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Captive owners look beyond coverage of plain-vanilla risks

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BOCA RATON, Fla. — Companies that want to use their captive insurers to cover emerging risks first need to understand everything they can about those risks.

Nancy Gray, a Burlington, Vermont-based regional managing director overseeing captive operations in the Americas at Aon Risk Solutions, said companies are starting to look at their captives from a strategic standpoint and asking how they can help them take on additional risk.However, they'll need to determine if a particular risk can be insured within their captive, she said.Captives are only allowed to insure risks that abide by the laws in their captive's domicile.Among risks companies are considering insuring via their captives in the next decade, cyber liability is No. 1, with underwriting projected to grow to 23% globally by 2020 from 8% in 2015, according to an Aon Risk Solutions survey of 1,400 risk managers (see chart). "Whenever there is a surge of events, then that risk jumps up to the top, such as pandemic did a year ago — and now it is cyber," Ms. Gray said during the 26th annual World Captive Forum in Boca Raton, Florida. As events and changes occur, risk profiles change and risks should be reviewed on a regular basis, she said."We don't know as much about cyber at this time as other risks, so the size of the risk appetite of the insurance company also needs to be taken into account," said Thomas Holzheu, New York-based chief economist for the Americas at Swiss Re America Holding Corp.Captives should examine how a risk will affect them before underwriting it, said Linda Conrad, New York-based director of strategic business risk management at Zurich North America's global corporate unit, and start looking at how a risk will affect them beforehand.Zurich regularly works with an emerging risk group to identify risks, she said."We look at external resources including reports, and then we ask what risks could affect us and our customers" over the short-term and long-term, Ms. Conrad said. "Wouldn't you like insight out 10 years for your captive so you can have time to turn ship? It would be great to have insight out 10 years on emerging risks that could impact your captive when you're in a company board meeting." One of the biggest challenges captive owners struggle with is correctly quantifying a risk, Ms. Conrad said. Citing business interruption as an example, insurers need to know how the potential disruption would affect a client's business and how long it would take the business to recover to accurately assess that risk, Ms. Conrad said. “We have seen cases where it cost four to 10 times what businesses estimated an interruption would cost to recover from,” she said. It also is important to consider how existing risks may affect the new risk, she said, citing how cyber risk affects nanotechnology as an example.“We can also use this information as a key tool in how to find opportunities,” Ms. Conrad said. “When you look at risks together, how does that change your view of them?” she asked. When the risk of wearables such as the Fitbit is looked at in combination with the risk of genetic predisposition to a particular disease using a Fitbit can improve a person's health.
