



The Captive Concept

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Distinctive. Choice.



JLT Insurance Management

- Commenced business in year 2000
- Offices in:
 - Bermuda, Barbados, Dublin*, Luxembourg #
 - Guernsey, Malta, Singapore & Zurich #
- 100 new captives now under management
- 6 LATAM captives

What is a Captive?

- Captives are generally viewed as insurance companies that are wholly owned subsidiaries of non-insurance entities typically writing only the risks of its owner and/or affiliates
- Although many do write unrelated risks

Types of Captive

- Captives take on various forms such as single parent captives (otherwise referred to as ‘pure’ captives), association captives, rent-a-captives, & protected cell captives
- Pure captives represent 75% of global captives.

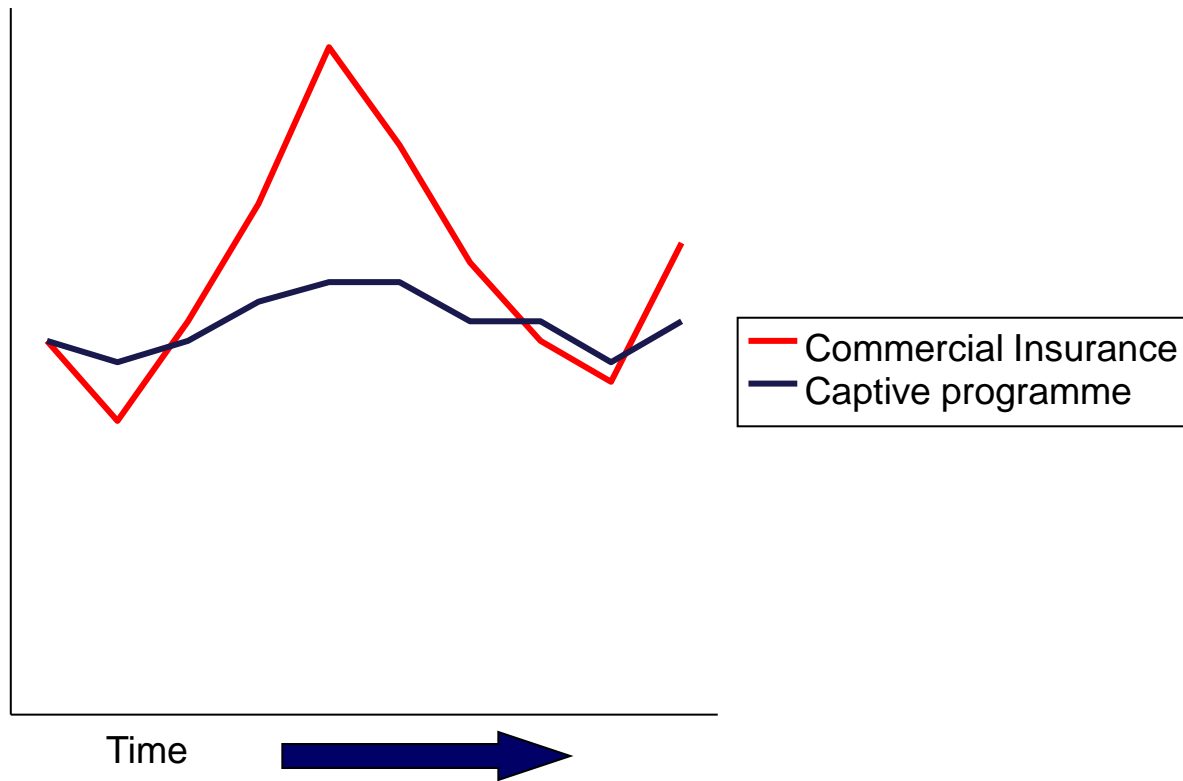
Why Form a Captive?

