



Healthcare Insurance/ Reinsurance Captive Landscape

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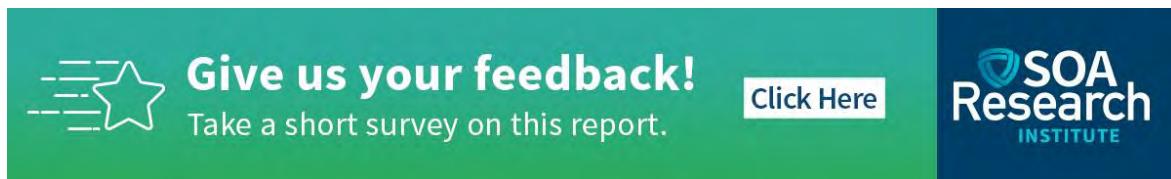
AUTHORS Veronika Cooper, FSA, MAAA
Risk & Regulatory Consulting, LLC

SPONSOR Reinsurance Section

Lynn Manchester, FSA, MAAA
Risk & Regulatory Consulting, LLC

Rebecca Sheppard, FSA, MAAA
Risk & Regulatory Consulting, LLC

Dave Heppen, FCAS, MAAA
Risk & Regulatory Consulting, LLC



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CONTENTS

Executive Summary	4
Section 1 Background	6
1.1 Research Objective.....	6
1.2 Research Method	6
Section 2 History and Evolution of Captives	7
Section 3 Captive Types.....	10
3.1 Pure (or Single-Parent) Captives	12
3.2 Group Medical Captives (50-200+ Covered Lives).....	13
3.3 Health Maintenance Organization (HMO) Captives	13
Section 4 Market Landscape for Healthcare Captives.....	14
4.1 Players in the Market	14
4.2 Current Market Trends	15
4.2.1 Rising Healthcare Costs.....	15
4.2.2 Changing Employee Expectations	16
4.2.3 Emerging Use Cases for Captives	17
Section 5 Healthcare Captive Considerations	18
Section 6 Forming and Managing a Captive	20
6.1 Feasibility Study.....	20
6.2 Considerations When Forming a Captive.....	21
6.3 Choosing a Domicile	22
Section 7 Acknowledgments.....	24
Appendix: Interview Questions	25
References.....	26
About the Society of Actuaries Research Institute.....	29

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Executive Summary

Captive insurance companies—entities formed and owned by organizations to insure their own risks—are playing an increasingly strategic role in the healthcare sector. As healthcare costs continue to rise and traditional insurance markets become more volatile and expensive, captives can be a compelling alternative for employers, healthcare providers, and insurers seeking greater control, cost savings, and risk management flexibility. This report explores the evolving landscape of healthcare insurance and reinsurance captives. It provides a comprehensive overview of the history, structures, market dynamics, and regulatory considerations shaping this space.

Below are just a few examples from organizations where companies included a captive in order to achieve their business objectives, which include, but are not limited to, gaining better control over insurance programs, mitigating current risk, and addressing emerging risk (Kagan, Julia, 2024; Capterra, 2025; Muselman, 2024; Unity Captive, 2024):

1. An insurance agency: This insurance agency transitioned from a fully insured plan for its employees to a self-funded group captive model and reports recognizing significant cost savings, as well as improved employee satisfaction. They also serve as a resource for other businesses looking to implement this strategy (Roundstone, 2024).
2. Totem: This benefits consulting company switched to a self-funded group captive model and achieved zero deductibles and reduced copays for its employees, while also seeing a 12% return on unused premiums in the first year (Totem, 2024).
3. A home healthcare agency: While not a healthcare provider, by leveraging a healthcare-related captive program, this agency increased deductibles on its traditional insurance, lowering premium costs, and then used the captive to insure those higher deductible levels. This approach also allowed for broader coverage of specific risks within the home healthcare sector, such as cyber liability, crime, and employment practices liability, while capturing profits within the captive. Below is a breakdown of how home healthcare agencies are leveraging captive insurance (My Benefit Advisor, 2024):
 - a. Cost control and savings: Captives allow home healthcare agencies to retain a portion of their risk. By effectively managing risks and claims, agencies can generate underwriting profits within the captive, leading to further savings and a reduction in premiums.
 - b. Risk management and control: Participating in a captive can enhance focus on proactive risk management, where agencies are motivated to implement and improve safety and quality measures, which leads to better outcomes for patients and can lead to fewer claims. Captives also give agencies more autonomy when it comes to benefit design, claims processes, and handling of emerging risks that may not otherwise be covered by traditional insurers.

Key findings include:

- **Rapid growth and diversification:** As of 2024, over 8,000 captives across all sectors of insurance, globally wrote approximately \$50 billion in premiums. Healthcare captives—especially group medical captives and single-parent captives—are among the fastest-growing segments.
- **Market drivers:** Economic pressures, dissatisfaction with traditional health plans, and rising demand for benefit customization are fueling the shift toward captives. Employers are increasingly turning to captives to manage medical stop-loss coverage and other employee benefit risks, such as benefit design and accountability risk, rising costs, administrative complexities, and potential legal and compliance issues.
- **Captive types:** The report outlines various captive types, including pure (single-parent), group, rent-a-captive, protected cell, and HMO captives. Each offers different levels of ownership, risk sharing, and operational complexity. Business entities are able to select a captive type that best fits their needs, which has been one of the main drivers in the expansion of healthcare captives.
- **Advantages:** Captives can reduce insurance costs, improve access to reinsurance markets, offer tailored coverage, and return underwriting profits to owners. They can also provide valuable data transparency and risk management tools.
- **Challenges:** Forming and managing a captive involves significant upfront costs, regulatory compliance, and exposure to underwriting risk. Domicile selection and feasibility studies are critical to success.

Section 1 Background

The purpose of this study (the Study) is to investigate the topic of the healthcare insurance/reinsurance captive landscape. Risk & Regulatory Consulting (RRC or the researchers) carried out the main objectives of this project, including reviewing existing literature and regulations and interviewing regulators, captive-focused consultants, and captive owners, as well as using subject matter expertise to complete the study.

The purpose of this paper is to summarize the results of this research, including the approach, the information gathered, and the conclusions generated.

In this section, the research objective and the methods used in completing this research are presented.

