Mechanical Contractors Association of Canada (MCAC) Group Captive

MCAC is partnering with Aon to launch a group insurance captive for members. Learn more about the benefits of a captive below.

What is a group insurance captive?

An insurance captive is similar to an insurance company owned by an organization to insure its own risks.

- The group captive will be a wholly-owned insurance subsidiary of MCAC, and will insure the risk of its members that meet specific criteria.
- The captive can provide insurance coverage to the members more efficiently by using the purchase power of many companies together, and can provide non-dues revenue stream for MCAC and the provincial associations.
- Captives allow the members to participate in the profit that an insurance company would normally make while providing broader coverage than the insurance market. They also allow for more efficient cash-flow and management of claims. Ultimately, the goal is to lower the total cost of risk for each organization involved in the captive.

Why is MCAC launching a captive?

MCAC retained Aon to perform a study to determine if a captive could reduce insurance costs and provide other benefits to its members. Aon's study included an actuarial analysis and financial modeling, and studied domicile considerations, member participation, capitalization requirements, and profit distribution. The outcome of the study confirmed the viability of a captive for MCAC.

The captive is proposing to insure the following for the members of MCAC on a package basis:

- Liability
- Auto
- Property
- Crime
- Contractors' equipment

In addition, the following coverage could be included on a stand-alone basis:

- Surety coverage for the members of MCAC

What are the member benefits?

- **Projected to be profitable in the first year** — Claims management control
- **Reduction in insurance costs by an estimated 20% over a one year period** — Access to reinsurance
- **Dividend available after two years, depending on captive performance** — Shield against market volatility
- **Improved cash flow for claims payment** — Leverage purchasing power of a group
- **Excess insurance coverage less expensive** — Broader coverage and flexible limits (e.g. mould coverage)

For example, a member paying $90,000 annually can expect to save $18,000 per year.

Item	Cost/(Savings)
Current Insurance Premium	$90,000
Premium reduction	($4,500)
Dividend paid by Captive	($13,500)
Total Cost	**$72,000**

Who is able to join the captive?

The captive will be available exclusively for all MCAC members to join on voluntary basis. Members must complete an application, which will be reviewed by the underwriting committee. Applicants will need to disclose similar information that is required as a part of the normal insurance renewal process.

Any information collected during this process will be soley for the underwriting of coverage and will be kept strictly confidential within Aon and the selected insurance carrier. Any information provided to the MCAC will only be on an aggregated basis and anonymous.

Is this too good to be true?

There is initial capital that will be required to be provided if the applicant is successful. This is approximately one-third of your premium cost in the captive. For example, if a member has premium of $90,000 then the initial capital contribution required is $30,000. This capital will be included in the dividend calculation along with annual premiums paid. This total amount over time, less any losses paid, will be used to determine the dividend paid to each member. If a member has lower losses they will get a higher dividend or vice versa.

The captive is a vehicle that allows the group of companies to retain more risk while spreading out the volatility that exists, because of the distribution of exposure. If the captive has a bad year with significant losses, there could be a call on members to provide more capital. Aon has modelled this scenario and will be setting up the captive for this to be an extremely low probability event.

Aon will be working with MCAC to host information sessions in various cities across the country to provide more information for members. Please look in your local MCA and MCAC newsletters for an information session near you.

We're here to empower results

To discuss the value that this solution could provide for your organization, please contact the following individuals:

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