- Captives are a sophisticated form of self-insurance
- Manage retained risk in a formalised and regulated environment
- Create greater control of (re)insurance programmes
- However – a captive is not a magical solution to every insurance problem

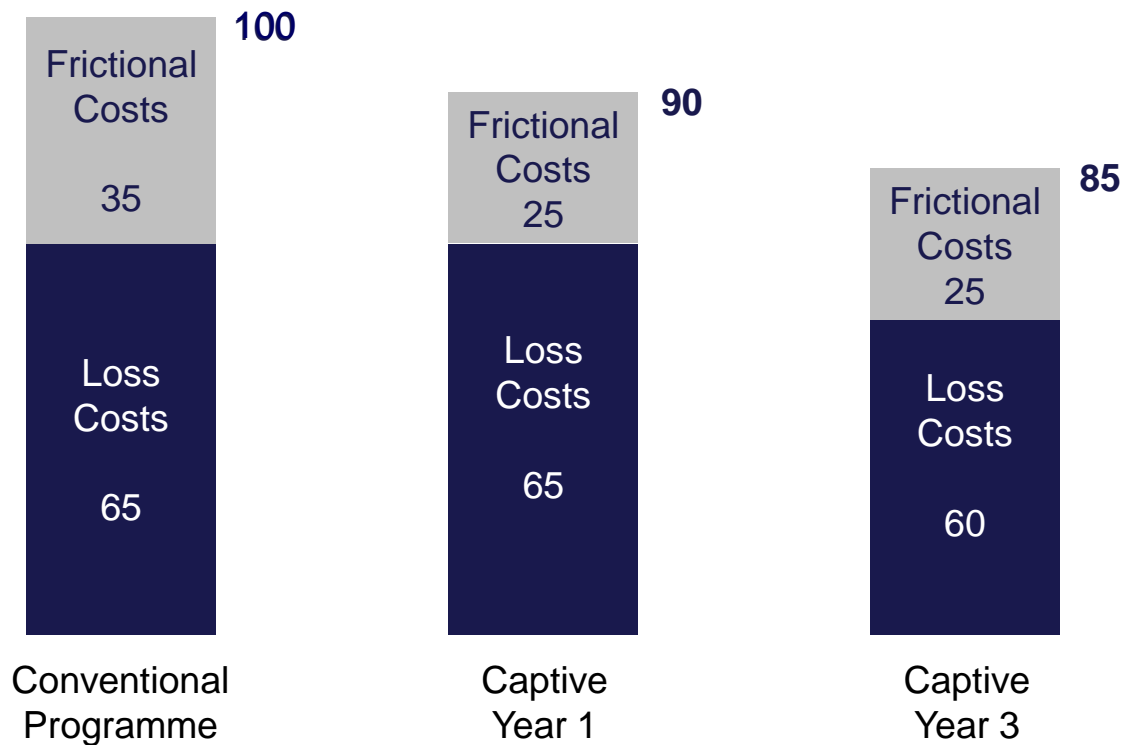
Captive Benefits

- Stable and lower insurance prices

Stable insurance prices



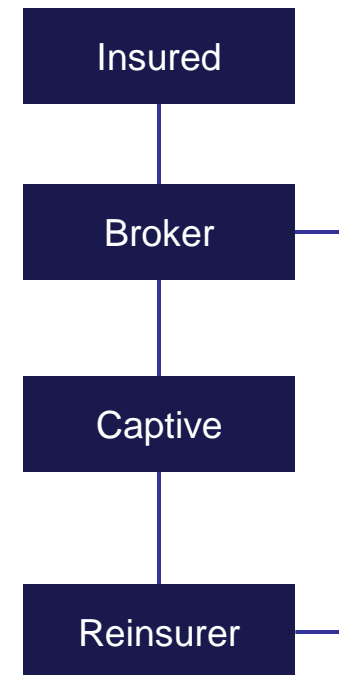
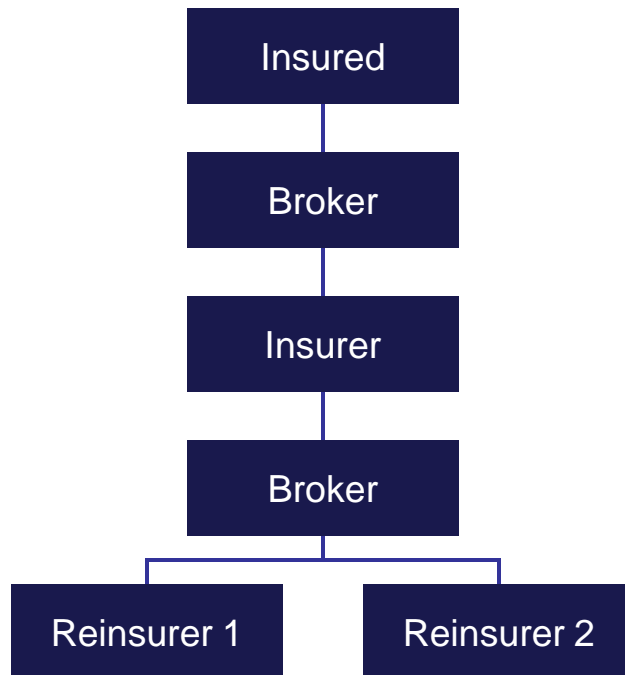
Lower insurance prices



