

WELCOME TO THE WORLD OF CAPTIVES

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Learning Objectives

Objective 1 – Attendees will learn about the basics of captive insurance and gain an understanding of the various types of captive options available.

Objective 2 – Attendees will be able to leverage best practices for analysis within their organization.

Objective 3 – Attendees will be able to apply risk concepts to captive basics and interpret results for their organization

Agenda

Captive Basics (including a brief history)

- Why captives are formed
- Benefits and Challenges

Types / Utilization Models

The Captive Formation Process

Concept to Operations

The Feasibility Study

Implementation and Operations

Best Practices



CAPTIVE BASICS

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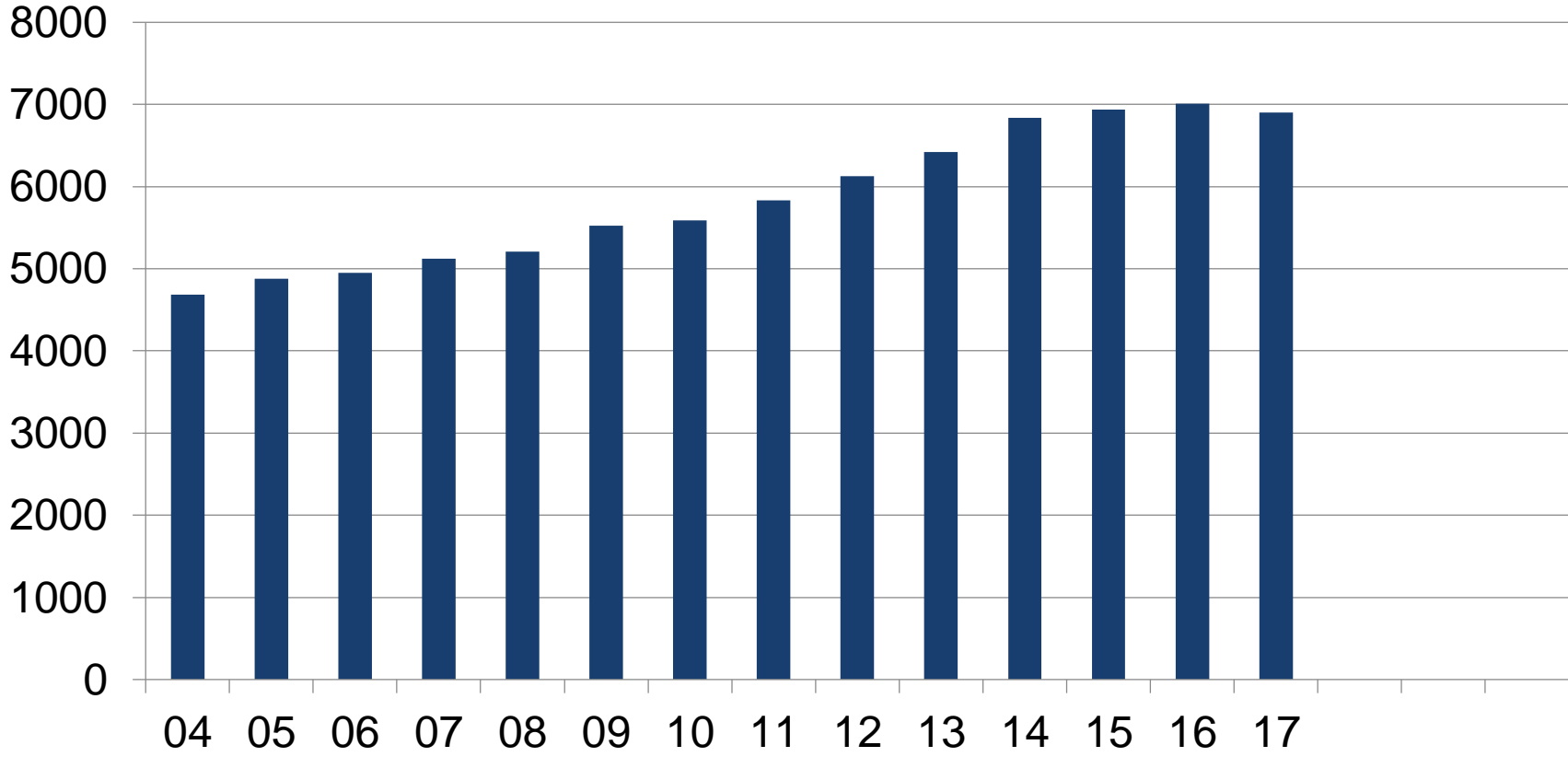
What is a Captive?



