic property insurance but it requires support from brokers and fronting carriers. It also requires modelling expertise, and clearly the limits they write will depend entirely on their risk appetite and the ability to absorb low frequency, high severity losses. Underwriting nat cat exposures within a captive may also significantly impact the captive’s solvency requirements.

Penwright says a captive can effectively write nat cat insurance, especially with the help of a broker and fronting carrier. “Models have evolved such that they can provide captives with the necessary data points such as return periods, average annual loss (AALs), standard deviation and coefficient of variation to set adequate limits,” he says. “A fronting carrier and broker can also provide insights based on their models and benchmarks.

Mike Pickard, director, global ILS and commercial management, Aon, says: “Captives can write catastrophic property insurance effectively, within reason. However, there can be limitations based around the captive’s capital requirements and risk concentration. A hurricane or earthquake could lead to significant losses in a region where the captive may not have the capacity to absorb within its capital base alongside the other risks that it underwrites.”

However, there is support from the reinsurance market to provide additional capacity for catastrophic property insurance written through a captive. Facultative reinsurance, CAT bonds and parametrics can all help manage the captive’s overall exposure to various nat cat perils. In addition, the reinsurance market can bring its expertise in managing catastrophic exposures and provide a safety net for large losses.

“Captives can write catastrophic property insurance effectively, within reason. However, there can be limitations based around the captive’s capital requirements and risk concentration”

Mike Pickard, director, global ILS and commercial management, Aon

Sharing the risk and focusing on mitigation

Group captives offer benefits for mid-sized companies

In the US, group captives are an important risk solution for companies that have a strong focus on risk management and containing losses, but for whom the costs of establishing a single-parent captive may be too high.

The group captive collaborative approach not only fosters a sense of collective responsibility towards risk prevention but also allows for more tailored coverage options that better meet the specific needs of the group.

The group concept

A group captive is an insurance company owned by the insureds themselves in which all the participants share in the losses within the captive retention layer and any underwriting profits. Group captives can be heterogeneous (member companies from diverse industries), which can lead to greater risk diversification, or homogeneous (member companies from the same industry), in terms of industry and business type, which allows tailored coverage and risk management programmes that address the specific needs and concerns of the industry

A group captive reinsures the fronting carrier for losses up to the captive retention. The insureds share all losses within the captive retention layer, which also means they share in potential underwriting profits if they manage risks well. In many cases, the fronting carrier also reinsures the group captive.

Group captives offer a unique way for businesses to manage risks collectively, by pooling resources and sharing risks. This shifting/sharing happens once a member has exhausted its allocated loss funding, which is predetermined by the captive's independent actuary.

The benefits

As Alex Wells, head of US Middle Market, Zurich North America, explains, the group captive approach leads to positive peer pressure to prioritise safety, prevent losses and proactively manage losses when they happen to benefit the group as a whole.

He says group captives can benefit insureds in many ways, such as from the group's collaboration on safety programmes, and from potential underwriting profit, as loss funding is usually 50-70% of each dollar of GWP. "From a planning and insurance standpoint, the loss-rated group captive model is more insulated from volatility in the standard markets, as it has caps up and down, which makes future rates easier to plan for and predict," he says.

Group captives can also benefit from reduced overhead costs in terms of administration, as well as reduced costs through the group purchasing power when it comes to services and reinsurance. Captive managers also stress that there is a strong partnership element to group captives. One captive consultant describes it as "a little like coming into a club", where there is selection, but also a sharing of information related to insurance and risk prevention and best practice amongst members.

Perhaps the biggest benefit is that the group captive concept creates a strong focus on risk management because it will be reflected in reduced claims and losses, and a potential dividend in profit sharing, combined with investment income on premiums.

Captive benefits

The benefits of a group captive include:

- Greater stability, less risk
- More predictable pricing
- Cost reduction
- Sharing of best practices
- Investment income

Source: Marsh

Carrot and stick

Nick Hentges, CEO, Captive Resources, says there is a carrot and a stick element in this arrangement. Members will benefit from their good experience by getting a dividend back, together with the investment income earned. He says Captive Resources has a $10bn+ mutual fund, which has earned a return of around 6% over the last 30 years.

Qualities for success in group captives

- Companies with long-term financial strength and stability.
- Management teams committed to safety, with solid safety programmes in place and committed to continuous improvement.
- Big-picture approach to risk management, going beyond standard safety procedures and taking an active role in managing and measuring risk.
- Loss histories that are better than average for their respective industries.
- Annual casualty premiums of at least $250,000 (minimum of $100,000). Many group captive members have premiums between $1m to $5m, with some as high as $25m or more.
- Entrepreneurial qualities – motivated, forward-thinking, assertive, innovative, and embracing the risk-reward trade-off.

