

Marsh Captive Formations Up 200% in First Seven Months

Best's Insurance News & Analysis - September 18, 2020 03:30 PM (EDT)

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NEW YORK - Marsh Inc. said it sees strong demand for captive formations in the first half of 2020 as the broker said companies are increasingly turning to captive solutions in an uncertain environment.



“Marsh formed a record 76 new captive insurance companies from January through July this year, up over 200% compared to the same period in 2019,” Ellen Charnley, president, Marsh Captive Solutions, said in a statement. “While none of the new captives formed so far in 2020 specifically cover pandemic-related losses, organizations are using their captives to help navigate them through the global COVID-19 pandemic.”

Organizations are turning to the use of captives for insurance protection and financial flexibility in response to a difficult risk and insurance landscape, Marsh said in its 2020 “Captive Landscape Report.”

“In the second quarter of 2020, commercial insurance rates globally rose by an average of 19%,” Marsh said in the report.

“Looking ahead, the insurance market tightening that began in some lines in 2018 could accelerate, potentially leading to even less capacity,” the report said. “Where the road leads is unclear. To navigate these market conditions, however, many organizations are turning to captives.”

Tightening global insurance market conditions throughout 2019 led to higher captive utilization with steep premium volume growth in several coverage lines, the report said. The broker said supply chain, business interruption and contingent business interruption premiums written by Marsh-managed captives rose 283% on average in 2019.

All-risk property premiums rose 64% on average, led by the energy and financial institutions sectors, which saw all-risk property premiums rise 151% and 104%, respectively, Marsh said.

The trend towards greater captive use has continued in the first half of 2020 amid challenging insurance market conditions and the impact of the global COVID-19

pandemic, the broker said.

According to Marsh's report, U.S. domiciles "have seen significantly more growth in the number of captives over the last five years (20%) when compared to other global domiciles (1%)." In 2019, U.S.-domiciled captives accounted for 45% of gross premium written by Marsh-managed captives.

A Marsh survey of captive regulators worldwide found domiciles "are seeing several trends in risks and lines of business as captives adopt increasingly sophisticated technologies," the report said. "Nearly all regulators surveyed were open to the use of cryptocurrencies in captives, but 21% expressed uncertainty about its regulation."

The report found more captives are writing cyber insurance, according to regulators, who saw that trend as both an opportunity and a threat. Regulators "said the threat comes from the additional risk it presents to captives, as well as the governance and compliance it requires," the report said.

The Bermuda captive market is poised for growth, both from new captives forming and existing captives expanding as the property/casualty market continues to harden, according to a recent AM BestTV industry panel ([Best's News, Sept. 15, 2020](#)).

"Bermuda will continue to do well and prosper," said Susan Molineux, director, AM Best. She said captives typically flourish during hard markets, and the market had already begun to tighten before the COVID-19 pandemic hit, causing economic turmoil worldwide. With property/casualty rates rising, terms and conditions tightening, and capacity shrinking, companies are looking for alternative ways to insure their businesses, she said.

Marsh said the 2020 Captive Landscape Report uses data on an anonymous and aggregated basis from about 1,240 Marsh-managed captives worldwide.

To view the panel, visit: <http://www.ambest.com/v.asp?v=ambcaptives920>.

To view AM Best analysis and commentary on the COVID-19 outbreak visit: <http://www.ambest.com/about/coronavirus.html>

Marsh & McLennan Cos. is the largest insurance broker with 2019 total revenue of \$17.00 billion, according to Best's Review.

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BN-NJ-9-18-2020 1530 ET #

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