- ✓ Vital financial tool
- ✓ A limited purpose, licensed insurance company, the main business purpose of which is to insure the risks of the captive's owners
- ✓ A risk assumption vehicle
- ✓ An insurance or reinsurance company
- ✓ Specifically established to insure or reinsure the risks of its parent or associated third parties

Today, Captives are mainstream

Worldwide Number of Captives



*Source: Business Insurance
2017 estimated based upon both new licenses and a number of closures

Who should consider a captive?

Companies (or groups of companies) with:

- Financial stability and a willingness to invest in themselves
- Good claims history and a low loss ratio
- Good risk management practices and willingness to be proactive
- Long-term commitment
- Willingness to work with other companies (potentially competitors)

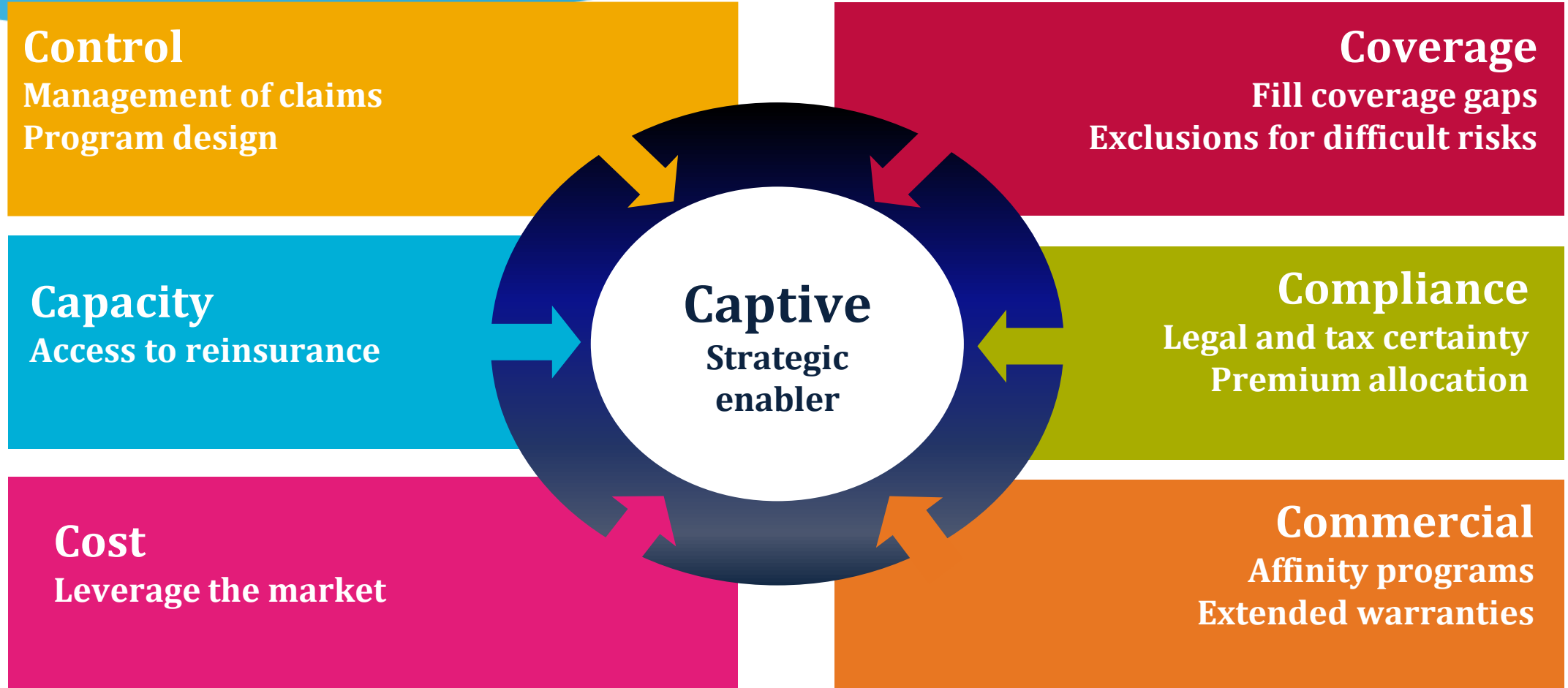


Who should consider a captive?

