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The Future of Captive Insurance: Governance, Technology, and Performance Optimization

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Captive insurance has evolved from a simple alternative risk transfer mechanism to a strategic business tool that drives organizational value. By the end of 2024, there were more than 8,000 captives around the world collectively writing approximately $50 billion (USD) in premiums, according to *Captives Insure*. Its popularity will likely continue – particularly against the backdrop of economic and geopolitical uncertainty. But the true potential of captives remains untapped for many organizations due to:

- Not fully understanding emerging risks,
- Operational inefficiencies, and
- Data management challenges.

Without a solid captive strategy and quick access to data, your company is flirting with various failures – from financial hits to non-compliance.

By centralizing risk information, automating workflows, and enhancing reporting capabilities, data analytics and management ("insurance intelligence") solutions and risk management information systems (RMIS) can transform how organizations leverage their captives. Whether you're focused on regulatory compliance, optimizing premium allocation, or strategic risk retention decisions, effective digital tools are now essential to supplement your knowledge and provide options for maximizing a captive's contribution to your overall risk strategy.

Captive Market Expectations & Strategic Drivers

Current State of the Captive Insurance Market

The captive insurance market is experiencing unprecedented growth and innovation. A reported near-90% of *Fortune* 500 companies in 2025 own at least one captive insurance company. This widespread adoption reflects captives' established role as a mainstream risk management tool among the largest U.S. corporations, rather than an alternative or niche solution to the volatility and rising costs of the traditional insurance market. *Captives.Insure* noted that leading domiciles such as Vermont, Bermuda, and the Cayman Islands report steady increases in new captive formations, while emerging markets like France and the UK are exploring regulatory frameworks to attract captive business. Captives now manage billions in assets and premiums, covering an expanding spectrum of risks – including cyber, environmental, and third-party exposures.

Persistent hard market conditions, characterized by higher premiums and tighter underwriting, have driven organizations to look for greater control over their risk financing. Concurrently, heightened awareness of enterprise risks – such as cyber threats, supply chain disruptions, and climate change – has increased the appeal of captives as flexible, customizable solutions. Market acceptance is also growing as regulatory clarity improves and as organizations witness the long-term financial and strategic benefits realized by their peers.

James Swanke's colorful risk management career was characterized by his 42 years at Willis Towers Watson, supervising its risk consulting and casualty actuarial practices and implementing hundreds of captives.

> "One thing I like about captives is that it is formalized and everything has to be pre-funded, which demonstrates financial stability from the outset," said Swanke, who transitioned from consulting to academia and is now the director of the risk management and insurance MBA at the University of Wisconsin-Madison.

> "One of the top benefits from a captive is the ability to manuscript your own policy forms," he added. And if you assume enough risk in your captive, it's not uncommon for reinsurers to follow your form with all the bells and whistles."

Pros and Cons of the Captive Risk Retention Strategy

Captives offer significant advantages for large companies and those with a presence in various industries and emerging areas. This includes customized coverage, improved risk management, and the potential for cost savings and profit retention. They allow organizations to underwrite risks that may be uninsurable or expensive in the commercial market.

1. Customized Coverage
2. Risk Management
3. Cost Savings / Profit Retention

Captives appeared on the radar of Andres Cajiao Canfield around 2010, while as a finance manager for a major technology firm. But it was when he joined Google in 2012, and later transitioned to its parent company, Alphabet Inc., in 2015, that he saw the full scope and potential of captive insurance. Now as the Treasury/Captive Manager for Business Risk & Insurance at Alphabet, he sees its broader and direct impact daily.

> "One critical element of having a captive is to be able to create bespoke solutions for an owner's unique risks," Cajiao Canfield said. "For example, we have many different companies as part of Alphabet, including Waymo, which was the first autonomous ride-hailing service. When Waymo launched in the market in 2009 [as Google Self-Driving Car Project], there was no insurance policy for automated vehicles."

However, captives require careful planning, significant capital commitment, and ongoing management. They may not be suitable for every organization, particularly those lacking the necessary scale, risk profile, or long-term commitment. Regulatory compliance and governance are also critical, as captives must adhere to both domicile and international standards.