Source: Captive Resources

While members benefit from their good experience, if somebody doesn't manage their claims, and doesn't do as well as expected, then they can be assessed for more money, up to a finite amount, bringing accountability to the individual member.

But he stresses that if there is an increase, "it is based on their losses, not just because the insurance market happens to have gone hard at that point, because of a catastrophe somewhere".

He adds: "The model itself is really built to benefit somebody who has a better-than-average loss experience and continues to improve. It is not for somebody who's got worse-than-average loss experience or somebody that doesn't care about risk management or doing well in the programme. They're going to be penalised," says Hentges.

Group captive members are turning what was once a fixed cost – an expense they could never get back – into a vehicle where they can get a significant amount of their premium back, turning an expense into a profit area, says Hentges. And he adds it is important to stress that members are buying into a long-term concept.

"The people who are in our group captives are hyper-focused on risk management and claims management. They share information together, they help each other"

Nick Hentges, CEO, Captive Resources

In addition, group captives enable participating companies to diversify their risk portfolios, by sharing risks among multiple members, minimising the impact of individual losses. And this can lead to more stable and predictable financial outcomes. Ultimately, members have better control over losses and better data, and therefore the ability to identify and manage claims.

Crucially, says Hentges, there is a shared focus on safety. "The people who are in our group captives are hyper-focused on risk management and claims management. They share information together, they help each other. So it is a really interesting dynamic when a company comes into one of our group captives."

The safety aspect is important. A report in 2023 by the US Insurance Information Institute, *Group Captives: An Opportunity to Lower Cost of Risk* found that group captive members are safer than the average company. Independent actuarial analysis based on workers' compensation exposure and claim data of group captive member companies advised by Captive Resources revealed that across 15 mature group captives and 1.5bn work hours, members had 48% fewer fatalities, 39% fewer lost time claims and 22% fewer total workers' compensation claims.

Sectors and risks

Group captives attract businesses representing a wide range of industries. The largest sector of group captive insureds in the US is construction. Wells says contractors in particular tend to like group captives because they make it easier to project insurance costs for upcoming projects, while sharing best practices with other members can help them enhance employee safety.

Fitzpatrick Owen, regional vice-president – Garnet Captive Services, an SRS company, notes that homogeneous group captives allow for tailored coverage and risk management programmes that address the specific needs and concerns of the industry and can often be used for higher-hazard risks. He says heterogeneous group captives lead to greater risk

Peter Carter, WTW, agrees that a stricter regulatory framework is a factor holding back the group concept, although there have been recent moves to be more proportionate in the application of Solvency II where it applies to captives


Peter Carter, head of climate practice and head of captive & insurance management solutions, WTW

diversification, as the captive is not overly exposed to the risks of any single industry.

Group captives typically attract mid-sized to large companies that would benefit from collective purchasing power and risk-sharing but are not in a position to fully self-insure. Common industries include manufacturing, construction, healthcare, transportation and professional services.

Group captives tend to focus on certain risks, particularly controllable casualty risks that are more predictable, with less volatility. As a result, most group captives cover workers' compensation, general liability and auto (liability and physical damage). These tend to be areas where the insured can influence the risk through safety measures and loss prevention.

Jay Curtis – director, enterprise client solutions – Americas, Aon, says workers' compensation, general liability and auto are the most common risks insured through group programmes historically, but adds: "As the insurance market has evolved, so has utilisation of group captive programmes and we now see other lines such as property and employee benefits being insured."

AM Best, in its recent report *Captive and Alternative Risk Entities Continue to Emerge and Excel*, says: "Group captives continue to screen and add new members who are inclined to diversify their loss experience among a group of like-minded business owners with a similar goal of loss prevention and mitigation, quality and consistent underwriting, and effective claims management. This happens often when some would like to share their general liability or umbrella-type coverages. In addition to smoother results through diversification, they are often able to obtain better coverage at a better price as part of a critical mass approaching reinsurers as well."

One area that has particular potential for group captives is medical stop loss. Captive Resources' Nick Hentges thinks it could be the 'next big thing' for group captives: "Medical stop loss is a completely unlimited, untapped marketplace. I think five to ten years from now, medical stop loss could be as big for us as casualty is currently."

Group captives in Europe

Captive experts say establishing group captives in Europe would require collaboration and consultation with international underwriters to understand each country's nuances, challenges, legal environment, types of coverages available/allowed, and sanctions, not to mention different standards for safety, loss controls and employee screening.

Another issue is that group captives are particularly suited to very specific US issues: one of the biggest areas for group captives in the US is workers' compensation, while a potential growth area is medical stop loss.