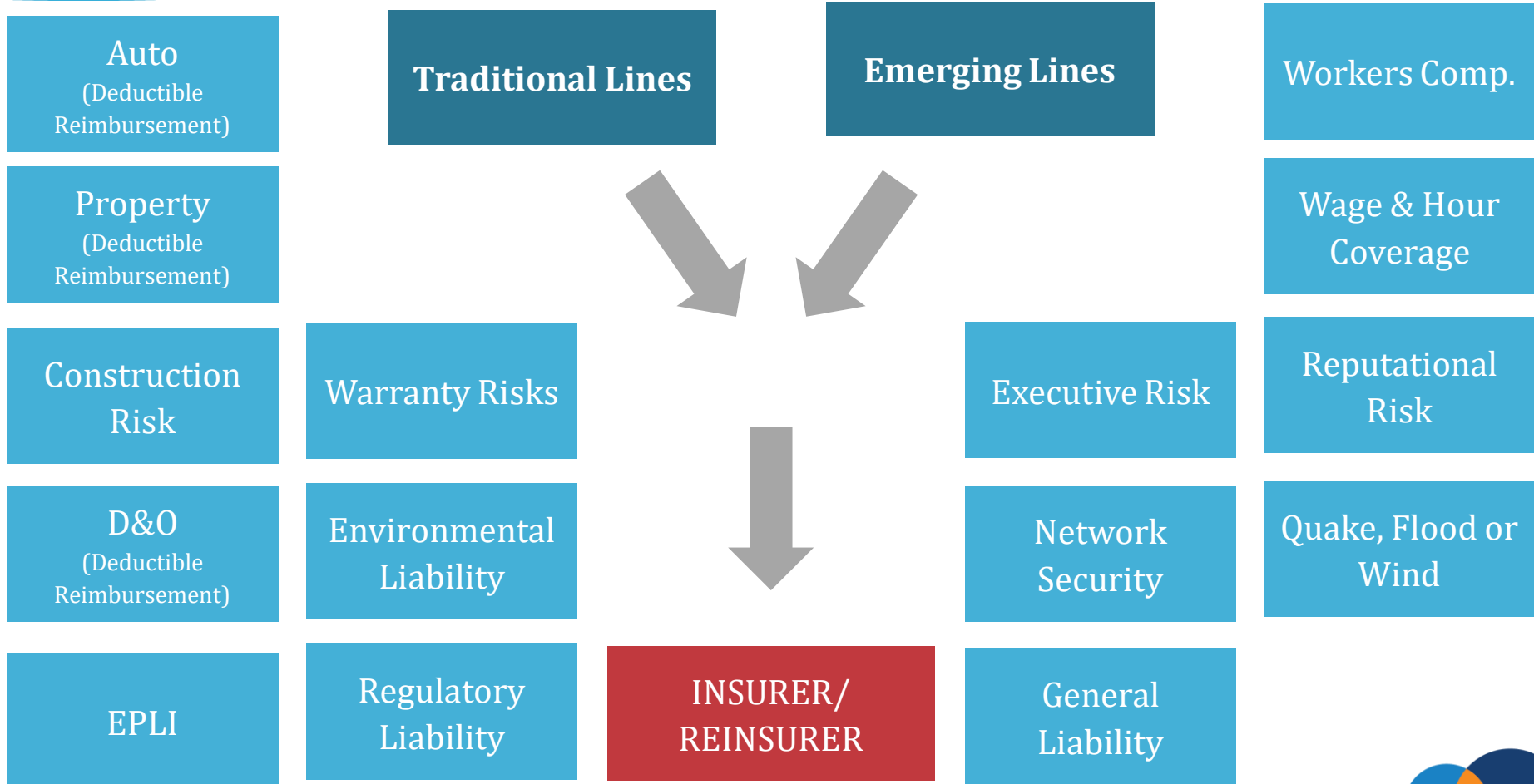
Some examples:



Why are Captives Formed?