> "Google and Alphabet launched the captive and provided coverage from day one," Cajiao Canfield noted. "We drafted the form, which was the first of its kind. Other companies can also leverage a captive to cover those risks, where there is a gap for an emerging technology, for example."

How a Captive Drives Value for a Company

A well-structured captive can be transformative. By retaining underwriting profits, optimizing claims management, and leveraging data-driven insights, captives can reduce total cost of risk (TCOR) and enhance organizational resilience.

Hyatt Hotels Corporation has also enhanced its value and reputation among the hospitality industry for its captive program. In a May 2025 interview on RIMScast, the podcast of the Risk and Insurance Management Society (RIMS), Hyatt's Vice President of Risk Management Jennifer Pack noted that her company created the captive in 2013 as a reaction to the "huge insurance cost swings year-on-year" that could not be forecasted, which created "a lot of noise on the balance sheet." They originally put the captive in place to take away that noise and remove wild cost volatility.

> "But over time, as we started to see success and build up a surplus they saw the value of a captive, especially as market conditions changed," she said. "We brought in uncoordinated risk and saw the value of taking on additional forms of insurance coverage with traditional deductible buy-downs with workers' compensation and general liability. We started to see the surplus build up and they were able to give some of the surplus back to the participants and drive down their premium cost."

This strategy was especially useful during the start of the COVID-19 pandemic, when the hospitality business came to a halt. The owners of Hyatt were under extreme pressure.

Pack had an extra surplus in the captive and provided relief to the owners and to the company in that year and the following years. Claim volume decreased due to lower occupancy, and Hyatt used some of the cash to fund large acquisitions.

Governance and Operational Complexities in Captive Insurance

Captive insurance companies face unique governance challenges that require a robust and transparent framework. The board of directors must not only fulfill their duty of care to policyholders and shareholders but also go beyond basic compliance to ensure the captive achieves its strategic objectives. Strong governance is built on key pillars: independence, accountability, fairness, responsibility, and transparency. Establishing clear guidelines for board composition, meeting frequency, committee structure, and regular review of topics is essential for maintaining effective oversight.

Operational Complexities and Management Dynamics

Challenges often arise from the relationship between the captive, its parent company, and external service providers. Many captives outsource management to specialized firms, which can create divided loyalties if the captive manager is also tied to other vendors or the parent company. This dual reporting structure may lead to conflicts of interest, particularly if a firm acts as both broker and captive manager. To mitigate such risks, it is advisable to appoint truly independent managers and clearly delineate roles and responsibilities between the board, CEO, and management firms.

Compliance and Regulatory Challenges

Compliance is a dynamic and critical aspect of captive management. Captives must adhere to domicile-specific regulations as well as international standards, which are continually evolving. Organizational structure should reflect the captive's independence, even when key personnel hold dual roles within the parent company. Formalizing processes and controls, maintaining up-to-date organizational charts, and ensuring congruence in financial controls between the captive and parent company are vital for operational transparency and regulatory compliance.

> "Captives as insurance entities are highly regulated," Cajiao Canfield noted. "You're a true insurance company, so you need to act like one. Pricing needs to be determined at arm's length. You should have your own independent actuaries that are looking at your reserves and premiums, you may choose to have your own policy forms. We are a licensed insurance entity. As such, we need to comply with local laws and regulations and make sure that comes before anything else."

Captive and Corporate Relationship

The relationship between the captive and its parent company must balance integration with operational independence. While the captive often draws on the parent's resources and expertise, it should be managed as a standalone entity with its own governance framework, risk appetite, and reporting lines. This separation helps avoid blurred responsibilities, ensures unbiased decision-making, and strengthens internal controls.

Pack said she is always mindful of which role she is assuming when it comes to captive management: corporate risk manager or captive president.