1.1 RESEARCH OBJECTIVE

The purpose of this research is to examine the following:

- Trends in the use of healthcare captives for managing risk.
- Changes over time in the landscape for healthcare captives.
- Various captive structures utilized.
- A summary of the current market landscape for healthcare captives.
- Considerations for creating or joining a healthcare captive, including the selection of a captive jurisdiction.

In addition to providing a resource to help healthcare insurers and other entities manage risk, this research can aid policymakers in assessing how healthcare captives affect existing insurance regulations and requirements by considering the changes they introduce to the insurance landscape.

1.2 RESEARCH METHOD

The research method involved two phases.

First, the researchers conducted a review of existing literature, regulations, publicly available information of recent transaction data, and other information related to the use of healthcare captives. The papers, research documents, and other literature used for this purpose are included in the [References](#) section of this report.

Second, the researchers surveyed and interviewed a limited number of regulators, captive owners, and captive-focused consultants (participants remained anonymous), in order to understand the drivers and benefits around the increased use of healthcare captives, as well as their perspective on the latest issues, including the selection or changing of location of domicile. The goal was to include a group with diverse insurance industry and regulatory representation to avoid bias in the results.

For this phase, the researchers developed an interview questionnaire based on their initial review of the literature to obtain additional information from a group of selected subject matter experts. The topics that were covered by the questionnaire can be found in a separate [Appendix](#). The questionnaire was distributed to the interviewees electronically via email, and the responses were sent back via email as well.

Section 2 History and Evolution of Captives

The first captive was founded in 1953 by Frederic M. Reiss, a property engineer turned insurance broker. He founded the Steel Insurance Company of America, a captive insurer developed for an Ohio steel company, which was domiciled in Columbus, Ohio. The term “captive” was borrowed from the “captive” mines that existed only to send ore to the company’s mills (Captive.com, 2025). This captive insurance company covered risks related to those mines, such as structural collapses, impacts from toxic gases, explosions, flooding, accidents from machinery and equipment, and health hazards, which included prolonged exposure to dust and other mine conditions (MSHA Safety Services, 2024).

Reiss also created the first Bermuda-domiciled captive. In 1958, he set up American Risk Management in Bermuda, laying the foundation for the Bermuda insurance and reinsurance industry that flourishes today (Captive International, 2022). As reinsurers had already been operating in Bermuda for over a decade, captive management in Bermuda offered administration, governance, reinsurance, and brokerage. The reinsurance capacity included captives as reinsurers. The first Captive Conference took place in 1977 and was held in Bermuda by consultants at the Risk Planning Group; there were fewer than 50 people in attendance (Captive.com, 2025).

The first healthcare captives emerged in the 1970s and 80s, with medical stop-loss captives being the most popular and growing type of healthcare captive in the industry. The use of captives to insure medical stop-loss was an evolution within the broader captive insurance market. While various sources point to a few specific pioneers, the growth and adoption of this model has occurred over several decades, as companies have sought ways to gain more control over their healthcare costs (Roundstone, 2023).

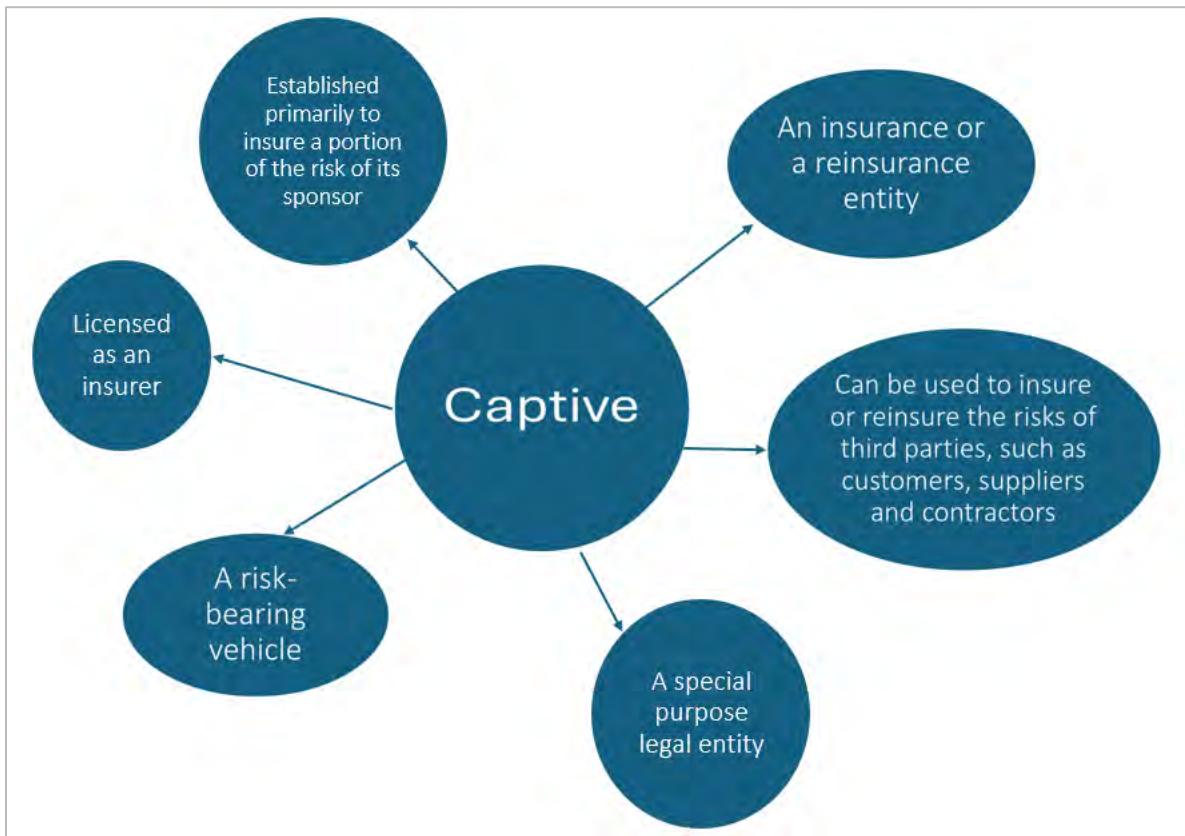
Today, captive insurance refers to a subsidiary corporation created to offer insurance coverage to its parent company and its affiliates. This insurance can include reinsurance if the parent company operates as, or partners with, an insurance provider. For a wide range of organizations, including Fortune 500 companies and nonprofits, a captive insurance company presents an attractive alternative to relinquishing control to third-party insurers. A study from the National Association of Insurance Commissioners (NAIC) reported that the majority of Fortune 500 companies now have [healthcare] captive subsidiaries, highlighting a significant trend in corporate healthcare strategies (Araullo, 2024). By underwriting their own insurance, these organizations can gain more control of their fiscal management and risk mitigation (Vermontcaptive.com, 2025). This increased control also involves increased risk, which are discussed later in this report.