Types of Risks



Types of Captives

	Single Parent	Sponsored Cell Captive	Association/Group Captive	Risk Retention Group
SCALE	>\$1M in premium	Any minimum premium level	Typically a min. of \$250k in premium, no maximum	Any premium volume
FEATURES	<ul style="list-style-type: none"> ▪ Medium to Larger account solutions ▪ Unilateral control of captive (subject to regulator) ▪ No risk sharing, unless pooling arrangement is deployed 	<ul style="list-style-type: none"> ▪ Typically established by a 3rd party sponsor ▪ Insured can “rent” the captive space ▪ Typically lower operating costs ▪ Could be a protected cell or incorporated cell structure ▪ No risk sharing 	<ul style="list-style-type: none"> ▪ Sharing risk is required ▪ Access to profitability of insurance program ▪ Considerably greater control as compared to guaranteed cost insurance ▪ Lack of unilateral control of services and risk ▪ Communal risk management 	<ul style="list-style-type: none"> ▪ Sharing risk is required ▪ Policy holders are share holders ▪ Formed in a state/domicile and ability to write in all 50 states ▪ Liability insurance only ▪ Typical Industries: Healthcare, transportation, governments and professional services



Benefits



BENEFITS

- The opportunity to see favorable risk management business outcomes
- The drive to recapture leakage in traditional risk transfer solutions
- The opportunity to take risk and profit positions in affiliate business
- The drive to control frictional and non-loss costs



BENEFITS

- The unwillingness/inability of insurers to provide cost effective insurance
- Global consistency
- The need for new capacity for certain risks
- Lack of confidence in the traditional markets ability to differentiate and provide stable protection
- The enhanced focus on loss prevention and intelligent claims handling



Considerations



CHALLENGES

- Incurring unexpectedly large losses
- Compliance issues
- Meeting and maintaining capital requirements
- Competing uses for available capital
- Accessing capital for competing needs