> "I have to change the hat I'm wearing on a regular basis," she said during the interview. "As the captive president, I have to look at what [Hyatt] is doing to protect the captive and make sure it's adequately funded, and in compliance." She even hires third-party consultants for additional governance assessments. "When we're making decisions in the captive, we always preface it through the lens of the captive. And as the owner of this business, what are we doing to grow revenues? To manage expenses? Are we adequate? We are very conservative in protecting it."

This leads to difficult, but necessary conversations within Hyatt about borrowing limits.

> "We want to keep that cash," Pack added, "so that we can benefit our owners in the future and really protect everyone's interests."

Corporate governance practices help to keep the captive insurance company focused on achieving its objectives, while enhancing operational transparency, ensuring internal controls effectiveness and maintaining a good standing with regulators.

Positioned for Success

Strong governance practices that help keep the captive insurance company focused on achieving its objectives, while:

- Enhancing operational transparency,
- Ensuring internal controls effectiveness, and
- Maintaining a good standing with regulators.

On Measurements and Storytelling

Key Performance Indicators (KPIs) for a Captive Manager

A captive manager's effectiveness is measured through a blend of quantitative and qualitative KPIs that demonstrate the captive's financial health, operational efficiency, and strategic alignment with organizational goals.

Quantitative KPIs:

- **Loss & Expense Ratio (Combined Ratio):** Measures the sum of claims and operating expenses as a percentage of earned premiums. A ratio below 100% typically indicates profitability.
- **Premium Growth vs. Commercial Market:** Tracks captive premium increases against those in the commercial market to demonstrate cost containment.
- **Volatility of Earnings:** Assesses the stability of earnings by line of coverage and in aggregate, highlighting the captive's ability to manage risk over time.
- **Leverage Ratio:** Compares net written premium to surplus (ideally 3:1 to 5:1 or lower), indicating the captive's capacity to underwrite risk.
- **Total Cost of Risk (TCOR):** Evaluates the overall cost of risk, including insurance, retained losses, and risk management expenses, both in total and versus market trends.
- **Change in Surplus:** Monitors growth or decline in surplus, reflecting the captive's financial strength and its ability to support future risks.
- **Reserves-to-Surplus Ratio:** Shows how much risk the captive's surplus can support.
- **Operating Ratio:** Incorporates investment income to assess overall profitability.

As Hyatt's captive president, Pack said she is constantly looking at all these quantitative KPIs, especially loss and expense and operating ratios.

> "I'm constantly looking at surplus-to-premiums, and surplus-to-reserves, making sure that they're within the set ratios," she said during the interview. "We shoot for three-to-one. Anything above that number can go to participants."

Qualitative KPIs:

- **Achievement of Strategic Goals:** Assesses whether the captive is meeting its intended purpose, such as informing on difficult risks or supporting acquisitions.
- **Coverage Flexibility:** Evaluates the captive's ability to cover risks not insured by the commercial market and to adapt to changing organizational needs.
- **Risk Distribution and Expansion:** Looks at the captive's ability to diversify and expand into new lines or geographies.
- **Governance and Compliance:** Measures the effectiveness of governance structures, timely and accurate financial reporting, and adherence to domicile-specific regulations.

Operational KPIs:

- **Timeliness and Accuracy of Financial Reporting:** Ensures financial statements are delivered on time and free from material weaknesses.
- **Regulatory Compliance:** Tracks adherence to reporting and record-keeping requirements in the captive's domicile.

By tracking these KPIs, Cajiao Canfield noted he can more clearly communicate program value, identify areas for improvement, and align captive operations with the broader strategic goals of Google and Alphabet.

> "Exposing that data via reporting, including dashboards, has helped us convey to management how premiums and claims are trending, and how the captive is performing," Cajiao Canfield said.

Telling the Story

Based on the KPIs, the risk manager can convey the value of a captive to the C-suite and stakeholders. Risk managers for large organizations and those involved in acquisitions should focus on the metrics that clearly connect captive performance to business strategy.