Captives are closely regulated by each state or country of domicile and are also recognized by the NAIC. Once established, a captive operates much like any commercial insurance company and is subject to state regulatory requirements, including financial reporting, as well as capital and reserve requirements. Under regulatory requirements in most states, a captive must have legitimate risk management strategies, genuine insurance functions and transactions. Captives are also subject to IRS regulations and scrutiny. In addition, beyond the importance of effectively navigating and complying with jurisdiction-level regulations, setting up a captive can involve the following:

- high upfront costs,
- ongoing expenses in the form of salaries, fees, claims handling and loss control,
- losses of capital if the captive experiences losses, and
- financial risk for the parent company (including the potential for catastrophic loss).

Figure 1 summarizes the concept of a captive:

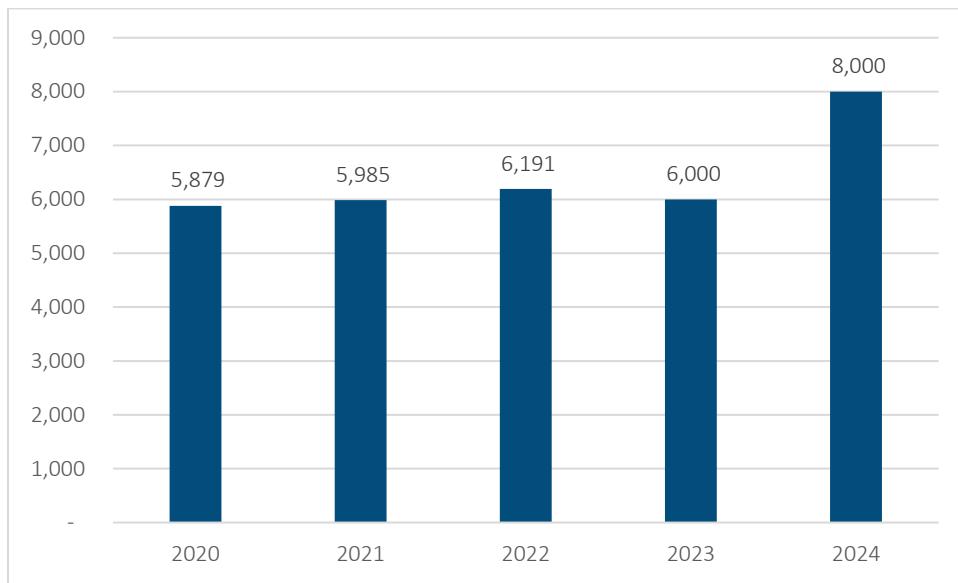
Figure 1
ASPECTS OF A CAPTIVE



Captives have now existed for several decades and have recently gained greater visibility as a strategy for managing various business risks. The range of industries utilizing captives is expanding and now encompasses healthcare, insurance, financial services, banking, real estate, securities, technology, law, accounting, and actuarial services, as well as construction and automotive sectors. Companies are increasingly opting for captives to gain better control over claims, enhance flexibility in claims management, access customizable coverage options, lower operating costs, improve funding and underwriting capabilities, enjoy potential tax advantages, and ultimately boost profitability.

According to the *Captive Insurance Times*, in 2024, the total number of captives worldwide reached an estimated 8,000, collectively writing approximately \$50 billion in premiums (*Captive Insurance Times*, 2025). This is compared to about 6,000 captives reported across 76 global domiciles in 2023. (Richardson, Mark, *Captive Review*, 2024). This growth was driven by several factors, including difficult economic conditions, which are causing companies to seek out more affordable coverage and more control over their risks (*Captives Insure*, 2025).

Figure 2
TOTAL NUMBER OF CAPTIVES WORLDWIDE



The number of U.S. domiciled captives also increased in 2024. According to Risk & Insurance, “The number of U.S. domestic captives increased to 3,466 in 2024 from 3,365 the previous year”. The growth that was “initially driven by rapidly rising commercial insurance costs has evolved into a more strategic approach, with captives becoming permanent enterprise risk management tools rather than temporary market reactions, AM Best said”. Established U.S. captive domiciles like Vermont, Utah, and Missouri are experiencing continued growth. Vermont, the largest U.S. captive domicile, licensed 41 new captives in 2024, bringing its total to 683, including 654 active and 29 dormant companies. Other U.S. domiciles leading in growth include Montana, North Carolina, South Carolina, Texas, Michigan, and the District of Columbia (Risk & Insurance, 2025).

