Navigating Multinational Risks – Advanced Training

Understanding Complex Multinational Risks - Module 1

LOOK INSIDE

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Understanding Complex Multinational Risks

Module 1: Introduction to Captives and Captive Fronting

By the end of this course, you will be able to:

- Explain what a captive insurance company is and the different types of captives
- Clearly articulate the benefits and challenges that should be considered when forming a captive
- Explain what a front is and why one is needed
- Describe the roles and responsibilities of the client, broker, insurer, and captive when fronting business to a captive
- Describe the different captive program structures and the value they create for clients

Agenda

- Introducing Multinational Captive Fronting
- What Is a Front and Why Is One Needed?
- Roles and Responsibilities in a Fronting Program
- Steps to Form a Captive
- Captive Program Structures
- Case Studies
- Key Takeaways
- Q&A

Introducing Multinational Captive Fronting

Your Challenge!

At the end of today's session, we will ask you to imagine that you are a new Risk Manager at a major Fortune 500 corporation who is 'stuck' in a lift with the company CFO that is new to her post.

"There's something I've been meaning to ask you," she says. "But we never seem to find a minute to discuss anything in our Management Meetings, the Agenda is so full. In your previous roles as a Risk Manager, have you ever used a Captive?

This is your chance to shine:

Prepare an 'elevator pitch' in under 2 mins. At the end of the pitch, you want to have generated enough interest for the CFO to give you a mandate to put together an initial findings document on the suitability of a Captive.

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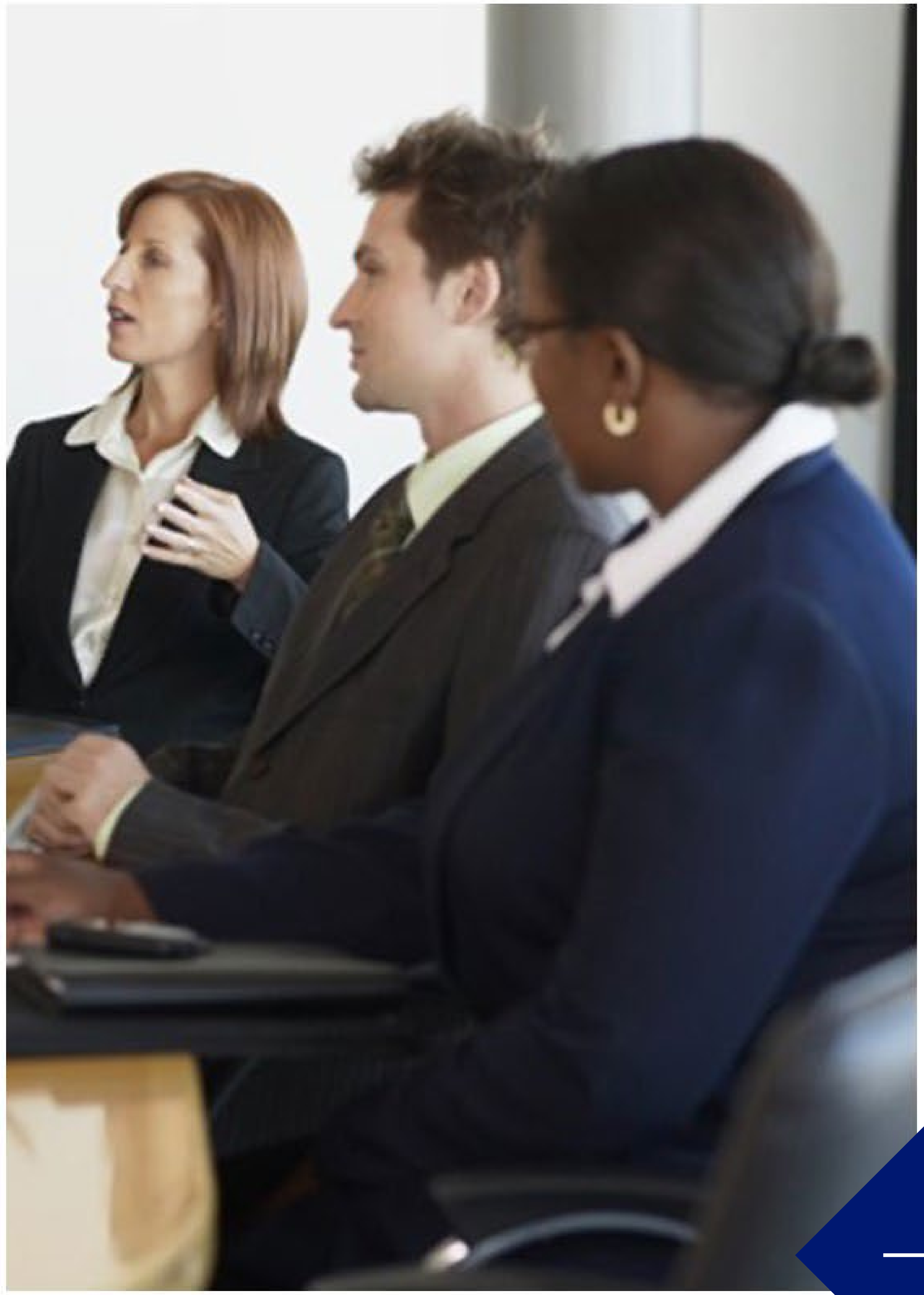
What Is a Captive Insurance Company?



