

Steadfast ART's Guide To Captive Insurance

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Important note

This information is general in nature and is not specific to your objectives, financial situation or needs. It is not complete, so please request full details from us as to whether a captive is appropriate for you.

A captive insurer overview

A captive insurance company is an insurance company that is formed and solely owned by a non-insurance company.

The formed insurance company (captive insurer) functions as a direct insurer or reinsurer for the parent company and its subsidiaries.

Forming a captive insurer is a crucial strategic decision and fundamental to establishing greater ownership and control of a company's risk financing framework.

In addition to the above and with regard to multi-domicile operations requiring the issuance of local insurance policies, a captive provides a vehicle which consolidates and homogenises policy terms and conditions, language, currency and regulatory requirements, which support the placement of reinsurance capacity as required.



Captive insurance is globally recognised as an effective risk transfer solution

Many ASX 200 companies utilise captive insurance, with growing popularity amongst Australian companies for their local and international insurance programs

The decision to establish a captive needs to be considered and strategic delivering a long-term alternative risk financing solution, with a minimum 5-10 year commitment



Two common captive structures:

- Single Parent Captive
- Incorporated Cell Company Captive

Establishing a captive provides a foundation for a more sustainable risk financing framework through greater ownership of risk (premium and losses) and less dependence upon third party capital providers (insurers)

Establishing captive insurance arrangements eliminates reliance on traditional insurance

Risk Ownership

Risk Data

A comprehensive understanding of risk data obtained through a risk engineering program

Loss data

A comprehensive loss profile for a minimum of 5 years (preferably 10 years)

Strategic growth agenda

Understanding company's strategic growth agenda and potential impact this may have to risk and loss profile

Balance Sheet strength

Both willingness and ability to allocate capital investment to support the captive



Positive Market Perception

Adopting captive insurance solutions sends a strong and positive message to insurance markets that there is holistic risk management rigor across business operations.

Full underwriting profit will be captured by the incorporated cell company rather than traditional insurance markets, eliminating the impact of opportunistic insurance pricing.

Enabling claims provisioning

A pool of funds can be built up to provision for claims.

Reinsurance arrangements would be put in place, as required, to ensure any spike losses are adequately covered and do not undermine the long-term viability of the captive solution.



A captive can cover any type of risk except Directors' and Officers' (D&O)

Captives can even cover for risks that have no commercial product in the market or that no insurer is willing to engage. These unpalatable risks include asbestos, weather damage, or magnetic fields.

In these situations, captives still need to get assistance from an insurance company to ensure an appropriate price for the risk involved, in order to avoid issues with tax legislation.

High capacity risks such as supply chains, cyber, and reputational risks can exceed traditional insurers' available capacity. This is another scenario in which captives are beneficial in adding capacity for these larger risks.

Using a captive to cover more of these risks can also release more funds to the management of these risk areas, reinforcing gains from such investments.

Types of general insurance solutions which can be provided by a captive

- ✓ Construction
- ✓ Financial lines (except D&O)
- ✓ Liability
- ✓ Marine
- ✓ Motor
- ✓ Property
- ✓ Speciality lines
- ✓ Surety
- ✓ Trade credit and political risk