Captive Benefits

- Stable and lower insurance prices
- More efficient access to reinsurance and terms

Access to reinsurance



Captive Benefits

- Stable and lower insurance prices
- More efficient access to reinsurance and terms
- Capture underwriting profits
- Capture investment income on premium and reserves
- Placement of specialised risks

Captive Benefits

- Occasionally tax benefits
- Flexibility in program structures, terms and conditions
- Profit centre – e.g. customer insurance

Captive Covers

- Very diverse book but typically will be lower layer exposures where premium to exposure ratios are high and savings available
- High to medium frequency / low to medium severity
- Usually only the internal risks of the parent i.e. no third party risks.

Classes of Business Underwritten by Captives

Sample list:

- **Material Damage and Business Interruption**
- **Marine Hull, Marine Cargo, Loss of Hire**
- **Aviation Hull and Liabilities, Loss of Licence**
- **Credit Default**
- **Life, Personal Accident, Permanent Health, Employee Benefits**
- **Liability Covers Public, Products, Employers, Workers Compensation**
- **Terminal Operators, Environmental**
- **Motor AD and TPL**
- **Construction Risks**
- **Warranty Covers**
- **Product Guarantee and Recall**
- **Performance Guarantees, Surety**
- **Fidelity, Computer Crime.**

Captives Worldwide

- The number of captives has increased steadily since 1980 when there were approximately 1,000 such entities
- There are now 5,500 captives worldwide of which over 300 are PCC's (Cell Companies)
- The premium levels are estimated at USD200bn
- Assets deployed are close to USD500bn.

Key Captive Domiciles

- Bermuda 1200 mainly USA misc
- Vermont 870 mainly USA
- Guernsey 600 (inc cells) mainly UK
- Luxembourg 350 mainly European
- Dublin 150 European and USA
- Barbados 180 mainly Canadian

Emerging Domiciles

- Malta 20
- Dubai 1
- Bahrain 1

Current Trends For Captives

- ✓ New captives and PCC Cells being formed even in soft market but growth has slowed
- ✓ Existing captives being reviewed and in some cases being repositioned for next hard market
- ✓ Premium volumes still growing
- ✓ Capital bases still growing.

Soft Market Implications for Captives

- Soft markets generally lead to a reduction in growth rate of new captives
- Reduced retentions for existing captives but rarely closure
- Reinsurance prices also fall in a soft market. Captives can take advantage of that.

