Developments and Trends in Construction Insurance

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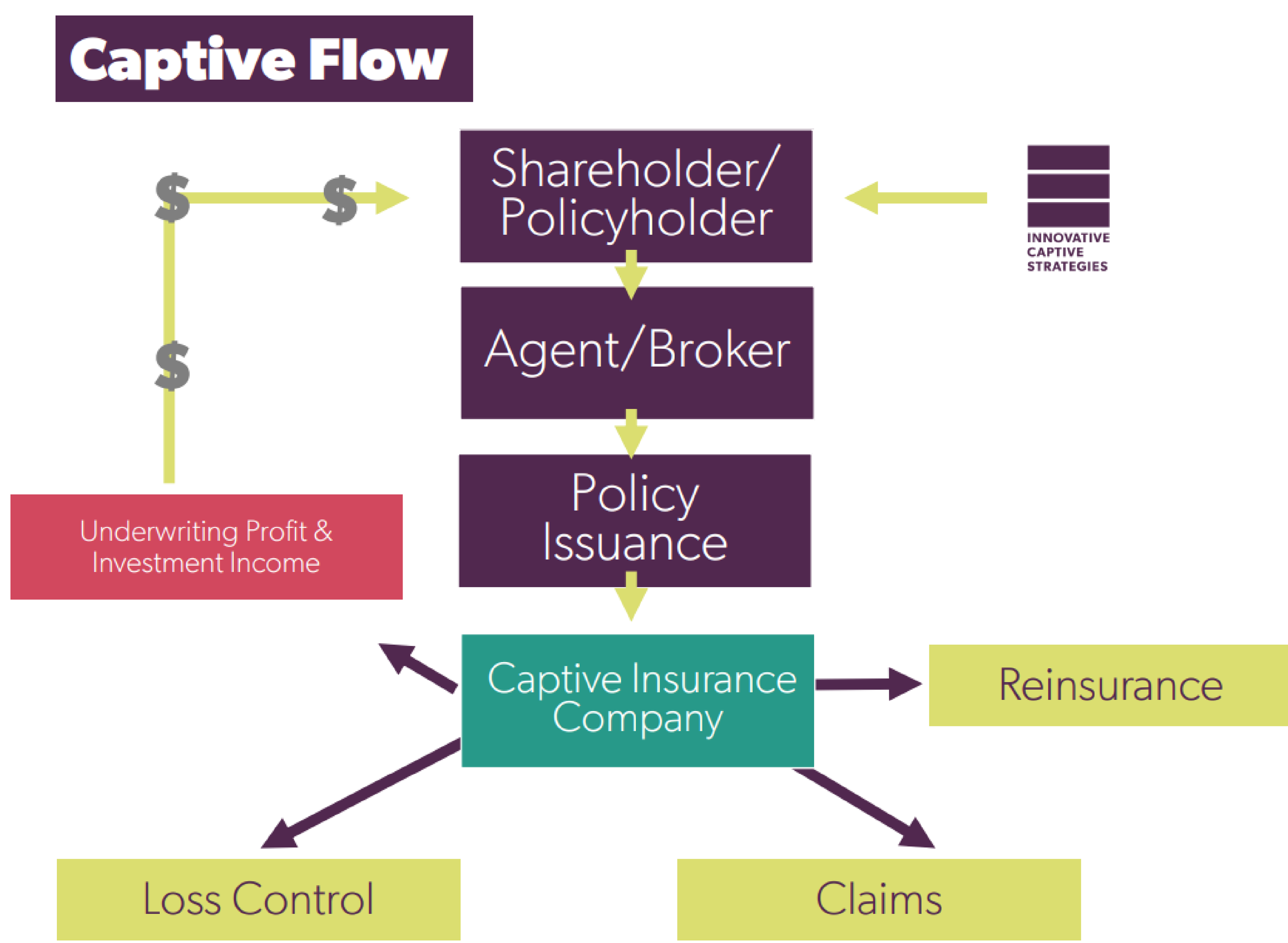
Financial Flow of Captive Entities



Abstract

Before a construction project can begin, insurance must be purchased by each involved construction player to ensure the financial and physical health of the project and those working to complete it. The necessity of construction insurance on every project has turned it into a behemoth of a market sector, one that significantly affects the construction industry as well as a plethora of others. Although many are unaware, developments and shifts in construction insurance deeply affect the well-being of the public, from the roads they drive on to the buildings they live and work in. This research piece will delve into the primary developments that are transforming the construction insurance industry. A combination of academic papers and interviews with construction insurance professionals are used to obtain the necessary research for this project. In this accumulation of knowledge, it becomes evident the two primary developments in the construction insurance industry are the popularization of Single-Parent and Group Captive Insurance Entities. The inner workings and benefits of these developments to both the construction and insurance industry are explored to explain their increasingly widespread adoption.