A captive is:

- A separate legal entity created or used by a company

More specifically, it is:

- An insurance or reinsurance company formed primarily to insure its owner(s) and affiliated companies
- A risk management and financing vehicle that offers an alternative to conventional insurance
- A regulated entity within the domicile in which it operates

A captive typically:

- Has no employees, so all of the usual “insurance company” functions are outsourced to third parties
- Provides coverages for risks that the owner wishes to retain or that are unavailable in the traditional market
- Does not have its financial strength rated by AM Best, S&P or Moody’s like a traditional insurance company

Risk Retention Strategies

Deductibles vs. Self Insured Retentions (SIR)	• **Deductibles** are part of the policy limit. • An **SIR** is not part of the policy limit. The limit is expressed excluding the value of an **SIR**.
Indemnity Structures	• An **Indemnity Structure** is one where the client reimburses the insurer for losses within the indemnity limit. The indemnity limit may be all or part of the policy limit. **Indemnity Structures** may not be available in all regions or situations.
Captives/PCCs/ Group Captives	• **Captives/Segregated or Protected Cells/Group Captives** are special purpose entities owned or rented by the client company, and designed to act as a reinsurer or insurer.
Virtual Captives	• **Virtual Captives** are a less formal way to achieve similar goals of owning a captive. The insurer will use the premiums held to pay losses for the policies that it issues.

Key Captive Statistics

There are approximately

7000

captives globally, compared to **1000 in 1980.**

Increased strategic use of captives makes the insurance industry more

efficient, stronger, and better

able to compensate those suffering hardship or loss.

Approximately

90%

of **Fortune 500** companies have established **captives.**

Regulators

globally are passing legislation to promote

their use as strategic risk management vehicles.

