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# Captive Insurance Companies

A Strategic Risk and Wealth Planning Tool for Latin American Businesses

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## Introduction

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Businesses in Latin America face an increasingly complex risk environment. Economic volatility, legal uncertainty, cyber threats, supply chain disruptions, and natural disasters can significantly impact the financial stability of companies and their owners. Traditional insurance markets often fail to provide adequate coverage for many of these risks, particularly those that are difficult to quantify or that are considered non-standard by commercial insurers.

A captive insurance company offers a powerful alternative. Captive insurance structures allow businesses to take control of their risk management while also generating financial and strategic advantages. Over the past several decades, captive insurance companies have become widely used by multinational corporations, Fortune 500 companies, and family-owned businesses.

For Latin American companies and entrepreneurs, captives represent an opportunity not only to improve risk management but also to enhance financial efficiency, build long-term reserves, and protect wealth across generations.

## What Is a Captive Insurance Company?

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A captive insurance company is a privately owned insurance company created by a business or group of businesses to insure their own risks.

Instead of purchasing all insurance coverage from third-party insurance companies, the client forms its own insurance subsidiary—known as the captive—which issues policies and collects premiums from the operating company.

***In simple terms, the business becomes both the insured and the insurer.***

The captive operates as a regulated insurance company in a recognized jurisdiction such as:

- Bermuda
- Cayman Islands
- Barbados
- Curacao
- Puerto Rico
- Vermont or Delaware (United States)

The operating company pays premiums to the captive, and the captive then assumes the risk and pays claims when necessary. Because the captive is owned by the business or its shareholders, underwriting profits and investment returns accumulate within the captive rather than being retained by commercial insurers.

Captive insurance companies are legitimate and widely used financial structures. In fact, it is estimated that more than 90% of Fortune 500 companies utilize some form of captive insurance structure as part of their risk management strategy.

## Types of Risks Typically Covered by Captives

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Captives are particularly effective for risks that are either expensive or difficult to insure in the traditional market. Examples include:

### *Operational Risks*

- Business interruption
- Supply chain disruption
- Equipment failure
- Product recall

### *Financial and Strategic Risks*

- Contract performance guarantees
- Credit risk
- Political risk
- Currency risk

### *Emerging Risks*

- Cybersecurity incidents
- Intellectual property protection
- Reputation damage
- Data breach liabilities
- Civil responsibility

Because the captive is controlled by the business, policies can be customized to address risks that traditional insurers may exclude.

## Key Benefits for Latin American Clients

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Captive insurance structures provide several strategic advantages that are particularly valuable for companies and entrepreneurs in Latin America.

### **1. Improved Risk Management**

Captives allow businesses to design insurance coverage tailored to their specific risks. Instead of relying entirely on commercial insurers that may exclude key exposures, the company can develop customized policies that provide meaningful protection.

This approach leads to better alignment between risk management and the company's operational realities.

### **2. Cost Efficiency and Premium Stabilization**

Commercial insurance premiums often fluctuate significantly due to global insurance market cycles. During "hard markets," premiums can increase dramatically and coverage can become limited.

Captive insurance allows businesses to stabilize their insurance costs by retaining predictable risks internally while purchasing reinsurance for catastrophic exposures.

Over time, many companies find that captive insurance reduces the overall cost of risk.

### **3. Accumulation of Profits and Investment Income**

When businesses purchase insurance from third-party carriers, underwriting profits remain with the insurance company.

With a captive structure, underwriting profits and unused premiums accumulate within the captive itself.

These reserves can be invested over time, allowing the captive to grow into a significant financial asset. For profitable and well-managed captives, this accumulation of capital can become an important source of long-term financial strength.

### **4. Access to Reinsurance Markets**

Captive insurance companies can access global reinsurance markets, which are typically not available directly to operating businesses.

Reinsurance companies such as Swiss Re, Munich Re, and Hannover Re provide coverage to insurance companies rather than directly to corporate clients. A captive allows a business to access these sophisticated markets and benefit from more efficient pricing.

### **5. Asset Protection and Wealth Planning**

For many family-owned businesses in Latin America, captives also serve as an effective wealth preservation and asset protection structure.

Captives are often owned by shareholders or family holding companies rather than the operating business itself. Over time, profits accumulate within the captive in a separate legal entity that may be located in a stable international jurisdiction.

This structure can help protect accumulated reserves from operational liabilities and political risk while creating a pool of capital that can support future generations of the family business.

### **6. Flexibility and Strategic Financial Planning**

Captives provide flexibility that traditional insurance arrangements cannot offer. For example, captives can:

- Insure deductibles and self-insured layers
- Provide coverage for risks not available in the market
- Participate in employee benefit programs
- Finance large or unusual risks

As a result, captives become part of a broader enterprise risk management strategy rather than simply an insurance tool.

## **Is a Captive Appropriate for Every Company?**

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Captive insurance structures are typically most effective for companies that meet certain criteria. Generally, businesses that benefit most from captives have:

- Annual revenues above USD 10 million
- Significant insurance premiums or retained risk
- Stable operating history
- A long-term strategic perspective

Family groups with multiple operating companies may also find captives particularly attractive because risks can be pooled across several businesses.

Professional and risk feasibility studies are conducted to determine whether a captive structure is economically viable.

## Conclusion

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Captive insurance companies have evolved into one of the most sophisticated and effective tools in modern risk management and financial planning. By allowing businesses to insure their own risks, captives transform insurance from a cost center into a strategic financial asset.

For Latin American entrepreneurs and family-owned businesses, captives offer a unique combination of benefits: improved risk protection, cost efficiency, access to global reinsurance markets, and long-term wealth accumulation.

When properly structured and managed, a captive insurance company can become an integral part of a company's financial architecture—strengthening resilience, protecting assets, and supporting long-term growth.