Methods to Demonstrate Value:

1. **Cost Savings and Profitability:** Show how the captive reduces insurance costs compared to the commercial market, stabilizes premiums, and captures underwriting profits and investment income. Use metrics such as loss and expense ratios, combined ratios, and total cost of risk (TCOR) to illustrate improved financial performance.
2. **Support for M&A Activity:** Highlight that captives can make acquisitions more attractive by providing flexible insurance solutions for newly acquired risks, smoothing integration, and supporting due diligence. Captives structured as subsidiaries can enhance earnings before interest, taxes, depreciation and amortization (EBITDA), as insurance premiums paid to the captive are added back to revenue in deal valuations, directly impacting the perceived value of the business.
3. **Coverage Flexibility and Strategic Alignment:** Demonstrate the captive's ability to insure risks that are difficult or expensive to place in the commercial market, including new or emerging risks from acquisitions. This flexibility supports growth and strategic initiatives.
4. **Risk Management Enhancement:** Illustrate improvements in claims management, loss control, and overall risk governance. Captives enable better data collection and analytics, driving targeted risk mitigation and supporting enterprise risk management objectives.
5. **Capital and Surplus Growth:** Show how the captive builds surplus over time, enabling the company to expand coverage, increase retentions, or write new lines of business as the organization grows.
6. **Scenario Analysis and Stress Testing:** Use financial modeling tools to present pro forma analyses, stress tests, and scenario planning, demonstrating the captive's resilience and value across various business conditions, including post-acquisition environments.

By presenting these metrics and narratives, risk managers can clearly articulate how the captive not only reduces costs but also supports growth, enhances risk management, and adds measurable value to the organization-making a compelling case to the C-suite and stakeholders.

> "On the insurance procurement side, we're leaning into our captive to take on much higher retention," Pack said, referencing $3 million to as high as $50 million per loss. "We're taking big steps to bring that all in-house. Because we have confidence in our risk management practices on the front end."

Technology's Expanding Role in Captive Management

Technology is reshaping how captives are managed, with innovative software unlocking new value through smarter, faster, and more strategic operations. Three key areas are demonstrating where these advancements are making the biggest impact:

- **Enhancing Captive Value:** Financial and operational technologies improve efficiency, transparency, and control, turning captives into powerful tools for enterprise risk financing and forecasting.
- **Driving Strategic Insight:** Aggregating data across claims, premiums, and exposures enables dashboard-driven insights. These tools help risk professionals identify trends, benchmark performance, and make timely, informed decisions.
- **Enabling Automation:** Captive operations—like policy issuance, billing, compliance, and reporting—can be streamlined through automation. This reduces manual work and allows teams to focus on strategic oversight and governance.

> "The benefits of these technology solutions are benefiting the captive," she said, "because the risk, claims and captive teams are all receiving better data… so we won't get blindsided by some unusual trends that we didn't previously see."

Swanke, whose 40-plus-years career is inexorably intertwined with captive insurance, sees technological innovations as an efficient way to "pull the levers" that establish a captive's risk retention, which can inform strategy as renewal dates loom.

> "New technology measures how all these risks interact and are correlated enabling you to put together a matrix of all the risks that are being covered within a captive facilitating the calculation of the diversification benefit, which ultimately then determines the amount of economic capital that the captive must maintain," Swanke said. "Twenty years ago, it would take us months of actuarial work to do all of that, but with the innovation of software now available, it can be accomplished in just a matter of days."

Looking Forward: A Matter of Arbitrage

A captive is not a short-term solution to address risk transfer expenses. An initial step in the decision-making process is to conduct a captive feasibility study to examine an organization's risk tolerance and financial needs. Working with experts and technological innovations in captive insurance, risk managers can better understand and choose from the options that make financial sense.

Risk leaders like Cajiao Canfield and Pack have set a precedent in thoughtfully balancing corporate governance and values alignment for major corporations. As large and multimillion-dollar organizations take on more risk, it is reasonable to expect a continuing commensurate rise in captives, fueling the trends seen in the last 20 years, let alone the last five.

