

# The Captive Insurance Company

The history of the captive insurance company concept does not date from 1981 or 1986 (the years in which important Risk Retention Acts were passed) but as early as 1696 in England and 1735 in Charleston, South Carolina, with the formation of mutual insurance companies, insurance entities owned by the insureds to provide insurance coverage the existing insurance markets would not provide. In 1835, Zachariah Allen formed Manufacturers' Mutual Fire Insurance Company to provide fire insurance for his and his competitors' mills. Eventually this became Factory Mutual and ultimately FM Global.

Ocean marine insurers had long formed "clubs", the British version of a mutual insurance company, to write protection and indemnity coverage for the marine industry.

Other notable captive insurers included two "Church Mutuals." Church Mutual Insurance Company was formed in 1897 by two Lutheran pastors and eight laymen from two Merrill, Wisconsin, congregations. Church Mutual Insurance Company of New York was formed in 1929 by the Church Pension Fund which was founded by the General Convention of the Episcopal Church in 1914. Mahoning Insurance Company was formed by Youngstown Sheet & Tube Company in 1935. In spite of these early efforts, captive insurers did not become prevalent until the 1950s, when tax regulation began to provide tax advantages to alternatives in the traditional insurance market. These tax advantages eventually disappeared, but by then, the risk management reasons for captive formation were well established. Fred Reiss is considered the "father" of the modern captive industry, as he formed the first pure, single-parent captive in 1955.

A more recent example of a captive evolving into a global multiline insurer is ACE, a company started in 1985 to provide directors' and officers' liability and high excess liability capacity when the traditional insurance market would not provide coverage, limits, and affordable premiums.

The captive insurance marketplace continues to grow and evolve.