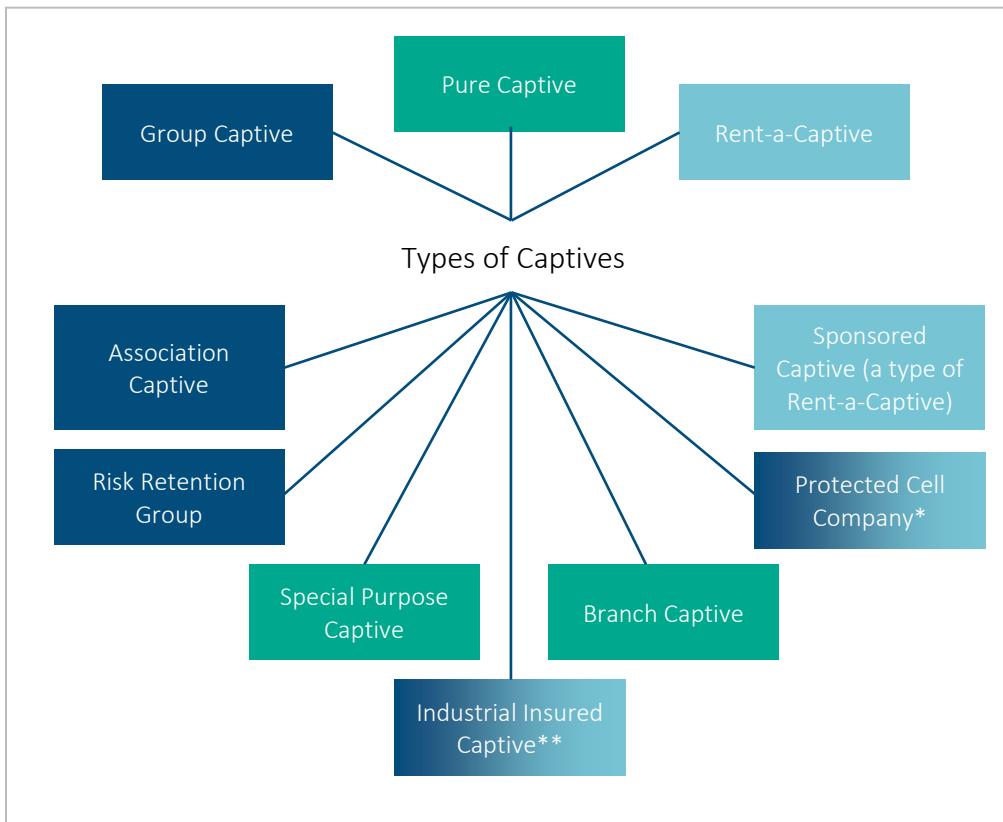
Understanding all of the factors that can impact a decision of whether to form a captive. More details on the things to consider when establishing a captive are found in Section 5 of this report.

Over the years, the structures used for captives have evolved into several distinct types. These types of captives may differ in the set-up process, fees, ownership, funding, geographic location (domestic or offshore), accessibility of staff, and services provided, as well as regulatory requirements and structure. These distinct types of structures are explained in the next section.

Section 3 Captive Types

There are several distinct types of captives that a business may consider when forming a captive. Figure 3 provides a summary illustration (the colors are meant to illustrate groupings, such as association captives and risk retention groups that fall under the broader group captive category):

Figure 3
TYPES OF CAPTIVES



*Protected cell companies could be either a group captive or rent-a-captive

**Industrial insured captives could be either a pure captive or a group captive

Captives come in various forms, primarily distinguished by ownership and the risks they cover. Ownership structures include single-parent, group, and sponsored captives, while risk coverage can be tailored to specific needs or broadly encompass various types of risk (Captive.com, 2025), (CPA Captive Planning Associates, 2025).

The most common types are:

- **Pure Captive**—Also known as a single-parent captive (SPC), this type of captive insurance company is owned and operated by a single entity (a parent company or its subsidiaries). The pure captive insures the risks of its parent company and, potentially, its subsidiaries. It is a form of self-insurance where the insured and insurer are essentially the same entity, giving the parent company greater control and flexibility (Captive.com 2025).
- **Group Captive**—A group captive is formed by a pool of individual companies or non-related entities that jointly set up the plan to insure the risks of the owners. Typically, said risks are similar in nature, but that is not always the case. This is often an attractive option for small-to-midsize businesses that lack the required

risk exposure to justify owning a pure captive. Instead, by pooling their resources, they can better distribute risks, profits, and losses (CPA Captive Planning Associates, 2025).

- **Rent-a-Captive**—Forming a captive can be a lengthy and costly process, especially for a smaller company. This type of captive plan is owned by an outside organization—a broker, reinsurer, or fronting insurance company—that is not a policyholder of the captive. This allows a business to join a captive plan without the financial commitments and risks inherent to captive ownership. (CPA Captive Planning Associates, 2025)

Other types of captives include (these are variations or subsets of the common types):

- **Association Captives**—owned by members of a trade association, insuring risks of their members and affiliates.
- **Protected Cell Companies**—allows for multiple cells within a single captive structure, each with its own risk pool.
- **Special Purpose Captives**—designed for specific risk management needs, such as covering employee benefits or financial risks. An example would be a pharmaceutical excess loss captive, utilized by pharmaceutical companies to cover large, infrequent losses that exceed a certain threshold. Instead of purchasing traditional stop-loss insurance from a commercial carrier, a pharmaceutical company establishes a captive insurance subsidiary to provide this coverage. In addition, pharmaceutical companies may establish a warranty captive to self-insure extended warranties offered on their products (the warranties are usually offered in the form of a rebate or a refund due to the drug not performing as expected). Also, special purpose captives may be designed to facilitate the securitization of insurance risks. This means that they can be used to issue insurance-linked securities to transfer risks to capital markets (Strategic Risk Solutions, 2023).
- **Industrial Insured Captives**—insurance for multiple companies, either as pure or group captives (Gregory & Appel, 2024).
- **Risk Retention Groups**—a specific type of group captive, typically for industries with high liability risks (Gregory & Appel, 2024).
- **Branch Captives**—U.S.-based operations of offshore captives, often used for employee benefits (Captives in Utah—Basics).
- **Sponsored Captives**—a type of rent-a-captive, also called segregated cell or protected cell captives. These entities allow for assets and liabilities of one captive program to be legally segregated from the assets and liabilities of other captive programs. Sponsored captives allow for entities to insure their own risks without establishing their own captive structure (Captives in Utah—Basics).

Table 1 summarizes the types of captives by ownership, capital requirements and the entity whose risk is covered by the captive:

Table 1
TYPES OF CAPTIVES

Captive Type	Ownership	Capital Requirements	Risks Insured
Pure Captive <i>Special Purpose Captive</i> <i>Industrial Insured Captive</i> <i>Branch Captive</i>	Single-parent	High	Risks of the parent company, its affiliated companies, or controlled unaffiliated businesses. Does not insure the risks of external, unrelated entities or the general public
Group Captive <i>Association Captive</i> <i>Protected Cell Companies</i> <i>Industrial Insured Captive</i> <i>Risk Retention Group</i>	Multiple entities	Moderate	Risks of its member companies
Rent-a-Captive <i>Protected Cell Companies</i> <i>Sponsored Captive</i>	Outside organization (a broker, reinsurer, or fronting insurance company)	Low	Risks of the business renting the cell

Section 2, describes the significant growth in captives in 2024 and states that the total number of captives worldwide reached an estimated 8,000, collectively writing approximately \$50 billion in premiums (Captive Insurance Times, 2025). As for the types reflected in that growth, protected cell captives were the most formed structure in 2024 (38%), followed by group and pure (or single-parent) captives (29% each) (Captives Insure, 2025).

