// FREE RESOURCE — RW ACTUARIAL

The Middle Market Captive Actuarial Guide

What Your Captive Needs — And What Happens When It Doesn't Get It

Most middle-market captives are underserved by their actuarial programs. Not because the actuaries are bad — but because the work wasn't designed for captives in the first place. This guide helps you diagnose where your program stands and what rigorous, captive-specific actuarial work actually looks like.

6
CRITICAL ACTUARIAL FUNCTIONS COVERED

5
DIAGNOSTIC QUESTIONS TO ASK

1
SPECIALIST FIRM FOCUSED ON CAPTIVES

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// SECTION 01

Why Captives Demand a Different Kind of Actuary

When your company formed a captive, you made a deliberate choice to take on risk that the commercial market prices poorly for you. That decision was strategic. Your actuarial program should be too.

The problem is that most actuarial work in the captive space is recycled from the traditional insurance market — the same methodologies, the same templates, the same assumptions. But a captive is not a small insurance company. It has a concentrated risk profile, a single owner with specific financial objectives, and regulatory scrutiny that sits at the intersection of insurance law and tax law.

Generic actuarial opinions create three real risks for your captive:

// 01 IRS EXPOSURE

Captive arrangements — particularly 831(b) structures — are under sustained IRS scrutiny. Actuarial opinions that don't reflect arm's-length pricing methodology are a red flag in an examination. "We hired a credentialed actuary" is not a defense if the methodology was inadequate.

// 02 RESERVE INADEQUACY

Reserves set without deep familiarity with captive loss development patterns tend to be underestimated in the early years. This creates a false picture of profitability and can impair your captive's ability to pay claims when they mature.

// 03 MISSED OPTIMIZATION

A captive that isn't analytically managed is a captive that's leaving money on the table. Proper risk quantification tells you when your retention limit is set too conservatively, when your premium is excessive, and when your program structure should evolve.

// THE CORE QUESTION TO ASK YOURSELF

When did your actuary last explain — in plain language — exactly how your reserves were derived, what assumptions were made, and what the uncertainty range looks like? If you can't remember, or if it's never happened, that's where to start.

// SECTION 02

The Six Actuarial Functions Every Captive Needs

Not every captive needs all six at once — but every captive needs someone who understands all six and can tell you which apply to your program right now.

// 01 FEASIBILITY STUDY

Before you form or restructure a captive, actuarial modeling should answer a fundamental question: does the economics actually work? A proper feasibility study models your expected loss costs, volatility, and the premium required to make the captive financially rational — not just technically possible.

// 02 LOSS RESERVE OPINION

Your captive's financial statements depend on loss reserves. An independent actuarial opinion provides the IBNR estimate required by most domiciles and gives your board the defensible number they need. This isn't paperwork — it's the foundation of your captive's financial health.

// 03 PREMIUM ADEQUACY REVIEW

The IRS's primary concern with captives is whether premiums are set at arm's-length rates. An actuarial pricing analysis demonstrates that your captive is charging what a commercial insurer would charge for the same risk — and documents that conclusion.

// 04 RISK QUANTIFICATION

How much risk should your captive retain? How large does your aggregate stop-loss need to be? Stochastic modeling answers these questions with probability distributions rather than gut feel, letting you make capital decisions with actual confidence intervals.

// 05 CAPTIVE FORMATION SUPPORT

Domicile regulators require actuarial support for initial capitalization. More importantly, getting the structure right at formation — retention limits, covered lines, premium levels — is far cheaper than correcting it later. This is where specialist knowledge pays for itself.

// 06 ANNUAL PROGRAM REVIEW

Your captive's risk profile changes every year. Claims develop. Exposures shift. An annual actuarial review keeps your reserves, premiums, and structure calibrated to reality — and gives your board and manager the analytical foundation for informed decisions.

// SECTION 03

Five Questions to Diagnose Your Actuarial Program

These aren't trick questions. They're the first things a specialist actuary asks when evaluating a captive's analytical foundation.

// 01 CAN YOU EXPLAIN THE METHODOLOGY?

Ask your actuary to walk you through the loss development method used for your reserves. If the answer involves jargon but no clarity, that's a signal. You should be able to understand, in plain terms, how the number was derived.

// 02 DOES YOUR RESERVE OPINION INCLUDE A RANGE?

A single-point reserve estimate without a confidence interval is an incomplete opinion. Best estimate, 75th percentile, and adverse scenario figures give your board the full picture — not just the most likely number.

// 03 WAS YOUR PREMIUM BENCHMARKED AGAINST COMMERCIAL RATES?

Arm's-length pricing isn't assumed — it's demonstrated. If your actuarial pricing study didn't reference comparable commercial market rates, it may not survive IRS scrutiny.

// 04 HAS YOUR RETENTION LIMIT BEEN MODELED, OR JUST ESTIMATED?

Many captives set retentions based on what feels right or what the manager suggests. A proper risk quantification model tells you, probabilistically, what retention level optimizes your captive's economics given your specific loss distribution.

// 05 WHEN DID YOUR ACTUARY LAST PROACTIVELY FLAG AN ISSUE?

A passive actuarial relationship — where the actuary produces a report and disappears until next year — is a missed opportunity. Your actuary should be telling you when something in your data warrants attention, not waiting to be asked.

If any of these questions gave you pause, that's worth a conversation.

RW Actuarial works exclusively with middle-market captives. We don't manage portfolios of hundreds of clients — we go deep on a focused set of programs where specialist actuarial work makes a real difference.

Schedule a no-obligation consultation:

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