Karl DeGiovanni – director of client solutions, EMEA, Aon, says the group concept has been slow moving in Europe mostly due to the additional preparatory work needed. "The planning stage of a group captive structure will be key to its success. There will be various members involved and all need to be aligned, due diligence to be performed on all members ensuring everyone has the same goal and objectives. And with a heightened regulatory environment in Europe, the process can take time.

Nevertheless, he sees interest, especially from industries that have experienced capacity and limit constraints, as well as greater deductibles and pricing. He says examples of industries that Aon envisages could benefit from group structures are food processing, recycling and waste management, and wood manufacturing.

Peter Carter, head of climate practice and head of captive & insurance management solutions, WTW, agrees that a stricter regulatory framework, with Solvency II making captives more expensive and complex to operate in Europe, is a factor holding back the group concept, although there have been recent moves to be more proportionate in the application of this regulation where it applies to captives.

But Carter adds that there may potentially be a move to increase the usage of the concept to Europe, in response to rising premiums for cyber and climate, ESG-driven risk management strategies, and securing better control over employee benefits and supply chain risks.

Flexibility for customised benefits

Captives playing bigger role in employee benefits

Organisations are increasingly taking a human-first approach to employee benefits, aiming to be more proactive, innovative and flexible as they look to attract and retain talent. Employees are demanding more support from their organisations in many different areas and are increasingly looking for customised benefits.

This is highlighted in Aon's *2025 Employee Sentiment Study*, which reveals that 72% of employees worldwide said they consider benefit customisation important, and 63% would be willing to sacrifice existing benefits for a better choice of benefits. But the survey of more than 9,000 employees across 23 countries, including the UK, US, Brazil and Australia, also finds that only 41% currently have access to personalised benefits.

Aon says that a uniform approach to total rewards might seem like an efficient solution, but a lack of flexibility has created gaps between what employers provide and what employees want. It adds: "As employers work to deliver on these expectations, risk management tools, like traditional captives, provide design flexibility and can offer personalised and local benefits," said Aon.

The study suggests that the most valued benefits are medical coverage, paid time off, work-life balance programmes, retirement savings and career development.

Captive role

Captives have certainly begun to play a bigger role in employee benefits because of the flexibility that they offer. As Arnau Vila Llavina, head of Zurich Global Employee Benefits Solutions at Zurich Insurance Company, explains, there is more and more recognition of adding employee benefits to captives, "whether it's from a cost perspective of financing benefits, from a control perspective, or that you can provide benefits typically not available in the market, or even from a capital perspective because of diversification with the P&C line."

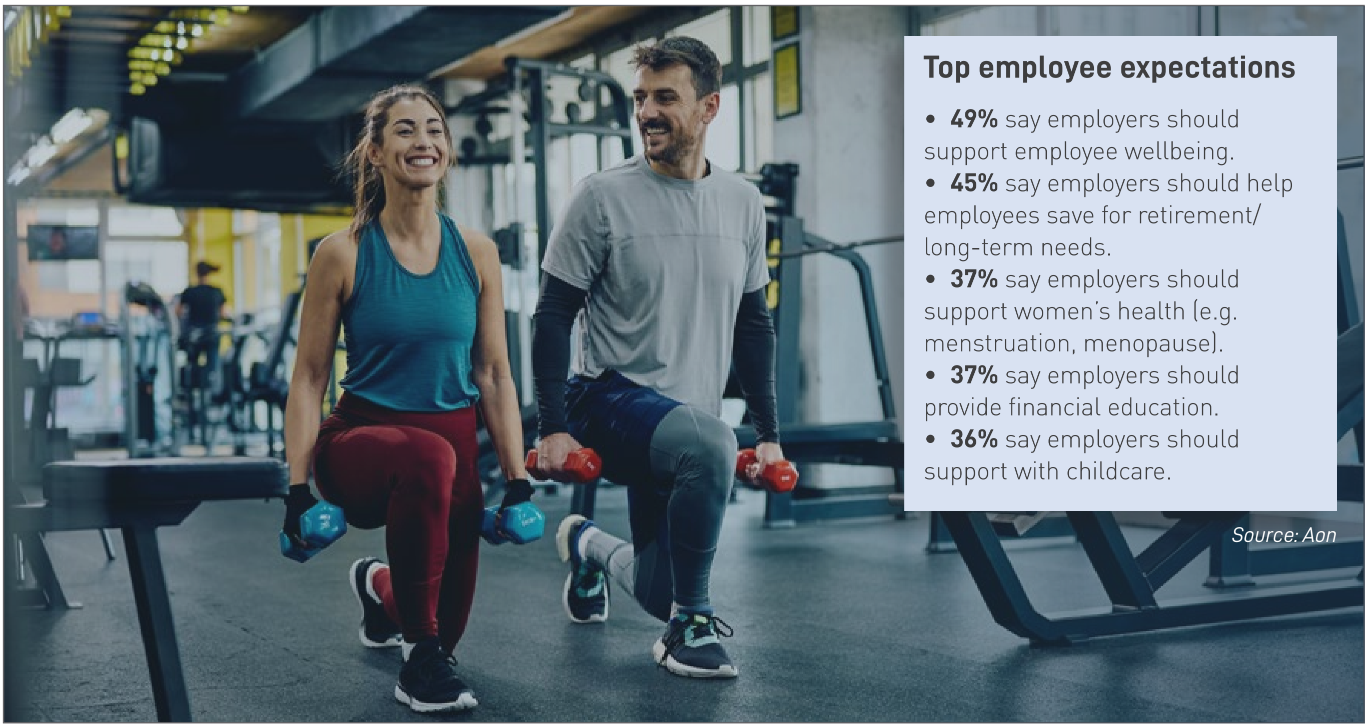
He also points to innovation, using the captive to drive new approaches and new types of benefits that may not be available in the market.

