



**NU Online News Service, March 9, 3:24 p.m. EDT**

ORLANDO, FLA.—For the second straight year, captive owners said securing collateral from banks to satisfy their fronting companies is their top concern, a survey by the Captive Insurance Companies Association has revealed.

The findings were presented here at CICA's 38th Annual International Conference.

A captive often must secure a licensed primary insurance company to serve as its "front" in a certain state, which issues a policy and then reinsures the vast majority of that exposure with the captive.

Since the fronting company is technically still on the hook for claims, even though it passed almost all of the risk onto the captive, the front requires collateral—often in the form of a letter of credit from a bank—to guarantee reimbursement of the front's costs.

In past years, particularly during hard markets, captive owners complained about the cost of fronting, or finding fronts at any price. But with the precarious financial state of many banks these days, finding collateral to satisfy fronts has become the bigger problem for captives.

"I think there is still unhappiness with fronting, but it's not the primary issue any more," said Michael Mead, who has spearheaded the CICA survey and coordinated a panel discussion of the results.

The survey panel pointed out that one insurer in particular is specifying which banks they will and will not accept collateral from. "That's huge," Mr. Mead told *National Underwriter*. "If you say to a big corporation, you have to change your banking relationship for your captive, that's a big deal."

The survey this year, found collateral was cited as the captives top problem by 27 percent of respondents, compared with 22 percent last year. In 2008 service issues were the top concern for 36 percent.

Other top concerns this year were regulatory issues (16 percent), policyholder retention/growth (16 percent), with tax, fronting, and expanded utilization all at 7 percent.

In this year's survey, 93 percent of respondents said collateral was required, compared to 85 percent the previous year.

When asked what kind of collateral was required, 76 percent said letters of credit; 40 percent said trust accounts; and 28 percent said cash, with 8 percent naming parental guarantee. (More than one kind of collateral could be selected.)

Among some of the other survey highlights:

- Eighty-five percent of respondents listed admitted paper as one of their primary reasons for using a fronting carrier, with regulatory compliance as the next highest reason at 46 percent.
- One-hundred percent of respondents rated the overall level of importance of fronting to their captive as either "very important" or "important," while 78 percent listed having an A-rated fronting company as "very important."
- Eighty-nine percent of respondents characterized the price of fronting as "reasonable," while 11 percent called it "expensive."

- Sixty-three percent characterized the value of their fronting relationship as “excellent,” with the other 37 percent listing it as “moderate.” No one rated the value as “low.”
- Forty-eight percent of respondents reported no change in the cost of fronting from the prior year, while 30 percent reported an increase in costs of less than 10 percent and 20 percent reported a decrease.
- 24 percent of respondents said they considered the price of their reinsurance to be “expensive,” 67 percent reported it as “reasonable,” and 9 percent as “inexpensive.”
- 19 percent of respondents said their reinsurance costs are the same as the prior year, with 43 percent reporting an increase and 38 percent reporting a decrease.
- A majority (53 percent) of respondents reported investment yields of 2-to-3 percent, with another 13 percent reporting investment yields in the 4-to-5 percent range. Twenty-two percent of respondents reported yields of zero-to-1 percent, but no one reported less than zero percent.

Respondents reported using the following fronting carriers for P&C coverage: Chartis/Lexington (37 percent), ACE and Zurich (18.5 percent each), Liberty Mutual (11 percent). Discover Re, Old Republic, and Chubb were all in single digits, with 37 percent of respondents also listing “other.” (Some respondents use more than one fronting carrier.)

The survey was drafted and approved by a CICA committee and was conducted by the independent consulting firm of Veris Consulting, LLC, of Reston, Va.