For healthcare, captives represent a form of self-funded insurance. As healthcare costs continue to rise, employers are pressured to try something different.

3.1 PURE (OR SINGLE-PARENT) CAPTIVES

The term “captive” insurer has traditionally meant a “single-parent” captive, which is a subsidiary of an operating company/parent that insures the risks of the operating company/parent and, in some instances, its affiliates (The National Law Review, 2024). In the insurance market, historically, single-parent captives insured property and casualty risks and workers’ compensation, but they have since become common in life insurance and, more recently, expanded into use in the healthcare market by employee welfare plans, health insurers and healthcare provider organizations.

3.2 GROUP MEDICAL CAPTIVES (50-200+ COVERED LIVES)

For healthcare, a group captive allows a group of unrelated employers to create a shared insurance entity that will help mitigate certain risks. Typically, the primary risk addressed is medical stop-loss coverage. There is ongoing discussion regarding which size of employer would benefit the most from joining a medical stop-loss group captive. While having around 200 covered lives is often viewed as the ideal threshold, some credible estimates suggest that it may be effective with as few as 50 covered lives (The National Law Review, 2024).

3.3 HEALTH MAINTENANCE ORGANIZATION (HMO) CAPTIVES

This is a specific type of captive insurance arrangement where a Health Maintenance Organization (HMO) establishes its own insurance company (the captive) to reinsure a portion of its health insurance risk. These organizations are working towards the transformation of healthcare management, which can improve earnings but also increase earnings volatility. Compared to solutions available in the commercial insurance market or through pure self-insurance, captives provide better access to the global reinsurance market at lower prices, provide the ability to customize coverage, and provide more risk-management opportunities for its owners (Marsh, 2017).

Section 4 Market Landscape for Healthcare Captives

The healthcare captive insurance market involves a wide range of participants, including healthcare providers, managed care organizations, and various insurance-related entities such as traditional insurance companies and captive insurance companies, as well as captive brokers and consultants. This market offers alternative risk financing for healthcare organizations, enabling them to manage their own risk and potentially reduce costs.

4.1 PLAYERS IN THE MARKET

The captive insurance market includes several key players, primarily large corporations that establish captive insurance companies as their own risk management tools. Figure 4 illustrates the players in the captive insurance market. All players come together and contribute to the captive insurance market. The large corporations include captive owners and managers, reinsurers, legal and accounting firms, acquisition companies, and fronting insurers. Government regulators, brokers and consultants play a significant role in guiding, developing, and supporting the goals of the captives and their owners.

Figure 4
PLAYERS IN THE CAPTIVE MARKET



These include entities like Fortune 500 companies, private companies, and non-profit organizations, spanning various sectors such as automotive, telecommunications, technology, and energy. These corporations are the *Captive Owners*.

Other significant players include:

Captive Managers: These firms provide ongoing management of a captive, including administrative tasks, financial reporting, and regulatory compliance.

Brokers: Brokers play a crucial role in identifying potential captive needs, assisting in the formation process, and managing the captive's relationship with the commercial insurance market.

Reinsurers: Reinsurers provide reinsurance for the risks the captive is assuming, helping to manage risk and maintain solvency.

Legal and Accounting Firms: These professionals provide expertise in captive formation, compliance, and financial reporting.

Captive Consultants: These specialized consultants offer advice on captive design, structure, operations, and choosing a domicile location.

Fronting Insurers: Fronting insurers are traditional insurance companies that act as the "face" of the captive to the regulatory authorities and the insureds.

Acquisition Companies: Acquisition companies purchase captives, often from their parent organizations, as part of their risk management strategies.

Captive Domiciles: These are jurisdictions that offer a regulatory environment for captive insurance companies to be licensed and operate.

Government Regulators: Governments, both state and international, play a role in regulating captive insurance companies.

4.2 CURRENT MARKET TRENDS

As discussed earlier, 2024 was a very active year for captive insurance growth. Specifically, the growth of healthcare captives has been fueled by tough global economic conditions, such as slow economic growth, inflation, uncertainty around policies, and geopolitical conflicts, just to name a few, as well as a difficult traditional insurance market as companies increasingly seek more affordable coverage and greater control over their risks (Captive.com, 2024).

One of the primary reasons that employers are turning to captives is that employers are dissatisfied with traditional, fully funded healthcare plans as they find themselves unable to manage high cost increases, while also meeting the growing demand for better benefit experiences for their employees, such as benefits flexibility and a greater range of benefits offered, transparency, streamlined enrollment, and simplified communication. Therefore, alternative funding models like group captives are becoming a popular choice for employers seeking control, flexibility, and cost savings (Roundstone, 2024). A McKinsey report in 2024 found that "...by 2030, 12 million employers are expected to move to more innovative health plan models, representing \$500 million in revenue opportunities" (Roundstone, 2024).

Below are the areas where captives are playing a key role in changing the trends in employee health benefits.

4.2.1 RISING HEALTHCARE COSTS

- **Annual increases:** Commercial healthcare costs are projected to rise 9–10% annually through 2026, according to *McKinsey and Company*—two to three times higher than the average increases in the past five years.
- **Unsustainable strategies:** Employers have exhausted traditional cost-shifting strategies, such as higher deductibles and reduced benefits.

The adoption of high-deductible health plans has decreased by 1% annually since 2020, signaling increased appetite for more sustainable solutions (Roundstone, 2024) to address growing concerns related to affordability, availability of alternate plan options, and the impact on healthcare use and costs.

