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.

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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)

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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.

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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

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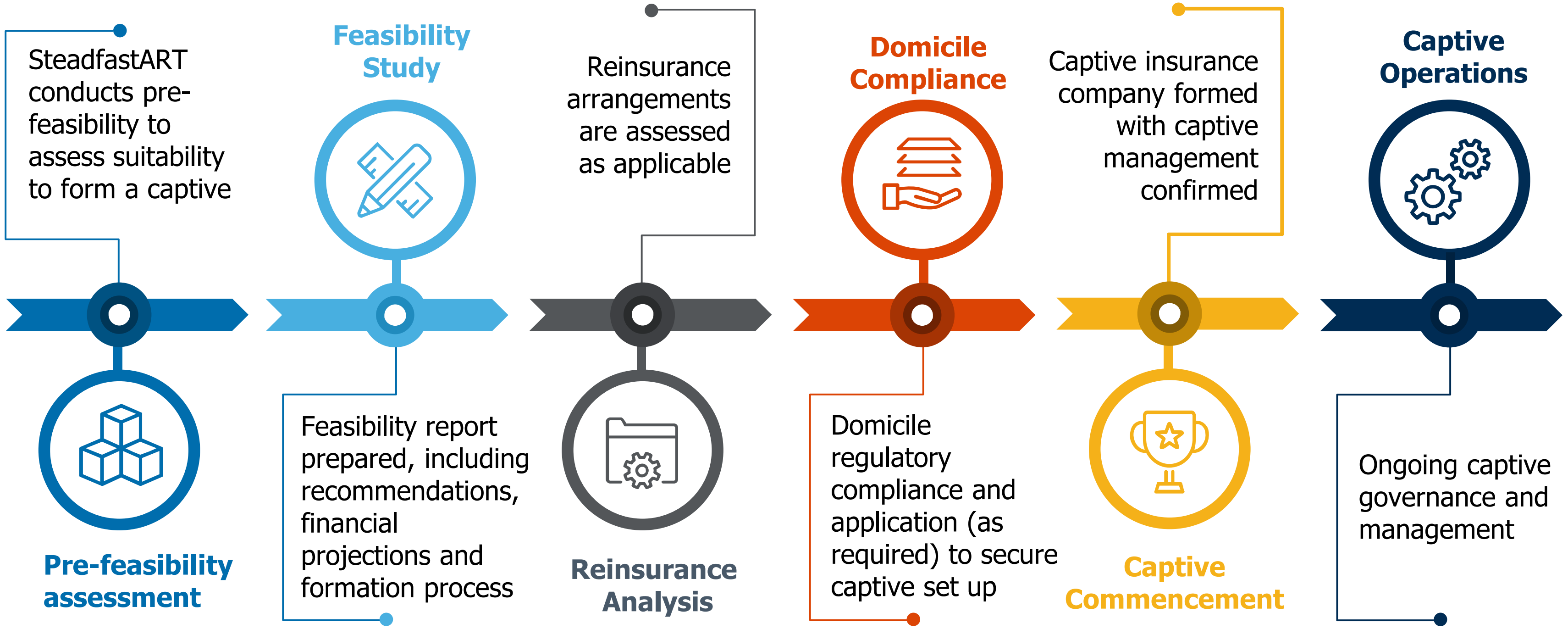
Steps involved to assess, form and arrange captive insurance solutions



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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