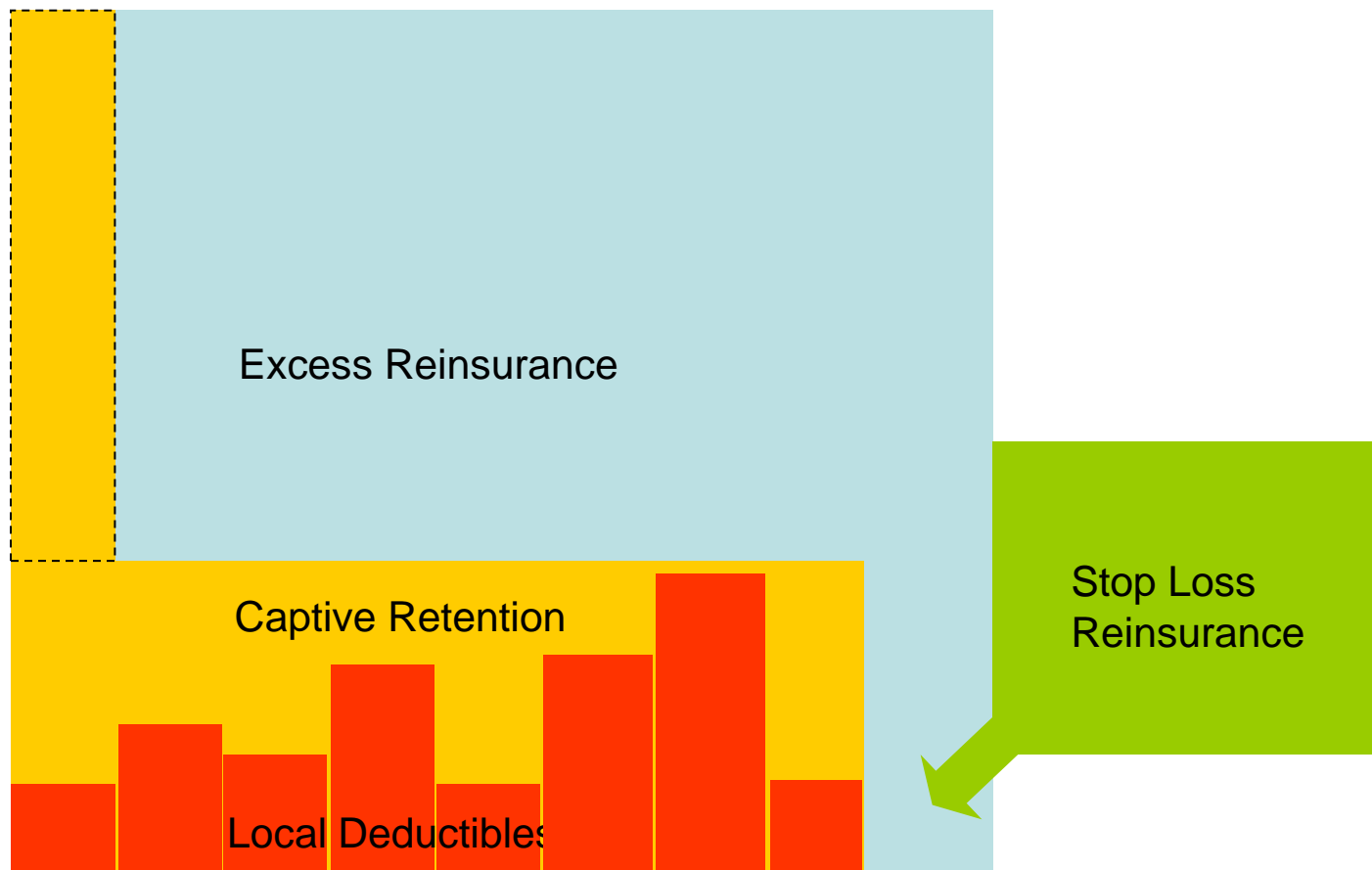
Case 1 – New Captives

- To access reinsurance markets - initially
- Generate income through ceding commission
- Control of (re)insurance program – form stronger relationships
- Implement risk management programme
- Generate surplus in early years
- Begin to retain risk utilising surplus generated