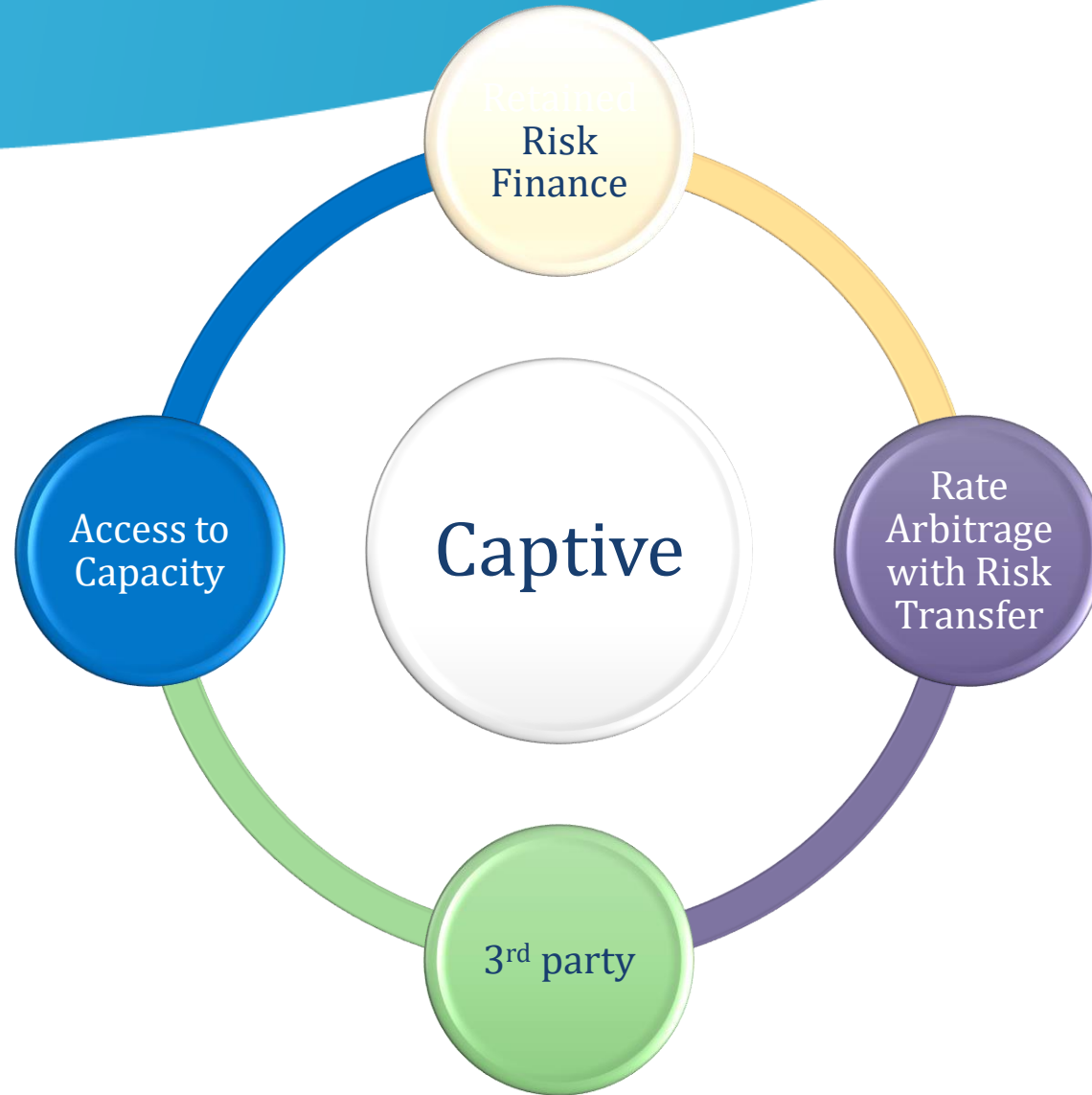


CHALLENGES

- Distributing profits
- Winding down program
- Restrictions on selling or transferring ownership
- Focus and commitment must be long term
- Overcoming the learning curve



Utilization Models



THE CAPTIVE FORMATION PROCESS

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What is the Captive Process?



Next Steps – Internal Evaluation / Planning



Identify your Risk Program and Risk Philosophy



Gather Data if your loss history is favorable and determine if your organization is willing to invest capital in themselves



Contact your Consultant for an evaluation of your existing program and alternative options



Create and Execute an action plan for Formal Feasibility Analysis



THE FEASIBILITY STUDY

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Feasibility Process



Data Collection

Annual
Report/10K

Organizational
Chart

Existing
Insurance
Summary

Exposures
(i.e. payroll,
sales)

Historical Losses

Historical /
Projected
company changes



Actuarial

Why is it necessary?

Measures Financial Viability

Risk
Identification/Quantification

Required by Regulators

Reinsurance Negotiations

What is included?

Loss Rates/Premiums/Loss Ratios

- Expected
- Adverse

Pro Forma Financial Statements

- Includes:
 - Income Statement
 - Balance Sheet
 - Statement of Cash Flows
- Typically 5 Year
- Based on Expected and Adverse Scenarios



Program Design & Regulatory, Tax and Legal



- What Insurance Structure will you develop:
 - Types of insurance
 - Retentions
 - Limits
 - Direct
 - Reinsurance
- What type of Captive?
- Who will be the owners?
- Do I need to be concerned with Tax & Legal Structure?
- What about Regulatory Requirements?