Vila Llavina adds that in addition to financial benefits such as cost savings, there is also the bargaining power / arbitrage opportunities that a captive brings, as well as customisation. "With a captive, you are not restricted any more to what is locally available and what the commercial insurance market is doing in a specific place. As the ultimate risk carrier in the captive, you can decide if you want to waive certain things, if you want to expand certain benefits, if you want to harmonise benefits across regions as long it's legally permitted."

A captive also provides more data because, as the reinsurer, it gets claims details that allow the owner to understand the cause of claims and then manage them through preventative measures, through wellness programmes or other initiatives. And a captive can improve employee satisfaction by including benefits that are more relevant for the workforce.

Growing interest

Captives are increasingly writing employee benefits, according to recent surveys. Aon's *Global Benefits Trends Study 2025* finds that interest in employee benefits captives continues to be strong, with 31% of participants considering this approach in 2025, up from 26% in 2024.



Top employee expectations

- **49%** say employers should support employee wellbeing.
- **45%** say employers should help employees save for retirement/long-term needs.
- **37%** say employers should support women's health (e.g. menstruation, menopause).
- **37%** say employers should provide financial education.
- **36%** say employers should support with childcare.

Source: Aon

Main benefits of using captives to write employee benefits

- **Design flexibility** – ability to offer tailored employee benefit plans to better suit the specific needs of an organisation and their employees. This can support in the delivery of the organisation's diversity, equity and inclusion (DEI) ambitions.
- **Cost efficiencies** – these can be realised through captives generally adopting a close to break-even underwriting approach as opposed to building in the level of profit margins generally observed in the commercial market, together with the avoidance of other commercial market frictional costs.
- **Governance** – using a captive, organisations gain enhanced control over risk management strategies, which become an internal discussion. Organisations also benefit from enhanced oversight consolidation, visibility and reporting of employee benefits-related risks, which can promote their monitoring and influence of medical trends and their agility in decision-making..

Source: Aon

And according to Airmic (an Association of Insurance and Risk Managers in Industry and Commerce), it regularly hears from members that they are actively considering reinsuring employee benefits programmes through their captive. The association's *2025 captives survey of Airmic members* reveals that around a third of respondents said their captives include employee benefits programmes.

In the survey, Phil Clark, director of insurance, Vodafone Group Services, says: "Insuring employee benefits can be incredibly successful and effective – in diversifying the portfolio of the captive, but also in taking greater control over benefits spend and increasing the quality of benefits offered to colleagues. When we brought our captives together and combined P&C and employee benefits, the solvency requirement actually went down by around €20m due to the diversification effect. Using captives also allowed us to offer benefits to our employees across the world that were not necessarily available locally."

Brian Quinn, CEO of Granite Management Limited, a captive management and employee benefit consulting company says: "In the case of global employee benefits, the captive provides a solid platform to further enhance planning, implementation and execution of the global employee benefits programme by providing the HR function of the parent with an effective integrated risk management platform; for example, employee benefits captives are playing a critical role in the global standardisation of terms and conditions and in the expansion and implementation of supplemental and voluntary benefits for employees in all markets required by the parent."

Type of benefits

There are a number of areas where captives can play a role, with some benefits being more suitable than others. The main areas are life, short-term disability, accident and medical. In essence, it is the short tail lines of businesses, the high frequency and low severity claims. These are the areas where captives can make immediate short-term savings, because they are where the insurers have higher margins that can be captured in the captive.