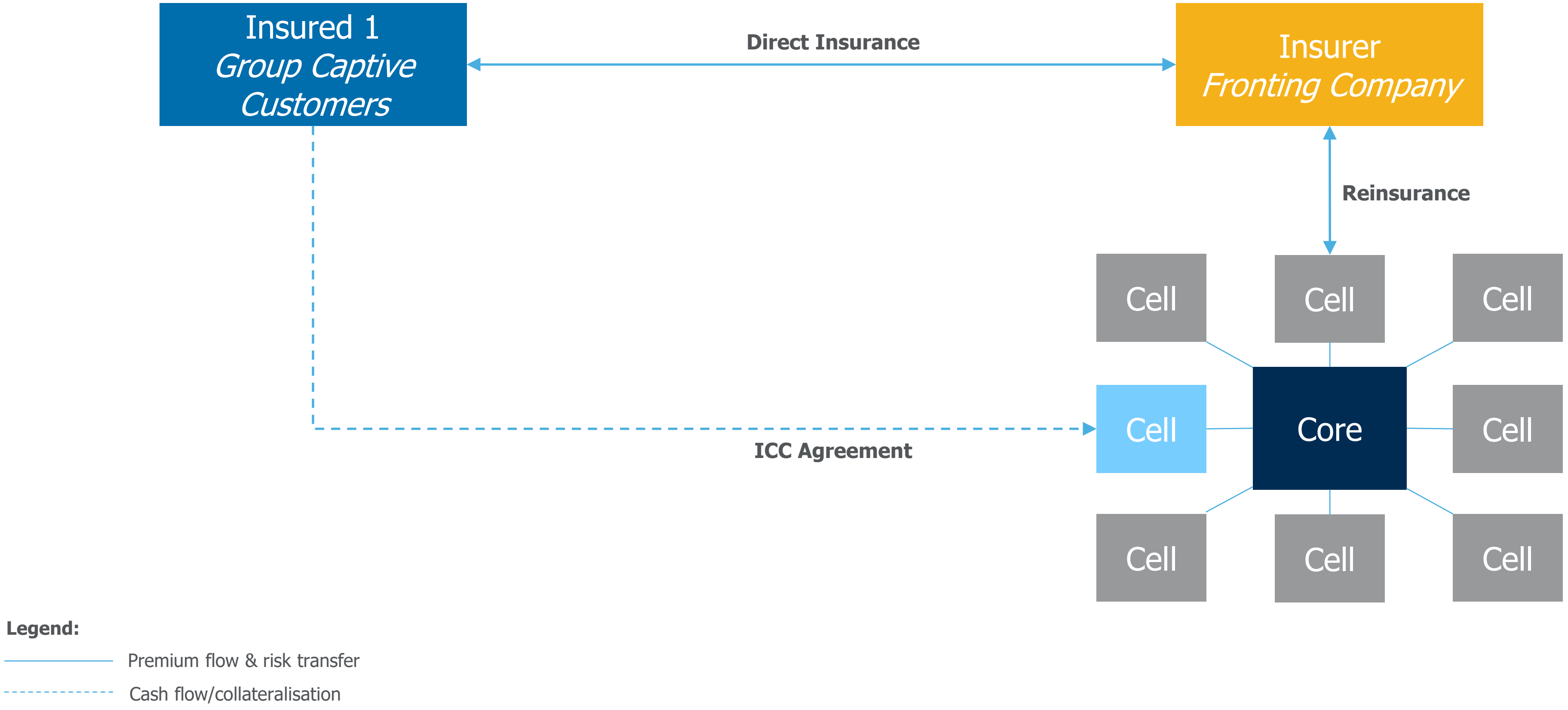
Audit, taxation and other regulatory services

- 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

Incorporated Cell Captive (ICC) structure

Incorporated Cell Captive agreement can be suitable for companies that want to benefit from alternative risk transfer or financing but do not have the necessary scale to form their own captive.

A Incorporated Cell Captive agreement can provide similar benefits to a captive.



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Ochrona ICC Ltd provides a Steadfast owned captive solution to our network broker clients

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Steadfast's captive insurance offering – Ochrona Incorporated Cell Company

- An ICC agreement is entered in with Steadfast owned Ochrona ICC, where an individual cell facility will be loaned
- Ochrona ICC is domiciled in Guernsey and the Ochrona ICC Core is fully capitalised and owned by Steadfast. Steadfast has board representation on Ochrona ICC Core board of directors
- Individual cell facilities are managed by Guernsey based captive managers – Strategic Risk Solutions, facilitated through Steadfast. Each individual cell facility of Ochrona ICC is incorporated and treated as a separate legal entity under Guernsey company law
- The individual cell facility is ring fenced from other cells in the Ochrona ICC structure, providing similar benefits to a stand alone captive insurance vehicle, with board control, including the client's board representation of the individual cell facility. A Guernsey based non executive director will be required to be on the individual cell facility board as per Guernsey regulatory requirements.
- Initial capital injection for an individual cell facility, however this is subject to reinsurance arrangements or alternative analysis supporting the amount being deemed appropriate

For more information please contact

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