

## Higher Hazard Risks

### Challenge

Client operations fell into two business segments — amusement parks and short haul trucking — typically viewed by commercial insurers as “severity loss prone”. The owner, working with the broker, developed and implemented proactive risk management programs that had a favorable impact on the insured’s loss experience.

### Goal

In addition to improving claims management, the insured wanted to further reduce insurance costs and minimize the impact of market swings on the insured’s liability and Workers’ Compensation rates.

### Solution

The solution was to increase retentions and insure or reinsure the retained risk in a captive insurance company domiciled in Vermont. The client was able to finance higher levels of retained risk in a captive and build capacity to protect against unexpected loss severity.

The insured elected to explore two possible ways to take risk. First, the captive explored operating as a reinsurer of a fronting company. Second, the captive explored providing a direct deductible reimbursement policy should the insured decide to enter into a large deductible program. Under either structure, the captive’s retention and pure premium would be the same and captive assets would be used to provide collateral to the fronting or large-deductible insurer. The insured elected to place their General Liability with a surplus lines market and their Workers’ Compensation with a commercial insurer. The Workers’ Compensation was written with a \$250,000 deductible while the General Liability was written with a \$100,000 deductible. The captive provides a direct deductible reimbursement policy to the insured and the captive’s assets secure the outgoing letters of credit required by the insurance companies for the deductible losses.

### Benefits

- ✓ Captive assets provide collateral
- ✓ Share in underwriting profits
- ✓ Direct deductible reimbursement

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