Medical risk is increasingly being integrated into employee benefits captives. This is less about the financial benefit, as insurers' margins are limited, and more about gathering data to enable

"Employee benefits captives are playing a critical role in the global standardisation of terms and conditions and in the expansion and implementation of supplemental and voluntary benefits for staff in all markets required by the parent"

Brian Quinn, CEO of Granite Management Limited

Medical Trend 2025

(Year-over-year cost increase for claims under a medical plan on a per-person basis assuming no changes to benefits provided)

- Global 10.9%
- Canada 10.0%
- Asia 13.0%
- Europe 10.4%
- Latin America & Caribbean 10.4%
- Middle East & Africa 10.7%
- Pacific 9.3%

Source: MMB Health Trends 2025 report

loss prevention and promote wellbeing programmes.

“I think that medical is probably where you can make most impact, so you can get better access to data, you can control the pricing, and you can control the coverage that you’re offering,” says Barry Perkins, global benefits consultant, financing & global mobility solutions leader, Mercer Marsh Benefits. “So most captives would be looking at bringing in medical benefits, but the reasons to do so, and the way you go about it, is just slightly different to some of the other more straightforward benefits like life and disability.”

Perkins adds that the main driver for clients that are looking to write employee benefits in a captive is not the short-term cost savings, but gaining longer-term control over the pricing, getting access to the data, and improving benefits.

Collaboration

When it comes to multinationals, employee benefits differs from P&C coverages because they are purchased locally and then reinsured to the captive. There are local employment rules and regulations, so as a result there is much less central control for even for the most centrally managed organisation, unlike P&C where there may be a more global mandate and centralisation. This means there needs to be greater discussion and collaboration locally, and between finance, risk management, human resources and procurement.

In the past, there was often an issue with getting human resources on board with the idea of a captive reinsuring the employee benefits. The captive was viewed as a pure financial instrument, but it is increasingly being seen as a tool to help to support people initiatives, employee programmes and other innovations, which is valued by HR and also by the boardroom.

Ultimately, the captive acts a centralised hub for employee benefits, pooling risks from multiple countries or subsidiaries. In order to achieve some level of harmonisation, captives will need to engage with subsidiaries and local brokers and insurers to enhance benefits at the local level through adjusting policies and ensuring the required level and scope of benefits.

Laurent Nihoul, Ferma board member and chair of its captive committee, says that if a captive can achieve a certain size and diversification, it could create significant potential as aggregated claims are more predictable and the average severity is relatively low.

The key challenge, says Nihoul, is to efficiently identify the catastrophic exposure of a given employee benefits portfolio, as there is always the potential for a very unlikely but extremely severe scenario that must be properly assessed and covered through specific reinsurance protection. He adds that long-tail risks such as pension and post-retirement benefits are less appropriate for a captive scheme due to their long duration (20 to 30 years), but Ferma has started to see some developments in the captive landscape on this front.

Cost containment

As well as flexibility around benefits, the crucial issue in the sector is cost containment. Healthcare costs are rising rapidly and not just in the US. Mercer Marsh Benefits’ (MMB) *Health Trends 2025* report reveals that global medical trend (the year-over-year cost increase in claims under a medical plan) is projected to reach 10.9% in 2025, excluding the US. In Europe it is expected to reach 10.4%.

The report found that there continues to be entrenched gaps between the services insurers typically cover and the needs of a diverse workforce. Addressing these gaps and meeting persistent workforce needs is crucial if employers are to move the dial on employee health.

MMB’s *People Risk 2024* report showed that increasing health and benefits costs is the number one risk for HR and risk managers globally. However, just 31% of HR and risk managers report having effective cost containment strategies to manage benefit costs. Many believe this is an important area for captives to take a role.

For many, cost containment is one of the biggest drivers of using a captive for a benefits programme. A multinational company might have hundreds of different policies around the world, with dozens of different insurance companies and vendors, which can make it complicated to get any kind of understandable usable data centrally.

Perkins believes a captive can be a catalyst for consolidating vendors down to two or three global providers, which then makes it possible to get access to their data sources and their analytic solutions. In addition, he says it can also be a catalyst for the organisation to take a closer look at what is driving claims, as with a captive there is more of a vested interest in understanding the claims and taking proactive actions and fund risk management activities, health improvement initiatives with employees, and other cost containment measures.

Data consolidation

Sarah Langwell, director of client services, EMEA, Aon, says data consolidation through an employee benefits captive can provide a holistic view of a global portfolio across several fronting partners, which can promote the identification of trends and areas of focus for the group when considering future plan design and strategies.

As an example, she says improved access to data and insights may prompt a captive to introduce specific cost containment drivers relative to the management of long-term disability and chronic disease, or to introduce wellbeing initiatives such as smoking cessation programmes aimed at improving employee health and wellbeing.

