Captive Insurance Company Reports

Greenguard: A New Kind of Captive Insurance Program

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Editor's Note: **Hugh Rosenbaum** is the editor emeritus of *Captive Insurance Company Reports (CICR).* He is a retired principal of Towers Perrin and its risk and insurance advisory practice, Tillinghast. He is recognized as a captive insurance industry expert and has served key positions in both the United States and Europe. Mr. Rosenbaum can be reached via email at hughro2@gmail.com.

CICR comment: Our editor emeritus, Mr. Rosenbaum, finds that the Greenguard (GG) program is the first really new development in the captive business sector to come along for a long time. He interviewed Chris Kramer, managing director of Green Mountain (GM) Sponsored Captive Insurance Company, to bring additional details to the recent public press announcements about GG.

First, it's useful to remind readers that in Vermont, where GM and GG are domiciled, a sponsored captive insurance company (SCIC) is like the core company of a protected cell company in other jurisdictions, also called segregated account companies, among other names. GM is the SCIC, licensed in Vermont under the domicile's captive legislation. Created in 2012 through the leadership of its three owners: Elevanta, SRS, and Southern Insurance Underwriters, Inc., GM's active cells are a mix of single owner and group programs insuring a wide range of risks including employee benefits, general liability, property, and workers compensation. It is the fourth largest SCIC in Vermont and, therefore, probably in the top 10 nationwide.

Cells getting to be big business. *CICR* estimates that among the 20 or so US jurisdictions offering captive cell structures, there are about 1,500 already active, mostly small ones. That number pales before the number of those that are active offshore in places like Bermuda, Cayman, Barbados, and Guernsey, where the number of active cells is estimated at more than 3,000. Each cell needs management and services, even if the expense costs for a cell are lower than the costs for a stand-alone captive. That's still service revenue in the range of $70 million–$100 million (*CICR's* estimate).

GG is one of the cells in GM, created in 2019 and open for business in 2020. It is an incorporated cell, which means it is a separate legal entity from GM itself, with its own board and management. GG also can act as an incubator for its group participants, which have grown in size and, thus, may wish to seamlessly transition their participation into a cell of their own. A participant, for example, may acquire or merge with a number of additional properties, making an individually owned captive (cell) an option.

GG's business model. The program focuses on multifamily residential properties, whose tenants buy the usual kind of insurance all tenants buy—contents (property) and renter's liability coverage. Coverages for an individual tenant vary but are typically $10,000–$20,000 for contents and liability coverage of $100,000, with "small" deductibles. Liability-only offerings are also available if preferred. The individual tenants aren't the members of the GG program. The property managers or owners are. A typical candidate client would be a manager of several such buildings or the ownership group itself. A requirement for tenants to show proof of insurance would seem to be one of the advantages of such a program except for the fact that most leave the tenants to arrange their own, creating uncertainty and possible underinsurance. Primary insurance has already been designed by GM/GG for standard coverages in each state. The fronting company is an A-rated insurer, Fortegra. Claims are handled by a third-party administrator. GG offers a turnkey solution to the property managers/owners, putting in place all necessary online insurance binding systems and making it simple and quick for tenants to secure their desired insurance coverage.

Brokers and intermediaries are also invited to bring their clients in as members, for which GG intends to pay them an annual percentage as a placement fee. The broker bringing in such business continues to oversee the business with the property owner while the insurance placement and management are handled by GM.

CICR comment: Including brokers and agents in the business is a good idea, even if it stretches the captive concept a bit, especially if they are doing the underwriting of the insured properties.

The group captive approach. GG offers each program participant in the group an accounting of premiums contributed. All program participants are entitled to a pro-rata share by premium volume of the annual profits from underwriting and investment income. GG doesn't participate in these profits, nor does GM. That means that even if a member has a bad loss year, he or she may still be eligible for a share of the profits from the combined programs. The group captive advantages may in the future extend to some of the "collegiality" advantages of being in the group to benefit from best underwriting practices and loss control pointers.

Premiums for limited risks of this magnitude are retained by GG at GM's risk, in other words. GM prudently buys reinsurance for its own account for catastrophe occurrences that might affect a number of programs at the same time and a level of aggregate annual stop-loss.

Capitalization—the big difference. One of the key differentiators from other renter's insurance programs that may be available is the fact that GG does not require any of the program participants to invest or put up capital at the outset. The GM SCIC takes the capital risk on its own balance sheet. This brilliantly simple approach would appear to be what insurance companies have been doing all along with the following two big differences.

- The program clients benefit from group captive cost advantages over commercial insurance. *CICR* readers are all familiar with what these are.

- Program clients are entitled to a share of all the profits of the combined venture and in the following year. That is better than the most tightly run mutual that one can imagine, where some of the profits are credited as a reduction in premiums but over time, not year by year.