Key words: primary developments, construction insurance, financial health, Single-Parent Captive Insurance entity, Group Captive Insurance entity

Overview

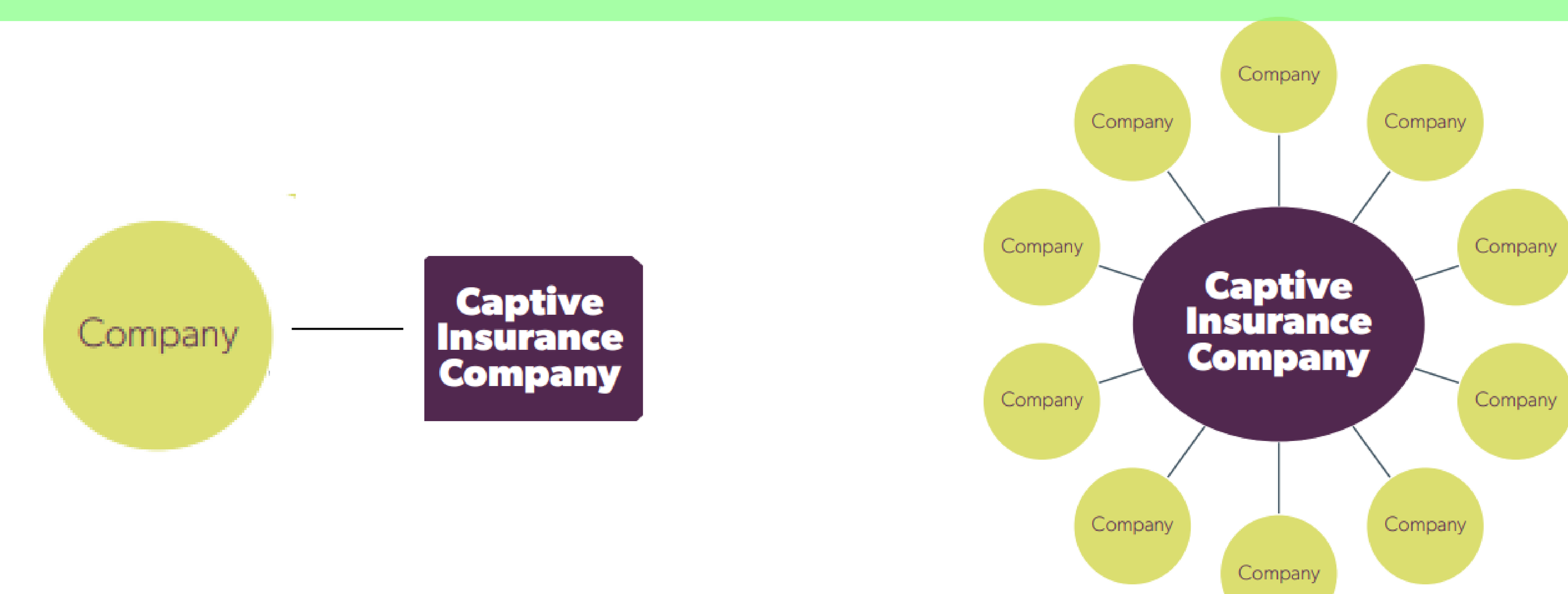
A captive insurance entity is an alternative form of self-insurance in which a company or group of companies form a private insurance establishment. The general goal of these entities is to allow for self-creation and management of insurance policies to take control of risk instead of contracting a third-party group. These entities are typically domiciled in territories outside of the United States such as Bermuda, the Cayman islands, or the Caribbean. (C.Kordell, personal communication, March 1st, 2023) Low-capitalization areas such as these allow for minimized overhead within the captive entity which will maximize its financial effectiveness.

Methodology

In order to understand and effectively communicate the popularization of Single-Parent and Group Captive Insurance, knowledge was accumulated from interviews, studies, and academic pieces. Academic sources provided a plethora of information about the two types of insurance and their uses. However, in order to understand their recent popularization more current information was needed. To do this, a series of three interviews was conducted with construction insurance professionals from separate companies that were geographically dispersed. This location and business diversity allowed for the developments to better reflect the construction industry as a whole, not just a singular region or company.

Benefits of Captive Insurance

Single-Parent Captive Insurer vs. Group Captive Insurer



Captive insurance entities can be sorted into two categories: single-parent and group captive insurers. Single-parent captive insurers are entities that completely manage the retained risk of a single general contractor.Single-parent insurers are typically entities created by a general contractor with more than $1 billion of revenue or more per year. This group consists of some of the biggest names in the general contracting business, with companies such as DPR, McCarthy Building Companies, Swinerton, J.E. Dunn, Turner Construction, Bechtel and Fluor Corporation. . On the other hand, group captive insurance entities consist of various companies that come together to form their own insurance company. These companies are usually made up of contractors with an average of $25-750 million in revenue per year

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