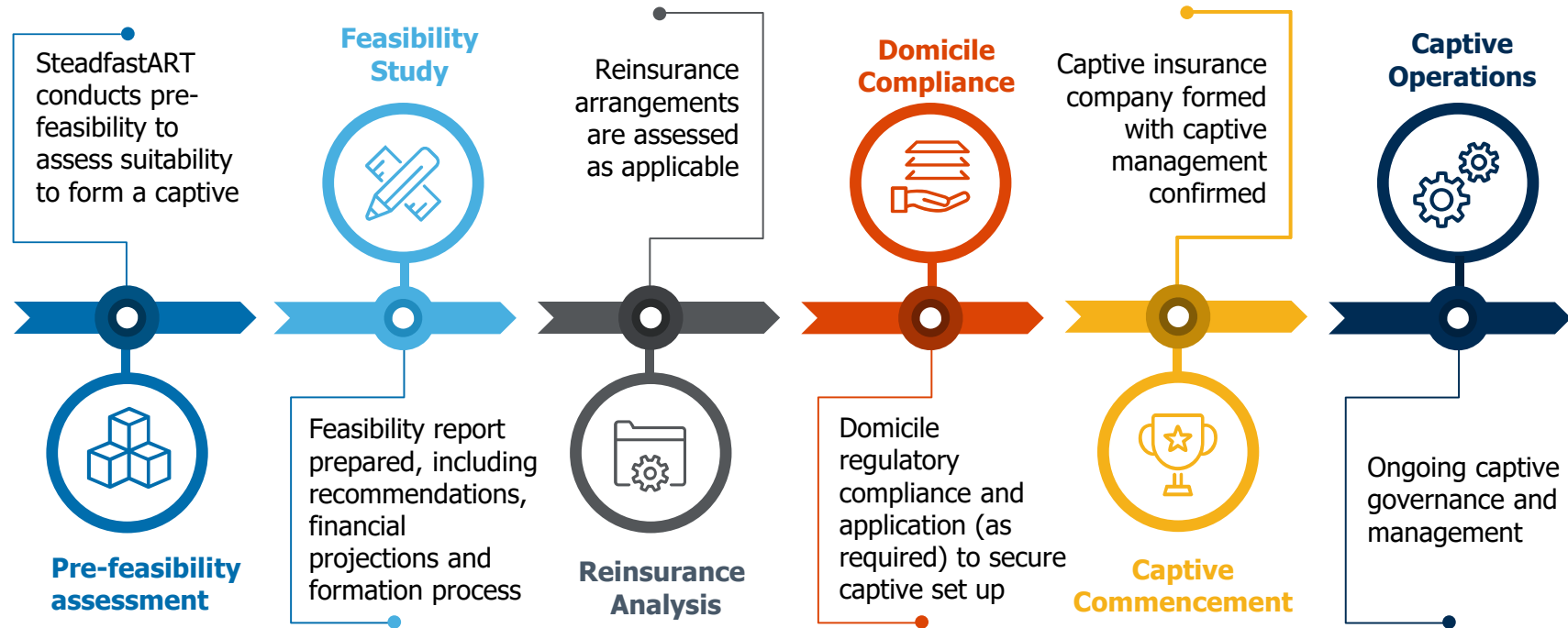


Companies with multi-domicile operations

When selecting a fronting or insurance partner it is important to consider that they can:

- Ensure the captive program is globally compliant
- Make the best use of the captive's assets
- Provide general insurance solutions across the world
- Provide the technology to deliver accurate, transparent and timely reporting to key stakeholders and decision makers
- Simplify management across lines of business
- Conform with local regulatory requirements

Steps involved to assess, form and arrange captive insurance solutions



Common captive management tasks



Management of the company

- Company data management
- Board meetings and annual general meetings
- Strong and robust internal governance and process efficiency
- Consistent documentation, reporting and management of information
- Ensuring business operations are compliant to applicable regulations and legislation



Financial management

- Treasury, investment and cash management
- Periodic liquidity management
- Oversight and tracking of bank transactions, income, expenditure and costs



Accounting

- Management accounting services compliant with regulations and client needs
- Periodic/ statutory reporting, consolidation and accounting
- Claims reserve calculation by an actuary
- Review and analysis of reinsurance and retrocession contracts, data and statistics



Local regulator

- Prioritise and ensure compliance with local regulations and/or laws
- Liaison with regulatory authorities and fronting insurers
- Regulatory reporting as required by local insurance regulator



Audit, taxation and other regulatory services

- Supporting and conducting regular audits
- Preparation of relevant taxation documentation
- Captive and insurance subject matter experts
- Providing necessary domicile and infrastructure for captive operations
- Liaison with insurers, reinsurers and brokers
- Reporting by designated actuary

For more information please contact

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