

COVERAGE INSIGHTS



Fronted insurance is an arrangement in which a licensed, admitted insurer issues and administers a policy but then transfers (cedes) some or all of the risk back to a self-insured entity or a captive (an insurance company created and owned by a parent organization to cover its own risks). Although the fronting carrier remains the insurer of record and is legally responsible for paying covered claims, it typically reinsures or indemnifies the captive, allowing the captive to bear the economic burden of those losses. Since insurance and regulatory laws typically require businesses to demonstrate adequate coverage underwritten by an admitted insurer, fronted insurance allows captives to comply with these requirements in jurisdictions where they operate but are not licensed to issue admitted policies.

Such arrangements are gaining traction among companies seeking greater control over their insurance portfolios. For instance, multinational corporations may use fronting arrangements to ensure they can conduct business seamlessly across multiple states or countries while maintaining centralized risk management.

This article explains who is involved in fronted insurance programs, how they are typically structured and the benefits and challenges they present.

The key parties in fronted insurance are as follows:

- **Fronting insurer**—Provides the legal “face” of the coverage, handles regulatory filings and issues certificates of insurance. Collects premiums, pays claims as the insurer of record and is reimbursed by the captive under a reinsurance or indemnity agreement.
- **Captive**—Assumes the risk from the fronting carrier via an indemnity or reinsurance agreement. Receives premiums (net of fronting fees), reimburses the fronting carrier for claims paid and may help control underwriting and claims handling processes, either directly or through a managing general agency (MGA).
- **Policyholder (the business)**—Often owns or participates in the captive and purchases the policy from the fronting insurer, paying premiums to the fronting carrier.
- **Third-party administrator**—Handles claims processing, loss adjustment and other administrative tasks on behalf of the captive or the fronting carrier that enlists its services.

In pure captive fronting, a licensed fronting carrier issues a policy (admitted paper) on behalf of a captive insurer that does not hold a license in that jurisdiction. In this model, 100% of the risk is ceded to the captive, although the fronting carrier is still legally on risk until reimbursed.

Beyond pure fronting arrangements, other common structures include:

- **Quota share**—The fronting insurer cedes a proportion of the risk (e.g., 80%) to the captive and retains the remainder. The fronting carrier and captive share premiums and losses according to this agreed percentage split.
- **Excess of loss arrangements**—The captive agrees to cover losses that exceed a specified amount (the attachment point) per claim or policy pay period. The fronting carrier retains responsibility for losses below that threshold.

Regardless of the arrangement, the fronting carrier is the insurer of record and therefore assumes regulatory and legal risks. Because the fronting carrier must pay claims before the captive reimburses them, it typically requires collateral (e.g., funds withheld from premium payments, letters of credit, surety bonds or other financial guarantees) to ensure it can recover amounts owed.

It's worth noting that a captive is licensed only in its domicile and can issue policies only in that jurisdiction. Outside its domicile, it is typically treated as a nonadmitted insurer and generally cannot issue admitted policies, which is why a fronting carrier is required in most jurisdictions. To address this limitation, some parent companies adopt a hybrid approach, purchasing insurance directly from their captive for risks in certain jurisdictions while relying on a fronting carrier in others.

Fronted insurance programs offer several benefits, such as:

- **Access to admitted paper**—Since many states require evidence of coverage (e.g., automobile liability and workers' compensation) written by an admitted insurer, fronted insurance programs enable organizations to remain compliant as they expand into new jurisdictions, supporting organic growth. In addition, fronted insurance may allow organizations to take on new risks. Specifically, companies can design bespoke coverage via their captive and use a fronting carrier to issue the policy, thereby broadening protection.
- **Retention of claims and loss control**—Bearing the financial risk gives insureds and their captives strong incentives to reduce losses proactively, which could lower the frequency and severity of claims. Additionally, captives often retain some influence over claims management, giving insureds greater control over claim outcomes. For instance, captives may be able to engage outside defense attorneys familiar with the company's operations, rather than relying on generic third-party adjusters.
- **Cost savings and financial efficiency**—Fronting carriers typically charge a fronting fee (often structured as a percentage of premium) to cover administrative services, regulatory responsibilities and any residual risk. The remaining premium is then ceded back to the captive through reinsurance. In addition, premium payments to a licensed fronting carrier are often tax-deductible (depending on structure and jurisdiction), providing insureds with further cost savings compared to pure self-insured structures.

Considering these benefits, fronted insurance programs are valuable in a variety of scenarios. For instance, large corporations operating across multiple states or countries can use fronted insurance programs to help streamline global coverage while remaining compliant. Companies with specialty or emerging risks that are difficult to insure through traditional carriers may be able to design bespoke coverage solutions through a captive, while a fronting carrier issues the licensed policy.

The complexity of fronted insurance programs can pose several challenges. Each state and country has its own insurance regulations, so operating across jurisdictions creates extra administrative and regulatory burdens that may delay policy issuance or disrupt operations. Moreover, some regulators view pure fronting arrangements with skepticism, and these structures may be subject to strict tax and legal requirements. Failure to comply could lead to significant penalties.

In addition, fronted insurance programs can create financial exposure in the form of counterparty credit risk. Specifically, the fronted entity is dependent on the fronting carrier's solvency because the policy is issued in the carrier's name. At the same time, the fronting carrier is exposed if the captive cannot reimburse paid losses, which is why significant collateral is required. Should the fronting carrier become insolvent, the insured may lose coverage, even if the captive has the funds to pay.

Businesses should consider ways to reduce the risks associated with fronted insurance programs. In particular, companies should robustly evaluate fronting partners, including their credit rating and track record, and check that they have the operational capacity to manage the program effectively. In addition, businesses should enlist the services of brokers, legal counsel and actuaries to help structure robust agreements, validate pricing and ensure compliance with regulatory requirements. A strong governance framework is also critical. Specifically, businesses should clearly define the roles and responsibilities of those involved in program oversight, as well as the governance rules for claims administration and collateral requirements.

Fronted insurance programs offer a flexible alternative for managing risk, allowing businesses to design bespoke insurance solutions through a captive while staying compliant via a fronting carrier's admitted paper. However, disciplined oversight and careful partner selection are essential to limit exposures and safeguard coverage.

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