4.2.2 CHANGING EMPLOYEE EXPECTATIONS

Today's workforce has growing expectations for their health benefits, and captives are able to provide support to the organizations trying to meet those expectations. Some examples where captives may play an important role in improving consumer experience include:

- Clear cost transparency: Employees want to understand their coverage and costs upfront, not after receiving a bill. Captives provide their members with better access to data, more detailed reporting, incentives for risk management and cost saving opportunities by providing more insight into healthcare spending, and identifying areas for improvement (Phinney, 2024).
- Digital-first experiences: Modern consumers demand seamless access to benefit information and user-friendly tools for managing care.
- Affordable options: High out-of-pocket costs contribute to dissatisfaction and turnover, forcing employers to prioritize healthcare affordability (Roundstone, 2024).

Anne Marie Towle, CEO of Global Risk and Captive Solutions at Hylant Global Captive Solutions, stated in an article on Captive.com that: "...2024 was marked by robust growth despite economic concerns such as inflation and uncertainty. Organizations increasingly turned to captives, ranging from simple cell structures to sophisticated multi-risk programs, fueled by heightened awareness and the challenges faced by traditional insurers..." (Captive.com, 2024).

In the same Captive.com article, Nick Hentges, a CEO of Captive Resources, said, "...We see increasingly more prospects and their brokers understanding and buying into the concept of a group captive" (Captive.com, 2024).

The points above are supported by the results of various interviews that the researchers conducted with consultants, owners, and regulators. The topics discussed covered current views of market trends for the use of captives in general and trends in the increase / changes in the use of captives, as well as the future of healthcare captives. The responses confirmed that captives provide access to a broader reinsurance market, as well as saving businesses money based on the current and rising cost of commercial insurance.

Single-parent and group captives are currently on the rise, with an increase in companies wishing to add more lines of coverage in the case of a single-parent captive. As one of the interviewees noted: "...we are seeing more and more companies turn to captives, both in the single-parent space and in the group captive space. For single-parent captives, we see companies look to add more lines of coverage. We are also seeing interest in more lines of coverage for captives in general, such as voluntary benefits." Along the same lines, another interviewee added: "...most of my clients do an analysis of how much their captive saves them every year, based on how much commercial insurance products would be. They almost always save money."

In addition, a new trend has emerged, where captives are used for a portfolio of companies or operating companies of a larger parent company. The interviewees noted that businesses are increasingly using captives to boost their ability to take on additional risks. It was pointed out that medical stop-loss captives are becoming more common every year. With high trends in medical and prescription drug costs, and the fact that health insurance is one of the biggest non-salary expenses for most companies, those companies are continuously looking for ways to reduce costs.

4.2.3 EMERGING USE CASES FOR CAPTIVES

As captive insurance companies continue to evolve and play an increasingly important and diverse role in risk management for companies of all sizes, captives may offer various new potential future applications as outlined below (Bailey, 2022; Muselman, 2024; Wright, 2025; Captive.com, 2025):

1. Managing emerging and hard-to-insure risks, such as cybersecurity risks, climate change-related risks, and supply chain management, as well as environmental and social issues.
2. Expanding into new markets, such as markets in Asia, Latin America, and Africa, as businesses globalize and develop their regulatory framework overseas.
3. Integrating technology, such as AI, blockchain, and big data analytics in order to improve risk management, underwriting, and claims processing.

Section 5 Healthcare Captive Considerations

There are several factors to consider when evaluating whether a healthcare captive makes sense, including:

- Captives can reduce the frictional costs associated with employer-sponsored health insurance. QBE North America explained that by self-funding health plans and utilizing captives for medical stop-loss (reinsurance that caps claim coverage), employers can minimize expenses, taxes, and underwriting margins, optimizing gross written premium (Insurance Business, 2025).
- Employing single-parent and group captives give employers enhanced control over their risk management strategies, particularly regarding employee benefits. Incorporating stop-loss within captives provides a strategic tool to manage risks and potential liabilities, such as specific deductibles for certain conditions (Insurance Business, 2025).
- Captives offer employers the flexibility to tailor medical stop-loss coverage to their specific needs. This customization can include choosing stop-loss and other service providers, setting coverage levels, and managing financial surpluses to better meet organizational objectives (Insurance Business, 2025).
- Single-parent captives can improve underwriting profit and investment returns from medical stop-loss layers. Surpluses generated by captives can be returned to the employer via dividends, or used strategically to offset future plan costs, enhance benefits, or manage financial volatility (Insurance Business, 2025).
- Single-parent captives allow for greater leverage in negotiating premiums, limits, and terms with carriers. Employers may choose to retain a certain risk layer within their captive rather than transferring it to a reinsurer. Group captives also enable mid-sized companies to collaborate, securing volume-related discounts and more stable pricing (Insurance Business, 2025).
- A captive may provide coverage for risks that are difficult to insure in the traditional insurance market (AIG, 2020).
- As a licensed insurer, a captive can access the reinsurance market, which may provide more efficiency of coverage and cost (AIG, 2020).
- Higher upfront costs: While captives can provide long-term cost savings, there are typically higher upfront costs associated with setting up and maintaining a captive. Costs can include legal fees, administrative costs, and capitalization requirements. This also includes the opportunity cost of resources who are not working on other projects while they are on the captives learning curve (Jay Booth, 2023).
- Increased risk: Captives carry a higher risk than traditional insurance products. Since the owners are responsible for managing the underwriting and claims handling, they are also exposed to the potential for significant losses if the captive experiences a large number of claims (Jay Booth, 2023).
- Regulatory challenges: As captives are often subject to different regulations than traditional insurance products, ensuring compliance with all relevant laws and regulations can take time and effort (Jay Booth, 2023).
- Ongoing operational expenses: Captives incur costs for administration, risk management, and maintaining reserves (Independent Management Ltd, 2024).
- Financial impact on parent company: In extreme cases, financial strains on the captive could potentially impact the financial stability of the parent company, particularly if reserves are inadequate or there are significant underwriting losses (Independent Management Ltd, 2024).
- Less diversification: Captives typically have a smaller risk pool compared to traditional commercial insurers, which limits the ability to spread risks across a broader base (Independent Management Ltd, 2024).
- Distraction from core business: Managing a captive can divert resources and attention away from core business activities, potentially impacting operational efficiency and strategic focus (Independent Management Ltd, 2024).