Domicile

Criteria

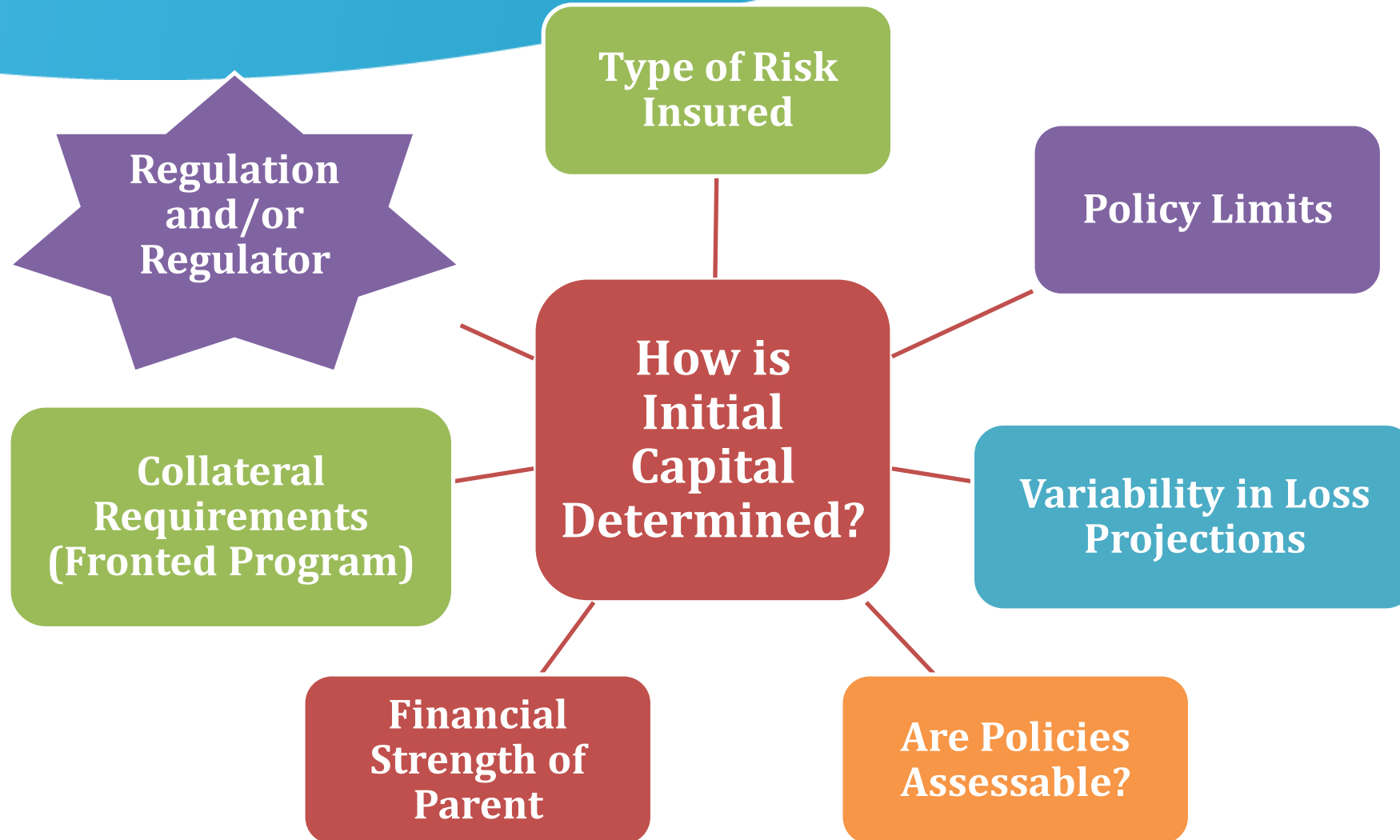
- Statutory Capitalization and surplus requirements and solvency ratios
- Receptiveness of regulatory environment
- Quality of local infrastructure
- Availability of expertise
- Stability of regulatory environment

Criteria

- Flexibility as respects investment portfolio
- Ease of doing business – in a suitably regulated environment
- Experience in business under consideration
- Efficient financial outcomes: tax, wealth, investment etc.