This will inevitably impact the risk talent pool, and thankfully, captive insurance is already embedded in the education of the next generation of risk professionals. In the first half of 2025, Swanke's students at the University of Wisconsin-Madison won three risk competitions with a special emphasis on captives: First-place honors in the 2024-2025 Captive Insurance Companies Association's (CICA) Captive Insurance Solutions for Today's Risk Management Challenges competition; the 2025 Spencer-RIMS Risk Management Challenge; and the AM Best 2025 Student Challenge.

Swanke believes captives will become a prominent tool in the proverbial risk toolbelt, particularly as capacity, vis a vis the availability of insurance could be limited.

> "Organizations will have no choice but to have captives available to help them through these various cycles," Swanke said. "It is another layer of protection for organizations in terms of control and financing of risk. A captive is just the best way to arbitrage whatever is happening in the marketplace."

The number of captives has steadily increased for the last four years:

- 5,879 in 2020
- 6,074 in 2021
- 6,093 in 2022
- 6,181 in 2023

According to the *Captive Managers and Domiciles Rankings + Directory 2024* published by *Business Insurance*.

Captives: Key Terms

Captive
A captive is a licensed and regulated insurance entity (a subsidiary of an otherwise non-insurance parent company) that typically underwrites the risks of its sponsor or parent organization.

Domicile
The captive is domiciled, or maintains a permanent home, in a particular state, province or country. This location and information is used for various legal and tax purposes, governing its status and property.

Over the past several decades, captives have evolved and taken on different structures to meet the risk-financing needs of their owners. Some of the most common types of captives include:

Single-parent captive
A single-parent captive is a stand-alone legal entity that insures the risks of its parent, affiliates, and/or third parties. Also known as a "pure" captive mentioned above, this has been a traditional structure since the first one was formed early in the 20th century.

Cell captive
A cell captive describes several different variations on a simple concept: cells are part of a larger entity providing licensing and operating infrastructure, but each cell is separately capitalized and segregated from the liabilities of other cells. It's similar to condominium units, with individual owners and their assets residing in the same building. Other types of cell captives are segregated portfolio companies, protected cell companies, and segregated account companies.

Group captive
A group captive operates like a pure captive, except it has multiple owners. Owners may be in the same or adjacent industries or in different industries. Group captive members typically share in the profits and losses of the group captive, in effect subsidizing each other's risks.

Risk-retention group (RRG)
RRGs were first authorized in 1981 for product liability risks but became numerous after the Liability Risk Retention Act in 1986, which Congress enacted in response to a liability insurance crisis in the mid-1980s. RRGs are similar to group captives and, by law, are allowed to write liability risks nationwide – but not property risks – as long as they meet the regulations of their state of domicile. RRG members must be in the same industries or have substantially similar liability exposures.

Special-purpose vehicle (SPV)
SPVs are widely used in risk securitization or insurance-linked securities, which finance risk through the capital markets instead of traditional insurance. Examples are catastrophe bonds and longevity swaps. Captives can be authorized as SPVs for owners that wish to engage in risk securitization.

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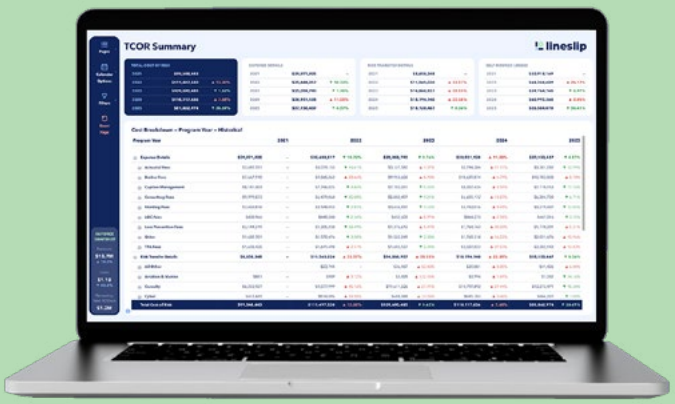

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LineSlip Risk Intelligence evolves your risk management system from Excel sheets to a modern purpose-designed insurance data platform.

By automatically consolidating and organizing your insurance program data, LineSlip delivers report-ready analytics, insights, and dashboards – giving Risk Management teams one-click access to all their program information.

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