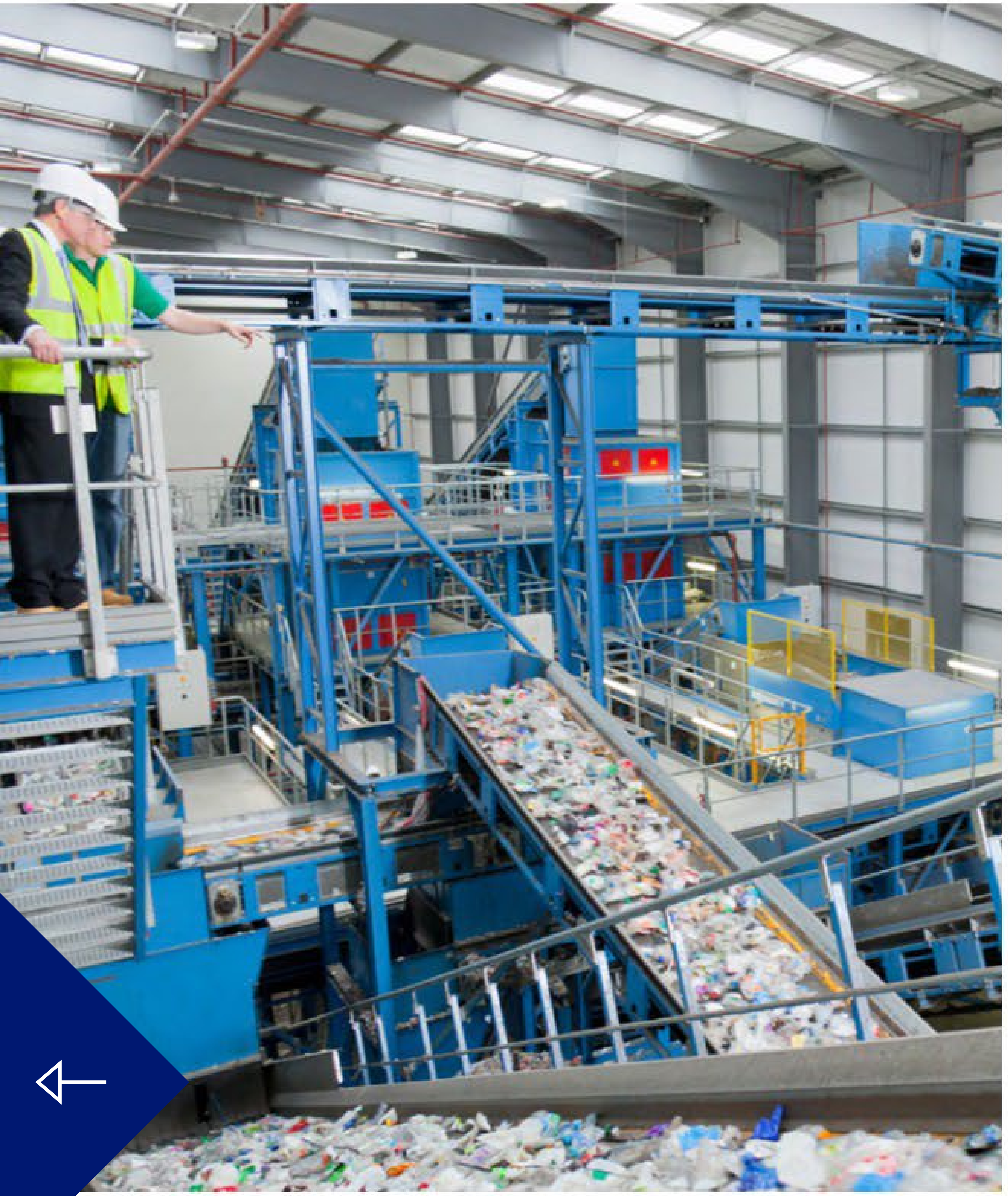
Industry sources say

50% of the Property Casualty

insurance written in the **U.S.** today is **through captives.**

Sources: Captiveinternational.com, Captivexperts.com, AM Best Captive Center

Client Example



Captive participation solves local deductible challenge

Following a number of property claims, a global recycling company faced higher deductibles for all entities in their global program. Although higher deductibles were warranted and could be absorbed at the home office, the levels being requested by the insurer were much too high for some of the local entities. The local balance sheets simply couldn't sustain one or more losses.

Solution

The insurer's Property and Captive teams closely collaborated to help build a program that used a captive to effectively 'buy down' the difference between the deductible level imposed and the level of deductible that could be 'tolerated' locally.

Benefit

Local entities could still benefit from the globally negotiated terms of the company-wide multinational program cover; however, with a deductible tailored to and aligned with the financial strength of their own operation.

Why is this important?

Although from an enterprise-wide perspective the losses suffered were the same, using a captive meant any losses could effectively be 'held' at the parent rather than local level. As the ultimate reinsurer, the captive was able to set the premium at a reasonable level for the local entities that hadn't suffered the same historical losses as the home office.

After completing the Introduction to Captives and Captive Fronting (Advanced – Module 1) course, you should be able to:

- ✓ Explain what a captive insurance company is and the different types of captives
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- ✓ Explain what a front is and why one is needed
- ✓ Describe the roles and responsibilities of the client, broker, insurer, and captive when fronting business to a captive
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