With the captive reinsuring the employee benefits, it can drill down into the data. Zurich's Arnau Vila Llavina explains this can include obtaining information on the network of hospitals that is being used, the diagnostic, the treatment, and the cost, to identify if they are reasonable, or if there is some claims leakage that they can manage. And this information can then be benchmarked, to enable firms to see if there are trends in specific markets, whether there are certain outliers, all with the aim of achieving more targeted employee assistance programmes.

Medical stop loss

In the US, Employee Retirement Income Security Act (ERISA) regulations impose regulatory permissions to use a captive, which a number of companies have received, but they can involve a lengthy process. However, these regulations do not apply to medical stop-loss, and this combined with potentially large losses and steep increases in medical stop-loss premiums in the US, means that more and more companies in the US are turning to their captives for medical stop-loss.

Artex, in its latest state-of-the-market report, *The Alternative View*, says that with US medical costs projected to rise significantly in 2025, companies have increasingly been using captives as a risk financing tool to effectively manage and finance US medical costs within their organisation.

Peter Parent, president of Innovative Stop Loss Solutions, a US-based managing general underwriter that specialises in medical stop-loss programmes, says that one of the benefits of joining a captive programme is having access to a suite of cost containment solutions. These can range from a predetermined selection of third-party administrators (TPAs), prescription drug programmes, medical bill reviews and carve-out solutions.

"All claim data can be analysed on an ongoing basis to see where savings have been impacted and on areas that may require additional focus. This becomes the key to maintaining a more stable stop-loss programme. This becomes especially true for the smaller employers that had previously been fully insured without transparency into their claims data," he says.

"All claim data can be analysed on an ongoing basis to see where savings are impacted and on areas that may require additional focus. This becomes the key to maintaining a more stable stop-loss programme"

Peter Parent, president of Innovative Stop Loss Solutions

Risk Strategies' *State of the Insurance Market 2025 Outlook* notes that the medical stop-loss captive market "is approaching maturity, bringing broader acceptance and understanding that can fuel growth. So long as there is continued focus on mitigating high-cost claims, we expect medical stop-loss captives to become mainstream with far wider adoption."

With the captive reinsuring staff benefits, it can drill down into the data. Zurich's Arnau Vila Llavina explains this can include getting info on the network of hospitals being used, the diagnostic, the treatment, and the cost, to identify if they are reasonable, or if there is some claims leakage that they can manage

Arnau Vila Llavina, head of Zurich Global Employee Benefits Solutions, Zurich Insurance Company

Profiting from risk opportunities

Third-party underwriting turns cost centre into profit centre

A captive is generally thought of as an insurance company set up by an organisation to insure its own risks. But there are a growing number of captives that write third-party risks, albeit often those connected in some way to the parent organisation.

In the US, third-party underwriting by captives is well-established and supported by regulators and domiciles. But the concept is expanding globally and third-party risk is another growing area in captives, according to Adriana Scherzinger, group head of captives, Zurich Insurance Company.

She says Zurich has seen growing interest in captives expanding into third-party business, with more established captives underwriting significant third-party business, reflecting both strategic ambition and a maturing view of the captive as more than just a risk-financing tool.

Scherzinger says there are several drivers behind such a decision: "Often, the motivation is strategic – such as strengthening customer loyalty, supporting strategic partners in the value chain, or enhancing service offerings. Additionally, captives look to monetise existing infrastructure, generate new underwriting profits, and diversify their risk base. As captives mature, many are well understood within their companies and seek to play a more dynamic role in their organisations' broader risk and revenue strategies, and third-party underwriting provides a compelling opportunity to do so."

Airmic's *2025 Captives Survey* showed that 44% of respondents indicated their captives are underwriting third-party risks. "Third-party risks are one of the fastest areas of growth for captives," says Julia Graham, CEO of Airmic. "And in times of softening premium rates, it should be expected for placement of third-party risks to increase as captive owners search for strategic opportunities and look to maximise the benefits of having a captive."

Risks

Most third-party business assumed by a captive is in some way related to the underlying parents' business and complements that business.

Many US domiciles allow third-party underwriting by captives as long as it is "controlled unaffiliated business." This is generally described as any person:

(1) That is not in the corporate system of a parent and its affiliated entities;

(2) That has an existing contractual relationship with a parent or one of its affiliated entities; and

(3) Whose risks are managed by the pure captive insurance company.

Captives are covering a whole range of risks, such as extended warranty or service contract programmes, affinity insurance programmes offered to customers (such as travel insurance, product protection, mobile & tablet insurance), P&C insurance programmes for franchisees, contractors or suppliers, and even employee benefit solutions for non-parent entities.

Increasingly, MGAs and TPAs are making use of captives to write their third-party business. And it is not simply P&C captives maturing and building underwriting experience and then looking to add some third-party risk. There are numerous examples in the market of captives being established primarily for third-party risks.