Some considerations related to group captives have to do with three major areas of healthcare management: information, control, and cost-savings. These considerations are not unique to the group captives and may apply to

employers that want to provide their employees with affordable health insurance, including small groups where a single-owner captive would not be a practical solution. Below are some specific considerations:

- Lower potential fixed costs and more variable (and perhaps manageable) costs: with low fixed costs, members only pay for actual claims, not coverages that are not used. Because a sizable portion of the costs are variable, members have control over them and can plan. Experience data can be used to optimize the plan and further increase the savings of healthcare (Roundstone, 2024).
- Control over health plan design: with a group captive, because they are generally accompanied by a self-funded plan, members may have greater control over plan design. Members can tailor coverage options, implement wellness programs, or change vendors for more customized healthcare management (Roundstone, 2024).
- Potential cost-savings through profit distributions: members may receive dividends or premium refunds based on captive performance, boosting financial outcomes for the company. Distributions may be based on the overall performance of the captive—not one company's performance (Roundstone, 2024).
- Access to the global reinsurance market (Marsh, 2017).
- Additional savings potential in the event of favorable loss experience (for reinsurance with potential experience refunds), whereby surplus funding remains within the consolidated enterprise.
- The ability to (Marsh, 2017):
 - Structure customized coverage.
 - Customize treaty wording to broaden coverage without impacting pricing.
 - Fund the captive dollar-for-dollar (funding the captive so that it cannot become insolvent even if losses reach policy limits—no downside exposure to the captive), while still recognizing significant Healthcare Provider Organization HPO cost reductions.
- Risk management benefits (Marsh, 2017):
 - Introduces short-tail exposures that are complementary to the long-tail property and casualty exposures typically managed in the captive.
 - Raises the HPO's "risk IQ" and instills an enhanced level of operational and financial discipline across the organization.

Section 6 Forming and Managing a Captive

There are several steps that companies typically follow in the process of forming a captive and, subsequently, preparing to manage a captive.

6.1 FEASIBILITY STUDY

After studying its business needs and the considerations outlined, if a company decides a captive might be a good option, a feasibility review would be the next step. Typically, the parent company uses an outside consultant to conduct a feasibility review. The goal of the feasibility review is to determine the potential value of a captive to its owners and, ultimately, to evaluate whether the captive is a viable strategy for a particular organization to pursue. This review would focus on the financial aspects of captive formation but would also look at areas such as choice of domicile, lines of business, insurance or reinsurance (or both), limits to be written, and whether a fronting carrier is needed in order to provide front-end policies in territories where local insurance is required, for example to meet compulsory insurance requirements or because the territory falls outside the captive's license (AIG, 2020).

In addition, the company has an important decision of which risks to insure. In theory, almost any risk can be covered through a captive structure. It is important to note, however, that the Employee Retirement Income Security Act (ERISA) generally prohibits transactions between a plan and parties of interest (including affiliates of the plan sponsor) due to potential conflicts of interest and self-dealing. When an employer establishes a captive insurance company to cover employee benefits, it often involves transactions that would be prohibited under ERISA (e.g., premium payments to the captive). However, in captive insurance, a Prohibited Transaction Exemption (PTE) allows an employer's captive insurance company to reinsurance employee benefit risks (such as life, disability, and pension) without violating ERISA's prohibited transaction rules. These exemptions are typically granted by the U.S. Department of Labor (DOL) after demonstrating the transaction is in the plan's best interest and provides sufficient protections (U.S. Department of Labor; Groom Law Group, 2024).

In considering these exemption proposals over the years, DOL has established a series of requirements to grant relief, including the use of an independent fiduciary to confirm the following points, in place as of the date of the research and writing of this report (Groom Law Group, 2024):

- The insurer is licensed to underwrite the proposed risks;
- The captive's reserves for the past two years have been reviewed by an independent firm;
- The captive has undergone an examination by an independent certified public accountant for its last complete taxable year;
- The proposed transaction would confer an immediate benefit on the plan's participants in the form of lower cost for employee contributions, enhanced benefits, or both;
- The premiums charged under the program were reasonable and within the range of rates charged by competitors for similar coverage under comparable programs;
- The plan did not pay any commissions with respect to the reinsurance transaction; and
- That the reinsurance agreement was "indemnity reinsurance," leaving the fronting insurer liable for the risk if the reinsuring captive was unable or unwilling to pay.

According to the 2024 study from the Self-Insurance Institute of America, titled *2024 Captive Industry Survey & Trend Report*, the most growth—additional captive premium and new captive formations—was attributed to employee benefits/medical stop-loss and property & casualty. Before deciding how, or whether, to buy stop-loss, organizations would benefit from evaluating their various exposures to health insurance claims across the organization and how best to finance that risk through self-insurance, captive retention, and the commercial market. Steps in that analysis include the following:

- Performing analytics to better understand how each of those exposures behaves.
- Quantifying the effect of various stop-loss coverage structures under a continuum of claim scenarios.

- Evaluating the efficiency of each financing source (self-insurance, captive, commercial market) across the various risk layers.
- Benchmarking the resulting coverage scheme against the HPO's risk tolerance and other risks managed within the captive.

Mature captives may want to periodically assess the functionality and financial effectiveness of the existing program, as well as to consider additional lines of coverage for the captive. An effective review would include evaluating the captive's (AIG, 2020):

- Performance in meeting the objectives of its original business plan;
- Actual vs. planned experience in terms of premiums, losses, etc.;
- Operations, including data flows and internal controls;
- Service providers' role and performance;
- Opportunities for writing new risks; and
- Capital position and any additional capitalization needed if it is to expand.

6.2 CONSIDERATIONS WHEN FORMING A CAPTIVE

Below are some factors that are helpful for firms to consider when forming a captive:

1. Identify needs and risks to be covered:

The first step for the business is to determine whether it needs a captive at all. Businesses can do this by identifying their key insurance problems, assessing their entire program, and determining their exact coverage needs. Then, they can look at all of their risks collectively and decide which ones they want to retain and self-insure through the captive. Within this evaluation, they can weigh all of the regulatory and contractual requirements, as well as establish the policy limits they might need (Wright, Alex, Risk & Insurance, 2020).

