

**2007 Special Report: U.S. Captive Insurers – 2006 Market Review**

July 30, 2007

**Sector**

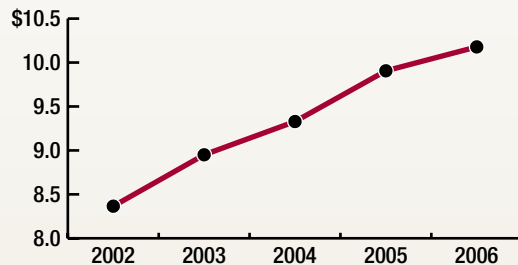
Property/Casualty

**Outlook**

Stable

**U.S. Domiciled Captives– Net Premiums Written**

(\$ millions)



**Related Reports**

**2007 Special Report:**

U.S. Federal Terrorism Legislation– Trend Review

**Methodology:**

Captive Insurance Companies

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Full report and data available at  
[www.ambest.com/research](http://www.ambest.com/research)

**Domestic Captives: Improved Results, Preparing for Uncertainty**

Captive insurers posted a fourth straight year of growth in their capital base in 2006, raising the prospect of a stronger negotiating position with reinsurers if current trends continue. But growth in net premiums written slowed from the robust pace seen over the past five years, reaching just 2.7%.

- Loss reserves and admitted assets for captives grew by 2.3% and 4.0%, respectively, and aggregate growth in surplus was 10.3%, an improvement on the pace from 2001 through 2005.

- Fronting conditions have shown signs of improvement, while reinsurance is readily available and costs are negotiable, even down in some cases, allowing captives to increase protection.

- Competition and a soft market are pressuring group captives and risk retention groups to focus on sound underwriting, effective loss control and claims handling, greater efficiency and effective enterprise risk management.

- The overall pure loss ratio improved from 2003 through 2006, dropping from 74.0 in 2002 to 51.7 in 2006, and the combined ratio before dividends declined to 90.0 in 2006 from 113.4 in 2002.

- Despite the improvement in 2006, the captive industry’s five-year average net operating ratio lags behind U.S. commercial casualty insurers, reflecting captives’ role as the insurance mechanism for their owners, while the general industry operates primarily for a profit.

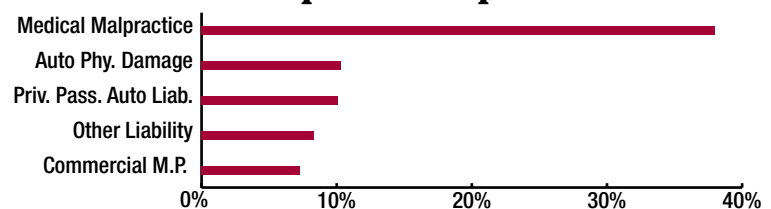
- New governmental reinsurance or backstop insurance programs such as Florida’s catastrophe program have led reinsurers to redeploy capacity, creating potential cost-saving opportunities for captives.

- Captives share the commercial insurance industry’s concerns over the fate of the federal Terrorism Risk Insurance Act.

- Formations of captive insurers have continued in the past year, despite a softer commercial market, because some coverages remain hard to find, insurance costs are volatile, and companies are facing pressure to improve corporate governance and boost efficiency.

- Facing a softer market, captives have taken additional risks in investment portfolios, which could reduce liquidity and produce unexpected accumulations of exposures and risks of loss.

**U.S.-Domiciled Captives– Top Lines**



Source: A.M. Best Co.