Laurent Nihoul, Ferma board member and chair of the captive committee, notes that writing third-party risks is an area that has been growing for several years. He says such

"As captives mature, many are well understood within their firms and seek to play a more dynamic role in their organisations' broader risk and revenue strategies, and third-party underwriting provides a compelling opportunity to do so"

Adriana Scherzinger, group head of captives, Zurich Insurance Company

captives generally focus on relatively low-severity, high-frequency risks that complement their parent organisation's business. It tends to focus on insurance products to be offered to the customers, suppliers or contractors of their organisations for obvious reasons, says Nihoul, pointing to consistency in their overall portfolio profile and superior knowledge about related risk exposures and their assessment.

Motivation

There are a number of compelling motivations for a captive to move into writing third-party business, often around captives seeking to play a more dynamic role in their organisations' broader risk and revenue strategies.

Profit

The obvious motivation is profit. It is about monetising existing infrastructure and generating new underwriting profits within the captive. "We always like to look for a third-party angle for most of our clients, largely because it does provide a good income from an outside source," says Jason Flaxbeard, who leads the alternative risk practice at Brown & Brown. "And if you do it right and it operates well, the captive can be paid for by the profits from third-party business. And risk managers are generally very appreciative of this, because it turns risk management from a cost centre into a profit centre."

Tax

For US-owned captives, the Internal Revenue Service (IRS) requires a captive insurer to write a certain percentage of third-party/unrelated business in order to be considered and treated as an insurance company for tax purposes. This means the captive can potentially be viewed more positively from a tax perspective and can, for example, allow losses to be deducted when reserved rather than paid.

Flaxbeard says that in the early part of the 21st century the IRS became a little bit more stringent around their rules relating to treating captives as an insurance company, and since then the search for third business has become much more important for companies.

Risk diversification

Introducing new lines of business and risk classes beyond traditional first-party exposures creates risk diversification and reduces overall portfolio volatility by balancing cyclical or geographic risks. The captive writes risks that are unrelated to the captive's owner or participates in reinsurance business on the open market, in effect changing it from a mere captive into a full-blown (re)insurance company seeking profit from underwriting the risks of others.

Risk diversification can help captives achieve more balanced risk pooling, resulting in more stable results or better reinsurance opportunities, as well as having a positive impact on captives' solvency requirements, helping to improve their solvency ratio.

Peter Carter, head of climate practice and head of captive & insurance management solutions, WTW, notes that the group is able to diversify its risks, therefore getting capital relief and, depending on the business being written into the captive, it can also add stability to the results of the captive.

"It is pertinent to point out, however, that depending on where the captive is based, placing customer insurances into the captive could lead the captive to losing its classification as a captive, or at least of parts of the regulatory relief attached to it. Therefore, in taking this decision, it is suggested that a feasibility study is performed to understand not just the financial implications, but also the legal and operational ones," he says.

"We always like to look for a third-party angle for most of our clients, largely because it does provide a good income from an outside source"

Jason Flaxbeard, executive managing director – alternative risk, Brown & Brown

Customer experience

Third-party underwriting can be used to strengthen brand loyalty and create closer relationships with customers by offering insurance products that can reduce costs, support products and increase the company's presence in the market.

Matt Takamine, executive managing director and captive practice leader, Brown & Brown, says it is about being able to control the interactivity with the customer – managing the whole customer experience from top to bottom through use of the captive insurance structure. And he notes that it is not necessarily a case of captives moving into third-party

underwriting, and Brown & Brown has had captives that are constructed purely for third-party risks.

Having the data itself is important, says Flaxbeard: "Because by virtue of the fact that you own that programme, that data belongs to you rather than the insurance company. So, that is important for your ability to see what your customers are buying, to see what their interests are, and to be able to interact with them even further."

Expertise

In the end, companies often expand into third-party business through their captive for many of the reasons that the captive was set up in the first place: to gain better control over costs, improve claims handling, and fill coverage gaps where the commercial market is limited or expensive, as well as to tailor risk programmes closely to their specific business needs and reduce reliance on traditional insurers.

It may also be that the captive has genuinely built up a level of underwriting expertise in a particular sector that enables them to consider underwriting third-party risks with some confidence.

But some captives go beyond just insuring their parent company and related business and start writing third-party risks completely unrelated to their core business on an open market basis, acting much like a commercial insurer.

Michael Matthews, Artex Risk Solutions commercial director, EMEA & APAC, says that when captives start writing third-party risks in this way, "captives are looking to diversify risk, generate premium income, and leverage their underwriting expertise. Mutuals are a great example here – they're essentially a form of captive where members pool risks, often unrelated, to benefit from shared control, cost savings and tailored coverage."