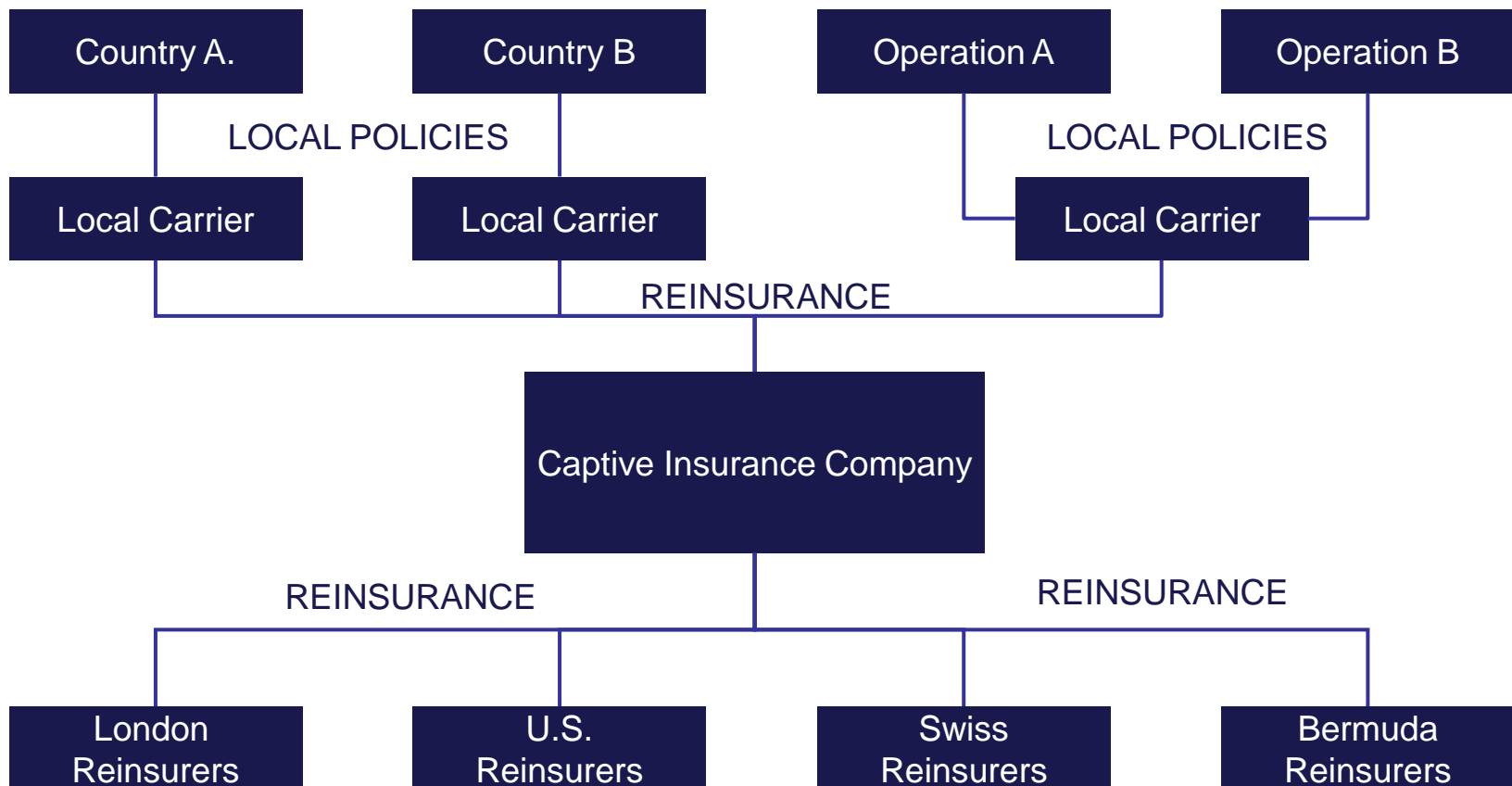
Case 2 – Multi-national Program

- Applicable to diverse operations
- Consistency of coverage globally
- Ability to match local risk retention needs with global capability
- Access to reinsurance markets through the captive
- Efficiency, choice, price

Case 2 – Multi-national Program



Case 2 – Multi-national Program



Case 2 – Multi-national Program

- Collection of data for future risk management purposes
- Freedom to set terms and conditions for local operations in a manner that encourages good risk management
- Export of local premiums to a more fiscally effective location

Case 3 – Customer Insurance

- Generate new group revenue – profitable
- Builds better customer relationships
- Not just customers:
- Suppliers, Employees, Contractors
- Some examples

Case 3 – Customer Insurance

Customers

Extended warranty
Travel insurance
Life
Credit Life
All Risks
Payment protection
Auto