Capital Considerations



IMPLEMENTATION AND OPERATIONS

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Implementation of Captive



Captive Operations

Shareholders

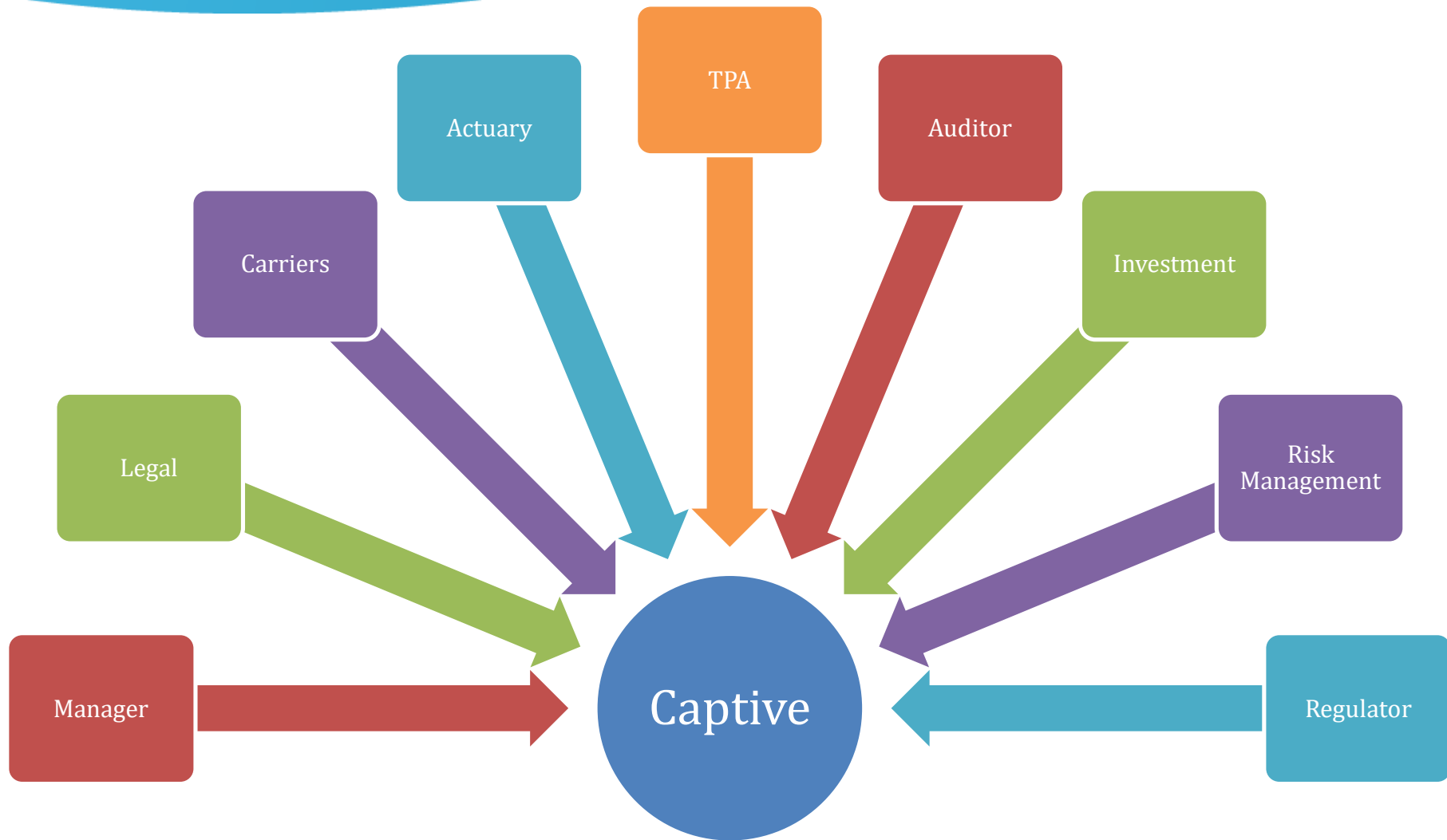
- Elects directors
- Appoints Auditors

Board of Directors

- Elects officers
- Establishes policies
- Manages business
- Oversees Committees
- Engages service providers



Captive Operations



BEST PRACTICES

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Closing Thoughts and Things to Consider

Corporate governance and culture starts at the top

Engage experts who can guide you through the process

Running an insurance is likely much different than the business that you are in. Treat it as such. Stay involved.

Ask questions on anything and everything you don't understand

Communication with service providers is critical

Plan early for the future (sharing of dividends, assessments; closing)



Questions



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THANK YOU



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