2. Establish risk profile:

It is critical for companies to establish how much risk they are willing and can afford to take on, in addition to having a strong risk management system. "In the context of a wholly-owned pure captive, it is very likely that the captive entity will be consolidated into the financial results of its owner, therefore, it is critical to ensure that the captive's risk profile and appetite align with that of its ownership/insureds," said Jason Palmer, director for Willis Tower Watson's Global Captive Practice (Wright, Alex, Risk & Insurance, 2020).

3. Assess costs / capital requirements / financials:

The costs involved in forming a captive as well as capital needs for protection against risk are important considerations for businesses. Other expenses include administrative costs, premiums, and losses, as well as any other financial needs related to them or their industry. This analysis could be a part of the feasibility study that businesses perform when comparing the costs and benefits of setting up a captive. Businesses would also benefit from running various scenario models to evaluate historical and market losses to try and predict what they will likely have to pay out in premiums and claims in future years (Wright, Alex, Risk & Insurance, 2020).

4. Determine the right structure of captive:

There is an array of distinct types of captive structures to choose from, including pure or single-parent, group, association and protected cell captives, and risk retention groups. Each has its own set of benefits, depending on whether the parent company wants to have complete control of its risks or pool them with a group of other companies (Wright, Alex, Risk & Insurance, 2020).

Specifically, when considering adding healthcare to an existing captive, an organization would benefit from carefully evaluating several factors to determine whether it is the right fit for their business. The factors include, but are not limited to (Assured Partners Captives, 2024; Ochs, Aaron, 2023; Innovative Health Insurance Advisors, 2022):

1. Risk Profile and Risk Tolerance: Healthcare captives are particularly well-suited for companies with a predictable risk profile and a history of managing claims effectively. However, it is important to consider that captives involve self-funding, meaning the business takes on some level of risk. Businesses need to be comfortable with this increased risk and have a plan to manage potential losses.
2. Company Size: Large companies often have more resources and scale to add and manage a healthcare captive. They also have a better ability to customize healthcare plan design and tailor coverage to specific health needs and demographics.
3. Claims History: A company's claims history plays a significant role in determining captive feasibility and potential cost savings.
4. Capital Requirements: Captives need sufficient capital reserves to ensure solvency and to pay potential claims.
5. Cash Flow: Businesses need to ensure sufficient cash flows to cover potential claim payments and additional captive operating costs.
6. Regulatory Compliance: Healthcare captive insurers are subject to complex regulations and will need to meet stringent capital requirements.
7. Governance Structure: Existing members need to be willing to participate in the healthcare captive's governance, including decisions related to claims, underwriting, and investment strategies.
8. Data Management: Captives offer enhanced data transparency and accountability. This plays a critical role in the management of a self-funded healthcare captive; therefore, adequate systems are instrumental for businesses with a healthcare captive to collect and analyze claims data effectively.
9. Claims Administration: Managing claims administration is a key function for businesses. These can be handled in-house or potentially outsourced to a third-party administrator.

6.3 CHOOSING A DOMICILE

Another important consideration involves finding an appropriate domicile for the establishment of a captive. A captive domicile is the state, territory, or country that licenses a captive insurance company and has primary regulatory oversight over that captive insurer. A captive domicile may have special purpose legislation under which it licenses special purpose insurers referred to as "captives." There are a host of domiciles, ranging from U.S. states like Vermont and North Carolina to offshore financial centers such as Bermuda or the Cayman Islands (Wright, Alex, Risk & Insurance, 2020).

"Offshore tends to be a little easier to do some third-party business; their licensed structures tend to be designed to suit that model, whereas onshore is more accessible in terms of travel," said Dave Provost, former deputy commissioner of the State of Vermont's captive insurance division in an article in *Risk & Insurance*. "You also need to look at what is required in terms of compliance and the set-up, strengths and experience of that particular regulator" (Wright, 2020).

When selecting a domicile, it is important to consider the following:

- Regulatory requirements of a domicile
- The cost of doing business in a particular state or jurisdiction

- Application fees, license fees and taxes
- Minimum capitalization requirements
- Travel requirements and accessibility of a captive location and staff (this is important to consider when choosing an offshore location)
- Ease of staffing a captive (access to professionals such as lawyers, accountants, actuaries)
- Experience of insurance regulators in regulating captive insurance, including risk exposures relevant to the entity
- Service provider network
- Any pre-approval requirements for auditors and actuaries

It is also important to choose a captive manager that is represented or is licensed in more than one domicile so that the business is being offered a broad selection of options rather than the one that is most convenient for the captive manager. Past experience in making recommendations on key third-party administrators that are capable of running a captive, including actuaries, auditors, and lawyers is an important consideration. Comments from the interviewees stressed that companies would be well served to consider lines of business they may enter in the future and choose a domicile that can support those lines as well.

The two primary offshore locations for captives are Bermuda and the Cayman Islands, and more locations are entering the market. In 2024, “France emerged as a key new domicile, signaling growth opportunities for the European captive market” (Captive Insurance Times, 2025).



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Dan Mulhern, FSA, MAAA

Brian Pauley, FSA, MAAA

Matthew Trott, ASA, MAAA

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Barbara Scott, Senior Research Administrator

Appendix: Interview Questions

Interviewees were asked the following questions:

1. What is your current view of market trends for usage of captives in general? Increasing usage? Adding benefits?
2. Have you noticed a trend in the increased usage of captives for healthcare risks? If so, can you describe what you have seen that is driving the trend?
3. Have you noticed a trend in the fully insured marketplace or the provider market that is driving an increased usage of captives for healthcare risks? Do you see any other drivers for increased usage of captives?
4. Are you seeing any changes in the uses of captives? For Life Sciences? For provider groups?
5. Do you see any new emerging use cases?
6. How prevalent do you feel these trends are? Will they continue? In your eyes, what does the future of healthcare in captives look like?
7. When you are assisting clients with moving risks into a captive, what do you instruct them to consider when picking a domicile?
8. What are drivers or benefits for selecting a certain domicile over another?
9. Do you recommend a certain domicile to all your clients? Or are there specifics benefits a domicile offers that are better for certain types of clients that are not as beneficial for others?
10. What are some motivations to move a current captive to a different domicile?

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Society of Actuaries Research Institute
8770 W Bryn Mawr Ave, Suite 1000
Chicago, IL 60631
www.SOA.org