Suppliers

Cargo
Credit
Performance
Bonds
Business
Interruption

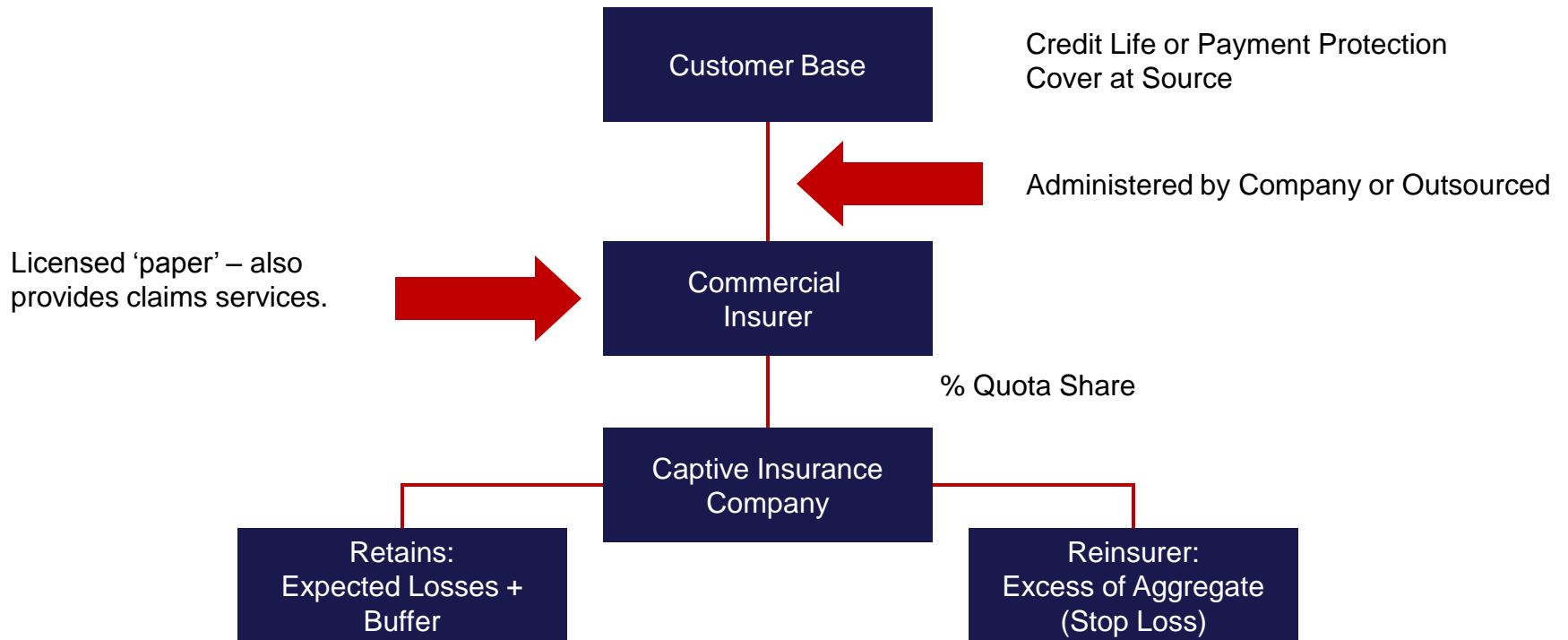
Contractors

All Risks
Liability
Cargo
Bonding

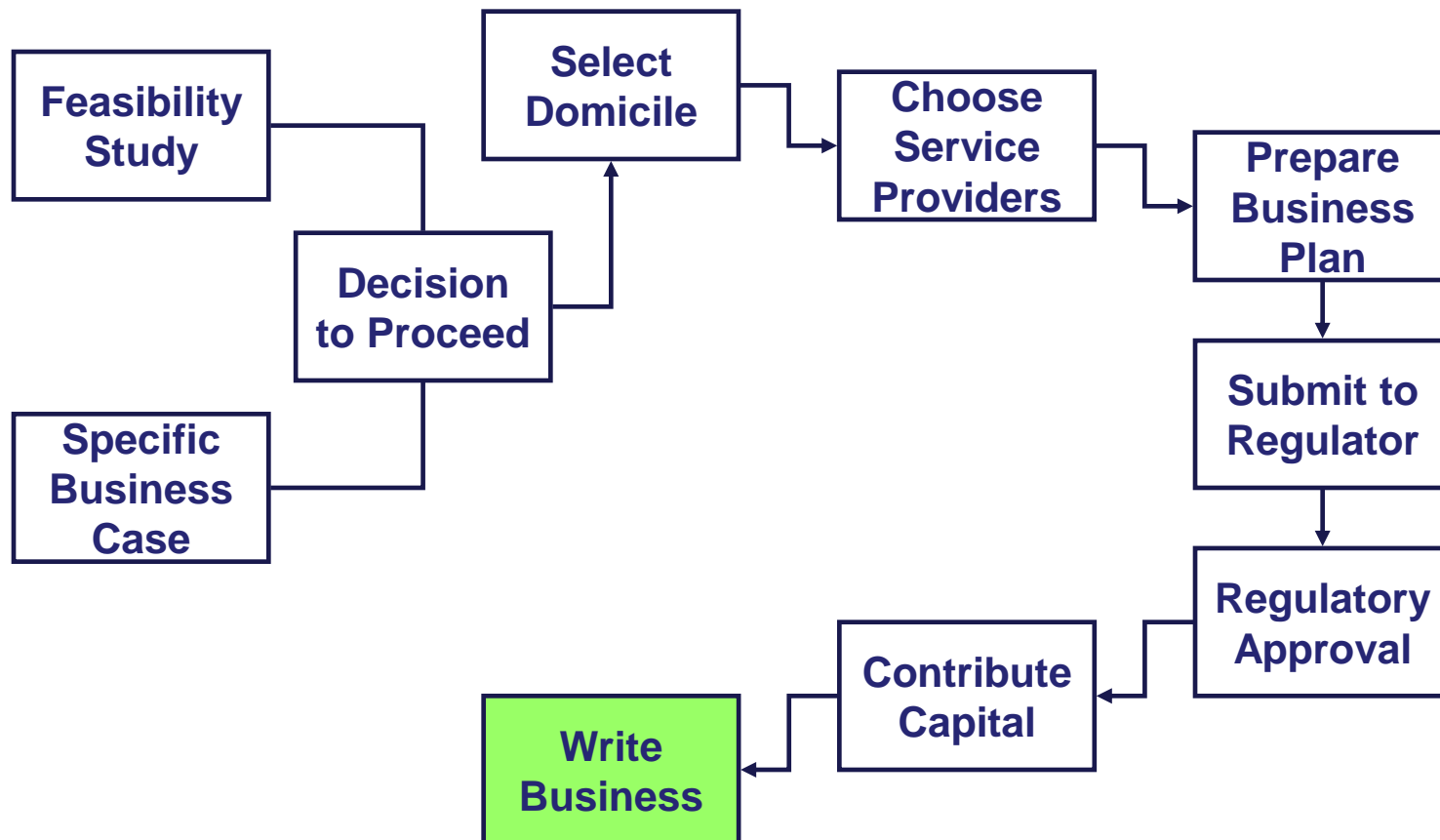
Employees

Householders
Auto
Life
Disability

Case 3 – Customer Insurance



How to Form a Captive



Timeline

- Feasibility study six weeks from receipt of all data in good order
- Licence application and formation between six weeks and six months
- Fronted or direct writing captive has bearing on time line
- Recommend start the project about 9 months before renewal.

Capital required could vary from USD120k to USD50m

- Will depend upon:
 - Covers to be written & premium
 - Any one loss and aggregate limits
 - Loss frequency and severity
 - Reinsurance purchased.

Issues to consider

- Local regulations
- Premium Tax
- Controlled Foreign Corporation rules
- Consolidation/accounting

Captive Costs

- Feasibility study USD 15,000 – 30,000
- Set up USD 20,000
- Operating costs USD 85,000 + made up of
 - Statutory fees
 - Audit
 - Legal
 - Management
 - Misc

Role Of Captive Manager

- Very different to the brokers role. We are the staff of the captive insurance companies & provide:
- Underwriting, program design and claims administration
- Financial reporting and accounting
- Regulatory liaison
- Liaison with the Board and development strategy
- Part of the risk management team.

Conclusion

Captives are a very useful, efficient
and flexible risk financing tool

We can help you!