

CAPTIVE FEASIBILITY

WILLIS GLOBAL CAPTIVE PRACTICE

WHAT IS A CAPTIVE?

Put simply a Captive is an insurance vehicle that is set up and run on behalf of a sponsor to underwrite risks associated with its core businesses. The sponsor is therefore both the policy holder and the shareholder of the Captive.

Owning a Captive means that a company can self-insure a proportion of its own risk, resulting in the premium funds and interest thereon that cover that part of the risk remaining within the company. Typically the Captive acts within the company as the central risk retention vehicle sitting over several business units/trading subsidiaries. Some Captives are also used to good effect by acting as insurer or reinsurer on insurance products sold to their customers.

Captives provide an ideal solution for organisations wanting to protect their balance sheet, reducing the cost of risk, whilst exerting greater control over their insurable risks. In the case of customer insurance products add a new revenue stream for the company.

WHO WOULD BENEFIT FROM A CAPTIVE?

Whilst there is no rigid profile of a typical Captive owner, a few common features include:

- Appetite to retain greater risk
- Annual premium spend of €500,000+
- Ability to capitalise a regulated entity
- Perceived high cost or poor value of insurance
- Limited insurance capacity for some of your risks
- Strong emphasis on risk management
- Act as agents and sell customer insurance products
- Desire to take greater control of your insurance programme

Captive owners include:

- Quoted companies
- Partnerships
- Governmental entities
- Trusts
- Private companies
- Charities
- Private individuals

BENEFITS OF OWNING A CAPTIVE

There are a number of distinct benefits to a company operating a Captive and these include:

- Lower, and more stable, cost of risk than risk transfer alone
- Access to the greater capacity and lower costs of the reinsurance markets
- Better control over and management buy-in to risk management
- Overcoming market limitations
- Ease of claim settlement
- Ability to create multinational programmes
- Shareholder tax planning opportunities
- Opportunity to participate in underwriting profits of the risk
- Increase revenues (customer insurances only)

WHERE ARE CAPTIVES BASED?

Captives tend to be set up and managed in a number of domiciles with friendly laws and regulations and a solid business infrastructure. The choice of domicile depends on the needs of the individual client (Captives in EU territories can be permitted to write all risks across the EU). Popular domiciles include:

- Bermuda
- Gibraltar
- Hawaii
- Isle of Man
- Malta
- Singapore
- Cayman Islands
- Guernsey
- Ireland
- Luxembourg
- New York
- Vermont

Willis has the expertise and experience to help you to decide on the best location for your Captive.

The Willis logo is displayed in a white serif font against a dark blue rectangular background. The letters are bold and well-spaced, with the 'i' in 'Willis' having a distinctive dot.

WHAT VEHICLES ARE USED AS CAPTIVES?

Most Captive insurance is written by wholly owned subsidiary companies. However, other options include:

- Rent-a-captives
- Protected cells
- Incorporated cells

Willis has expertise in all of these and can advise on the most appropriate vehicle for you.

SETTING UP A CAPTIVE

Setting up a Captive takes a number of stages including:

1. Potential need identified
2. Feasibility study undertaken
3. Decision to proceed
4. Finalising the business plan
5. Incorporation and licensing
6. Commence trading

The average time required to complete this process is typically between one and five months depending upon the nature of the vehicle employed, its location and the complexity of its business plan.

Willis has a presence in all major Captive friendly domiciles, both in the EU and further afield, and can offer the necessary management services to establish and operate your Captive wherever you wish to locate it.

THE CAPTIVE FEASIBILITY STUDY

The study is undertaken by Willis in cooperation with you and takes an in-depth look at a number of topics, including:

- Your strategic objectives
- Principles of risk financing and Captive options
- Risk retention analysis and evaluation of risk financing facilities
- Advantages and disadvantages of Captives
- Overview of existing insurance programmes and identification of covers suitable for a Captive
- Claims analysis of proposed lines of business
- Captive domicile review
- Capital/solvency requirements
- Five year business plan and financial projections for Captive
- Recommended underwriting guidelines
- Operating matters
- Accounting and taxation considerations
- Implementation plan

Once this exercise has been completed you can decide whether or not a Captive is the most appropriate insurance vehicle for you.

We recognise this is a considerable commitment and so we offer a Captive Clinic at no charge to quickly analyse key information to assess whether the Captive concept appears to have validity and if further work is warranted.

THE NEXT STEP

Contact us and we will arrange an initial meeting following which the Global Captive Practice will prepare a detailed Captive Feasibility Study Proposal.

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