

What is a captive?



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What is a captive

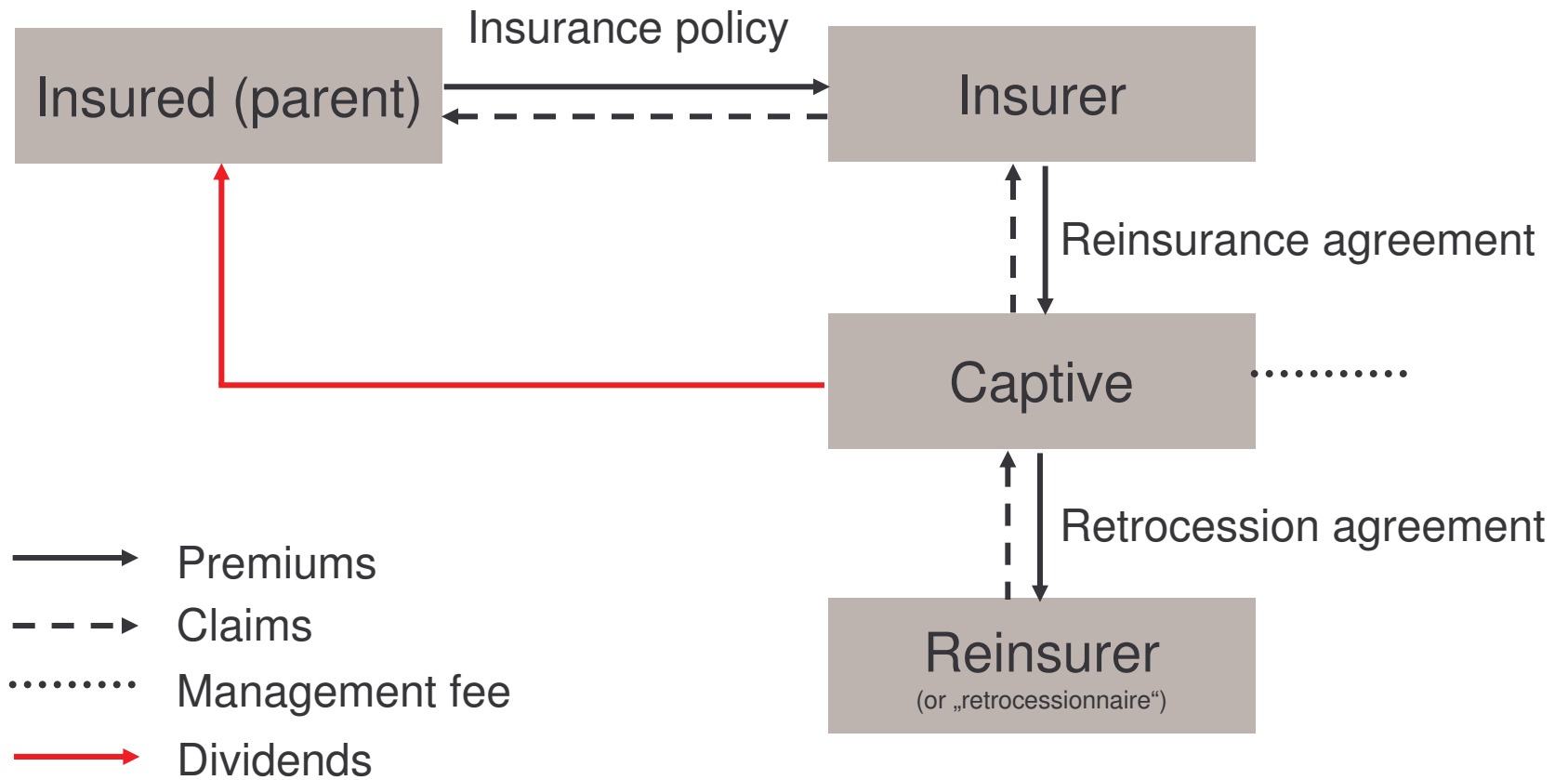
Definition

An insurance company whose insurance business is primarily supplied and controlled by its owners, and in which the original insured's are the principal beneficiaries.

Types of Captive

- Single owner – pure captive
- Rent-a-captive
- Protected cell company

How does it work ?



What are the drivers for captive formation ?

Historical

- ↳ Efficiency of risk transfer
- ↳ Tax and financial considerations

Today

- ↳ Limited or restricted capacity or no market
- ↳ Traditional volatility of insurance market pricing
- ↳ Desire for corporate's better financial planning and return on capital
- ↳ Direct control of claims, loss control and prevention
- ↳ Integration of corporate's risk and corporate governance
- ↳ Facilitates business unit risk tolerances within group risk retention decision



Financial advantages

- ↳ Reduction of overall insurance expenses
- ↳ Improved cash-flow
- ↳ Intra-Group loans
- ↳ Creation of a profit centre within a group
- ↳ Decreased vulnerability to market cycles
- ↳ Potential tax benefits

Qualitative advantages

- ↳ Tailor-made insurance programs
- ↳ Coverage for non-insurable risks
- ↳ Direct access to the world-wide reinsurance market
- ↳ Greater control over loss prevention programmes
- ↳ Higher risk awareness within the group

Possible risks to transfer to a captive

↳ Property & Casualty risks

- Property damage/business interruption
- General & professional liability
- Product recall
- Marine
- Motor
- Credit
- Pollution legal liability

Possible risks to transfer to a captive

- ↳ Pension, Life & Death
 - Group insurance
 - Disability
 - Pension schemes
 - Survivors annuities
 - Key-men

Prerequisites for a captive

- ↳ Minimum premium requirements
- ↳ Minimum turnover
- ↳ Minimum financial strength
- ↳ Risk transfer
- ↳ Long-term commitment

Steps to create a captive

- ↳ Perform feasibility study
- ↳ Negotiate with the fronting companies
- ↳ Coordination with brokers
- ↳ Establish the captive – complete set-up
- ↳ Develop and place reinsurance respectively retrocession programmes
- ↳ Implementation and adapting the programmes