Underwriting risk

There are, of course, potential risks in accepting third-party business in a captive structure, not least the underwriting risk. Inadequate pricing or poor risk assessment can lead to losses and capital erosion. Captive managers and fronters will be crucial in ensuring the technical expertise to unde rwrite the risks properly, and reinsurance protection will be critical.

Third-party underwriting can expose the captive owner to unfamiliar liabilities, and managing unrelated risks means more complexity in underwriting, reserving and compliance. There are also potential reputational and legal risks if claims are mismanaged. Poor customer experience on the insurance side can damage the parent company's brand and expose the captive to legal claims from policyholders.

Marsh's Rob Geraghty points out: "Third-party underwriting goes away from the mainstay of what a captive is. A single-parent captive writes its own risk because it's got control of those risks. When you start writing third-party, you've a lot less control, obviously, but also potential to make profit."

Writing third-party business often increases regulatory complexity and scrutiny. As Geraghty explains, there are greater capital requirements and more governance around third-party writers.

Takamine says that from a regulatory point of view, it raises the risk profile of the captive and a regulator will view it with a heightened sense of regulatory rigour. He notes: "It's introducing a new and unrelated stream of risks into your programme. It's a lot simpler when you're controlling everything, if it's all single-parent risk. But when you start to bring in unrelated risks, there is the question of how much can you really control, and how can you exercise risk management control?"

It is therefore crucially important to balance growth ambitions with strong risk management and an understanding of the risks being written.

Moving into third-party underwriting requires careful design, strong governance and transparency. All in all, a captive owner must carefully weigh up the benefits and risks to ensure that introducing third-party business aligns with their strategic objectives," says Mike Pickard, director, global ILS and commercial management, Aon. "Assuming alignment within the companies' overall risk management capabilities, adding third-party business can be a good diversifier to a captive's business while generating profits that would otherwise be taken by the markets," he says.

"Captives are looking to diversify risk, generate premium income, and leverage their underwriting expertise. Mutuals are a great example – a form of captive where members pool risks, often unrelated, to benefit from shared control, cost savings and tailored coverage"

Michael Matthews, Artex Risk Solutions commercial director, EMEA & APAC

Zurich Captives Contact Information

Executives
Adriana Scherzinger
Group head of captives
Zurich Commercial Insurance
Zurich Insurance Company
Email: Adriana.Scherzinger@zurich.com

Non-life Opportunities
Joshua Nyaberi
Head of captive fronting
Zurich Commercial Insurance
Zurich Insurance Company
Email: joshua.nyaberi@zurich.com

Proposition Opportunities
Andreas Ruof
Head of captive value proposition
Senior captive services specialist
Zurich Commercial Insurance
Zurich Insurance Company
Email: andreas.ruof@zurich.com

Life Opportunities
Reto Heini
Distribution manager
Zurich Global Employee Benefits Solutions
Zurich Insurance Company
Email: reto.heini@zurich.com

Websites
Zurich Captives: https://www.zurich.com/commercial-insurance/products/zurich-captives

Zurich Commercial Insurance:
https://www.zurich.com/commercial-insurance#

Zurich Integrated Benefits: https://www.zurich.com/products-and-services/zurich-integrated-benefits

LinkedIn
https://www.linkedin.com/showcase/zurich-commercial-insurance/

Office Address
Zurich Commercial Insurance
Mythenquai 2
8002 Zurich
Switzerland

Zurich's Commercial Insurance business is a leading property-casualty insurance provider serving the global corporate, large corporate, middle market, specialties and global programs sectors in more than 200 countries and territories*. For 150 years, including 100 years in the US, we have been applying our expertise and experience so our customers can have the very best insurance protection and access to risk management and mitigation services for the things they value most.

With our global workforce and partner network, we have proven our commitment and desire to deliver reliable and thorough insurance and service solutions to our customers. All of our passion goes into helping our customers understand, manage and minimise risks and hence optimise their risk management.

** Based on ISO 3166*

Zurich's global headquarters in Mythenquai, Zurich, Switzerland


Meet
prepared
With a network covering
200+ countries and territories,
Zurich helps your business
Meet tomorrow prepared.
This advertisement has been produced by Zurich Insurance Company Ltd solely for informational purposes. Its subject matter is not tied to any specific insurance product nor will it ensure coverage under any insurance policy nor does it constitute any type of professional advice nor an offer or an invitation for the sale or purchase of securities in any jurisdiction. Neither Zurich Insurance Company Ltd nor any of its subsidiaries accept liability for any loss arising from the reliance, use or distribution of this document. This advertisement may not be distributed or reproduced either in whole, or in part, without prior written permission of Zurich Insurance Company Ltd, Mythenquai 2, 8002 Zurich, Switzerland.
ZURICH