



Alternative Markets

## **Why Agency Captives with Great American?**

More Revenue... More Exclusivity!



## Evolve beyond profit-sharing

An agency captive allows an agency to rise above the traditional “commission & profit-share” revenue paradigm. It gives agents direct access to forms of revenue typically enjoyed exclusively by carriers — **underwriting profit** and **investment income**.

## Not just revenue – exclusivity!

Imagine bringing your clients a value that your competitors can't. An agency captive can give you a product that no one else has access to. The facility can be branded and bundled with other services offered by your agency. Furthermore, because Great American is very selective about the agents it works with, the chance of channel conflict is very low.

## How does an agency captive work?

An agency captive is a reinsurance company that an agency controls. Through a reinsurance agreement with Great American, the agency captive receives a share of all premiums written into the facility and has an obligation to pay its share of claims. The agency typically engages a captive manager to create the captive facility and oversee ongoing operations. Great American handles underwriting and provides specific and aggregate loss protection. This creates a finite “worst case scenario” for the captive. Agency captives create a truly unique relationship between the agent and Great American. All interests are aligned: appetite, risk-selection, pricing, loss control, claims management. **Success, or failure, is shared.**

For the agency's producers, CSRs and customers, the captive is largely invisible. The customer gets a normal “first-dollar” policy backed by the financial strength of Great American. The sales and service experience for the customer and agency personnel are like normal. Commission levels and payments to the agency are the same and are not affected by the results of the captive.

## When does a captive make sense?

An agency captive should be viewed as a preferred market – the place where the agency puts its best performing business. Some key characteristics of a successful agency captive:

- It is important to write at least **\$5M into the captive within the first three years**. Achieving critical mass is necessary in order to weather the effects of shock losses and enjoy the benefits of the law of large numbers. Since a captive facility should only be for top performing accounts, agents need to maintain good relationships with other carriers and wholesalers. Because of these considerations, an agency captive is not appropriate for agencies with less than \$15M commercial P&C business.
- The agency must have a **high tolerance for risk**. Unlike with company profit-sharing plans, **you can lose money** with an agency captive. There is a bigger up side, but also a down side. Even with good risk selection, adequate pricing, critical mass, aggressive claims management, etc., an adverse outcome is always possible.
- In order to have a captive you need to have **capital and patience**. Unlike profit-sharing, agency captive profits do not start paying out for several years. Also, because the maximum obligation of the agency is potentially greater than the captive's share of the premium ("loss fund"), the fronting carrier will require the unfunded liability to be collateralized. Depending on how much premium is written into the program, the collateral requirements can be significant – often reaching seven figures. The good thing is that all of the agency's money – loss funds and collateral – can be earning investment income while it is encumbered.

Because the agency will have "skin in the game," agency captives are not intended to be a market for poor performing, tough-to-place accounts or a market that can consistently underprice the competition.

## What kind of business is appropriate for an agency captive?

Agency captives can be owned by any type of agent. A retailer can write generalist (heterogeneous) accounts in their facility while an MGA or Program Administrator can write program (homogeneous) business in theirs. Obviously, the key criterion for determining which type of business to share risk on is profitability. Great American focuses on the following lines of business: BOP, Package, GL, WC, Auto and Cyber Risk.

## Great captives with Great American

Great American is a market leader in agency captives.

- Financial strength you and your customers can count on. Our lead insurance companies are rated “A+” (Superior) by AM Best (rating affirmed December 3, 2021).
- Long-term commitment to the captive model (since 1998). We are here to stay!
- Program and generalist approaches (homogeneous or heterogeneous)
- Minimal channel conflict – Great American does not have a competing “small commercial” or “middle market” department
- All the tools needed for success
  - Competitive forms, broad pricing ability, country-wide filings, flexible billing options
  - Services can be bundled or outsourced – UW, claims, loss control
- Superior “captive infrastructure”
  - Sophisticated reinsurance accounting
  - Dedicated actuarial support
  - A plan for closing/commutating old years after 3 years
  - Cash option for collateral and loss fund with guaranteed interest rate



## Show me the numbers

The first step in evaluating whether a captive is right for you is collecting data on the business that will go into the facility and working with Great American to develop an actuarial analysis and proforma of the potential outcomes. Our agency captives have experienced profitable results that consistently outperform standard profit sharing arrangements. Of course, a lower ultimate loss ratio would produce better results, and higher losses would limit (or eliminate) profit and could potentially erode the collateral causing a loss. Investment income is greatly dependent on the terms agreed upon for the loss funds and the collateral as well as investment market conditions.

## Getting started

A captive can lead to a much higher level of income while creating a competitive advantage that truly distinguishes the agency in the marketplace. If you are interested in learning more, or are ready to have your book evaluated, give us a call.



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for all the *great* you do®

Great American  
Insurance Company

**110<sup>+</sup>** years  
with an **A** or better  
rating by  
AM Best

AM Best rating affirmed December 3, 2021. Policies are underwritten by Great American Alliance Insurance Company, Great American Assurance Company, Great American Insurance Company, Great American Security Insurance Company and Great American Insurance Company of New York, licensed insurers in 50 states and DC and Great American Spirit Insurance Company, an authorized insurer in all 50 states and D.C., except New Hampshire. The Great American Insurance Group eagle logo and the word marks Great American® and Great American Insurance Group® are registered service marks of Great American Insurance Company. © 2022 Great American Insurance Company. All rights reserved. 3687-ALT (02/22)