

A Captive Insurance Primer

28th May 2020



Why this webinar and why now?



- captive insurance market is huge and expected to grow
- e.g. Bermuda \$US 40 billion; Cayman \$US 18 billion (2019 premium income - AMBest)
- competitors do similar events all the time
- sharing experiences and continuing education for risk managers, allied service providers, and clients
- **enhance domicile reputation**
- Bahamas has changed a lot over the past 15 years
- Independent Insurance Commission, updated laws, and regulations
- Increased numbers of professionals with experience in the insurance industry including actuaries, accountants, lawyers, brokers, claims managers, etc.
- international market is beginning to take notice
- more future developments: BFSB Captive Insurance working group, Bahamas Insurance Management Association – BIMA, Nassau Risk Symposium

About us

Rayon Brown MSc, FFA, CERA: Consultant Actuary with Nichol & Co and a Director of Nassau Captive Management Services Limited

Nassau Captive Management Services Limited was established for the sole purpose of helping customers worldwide with designing, implementing, and maintaining efficient and cost-effective Alternative Risk Transfer (“ART”) solutions to meet their business needs.

By working with a variety of local and international partners, we provide a full suite of services to help clients with finding efficient solutions. The services we provide include:

Insurance Consulting Services -

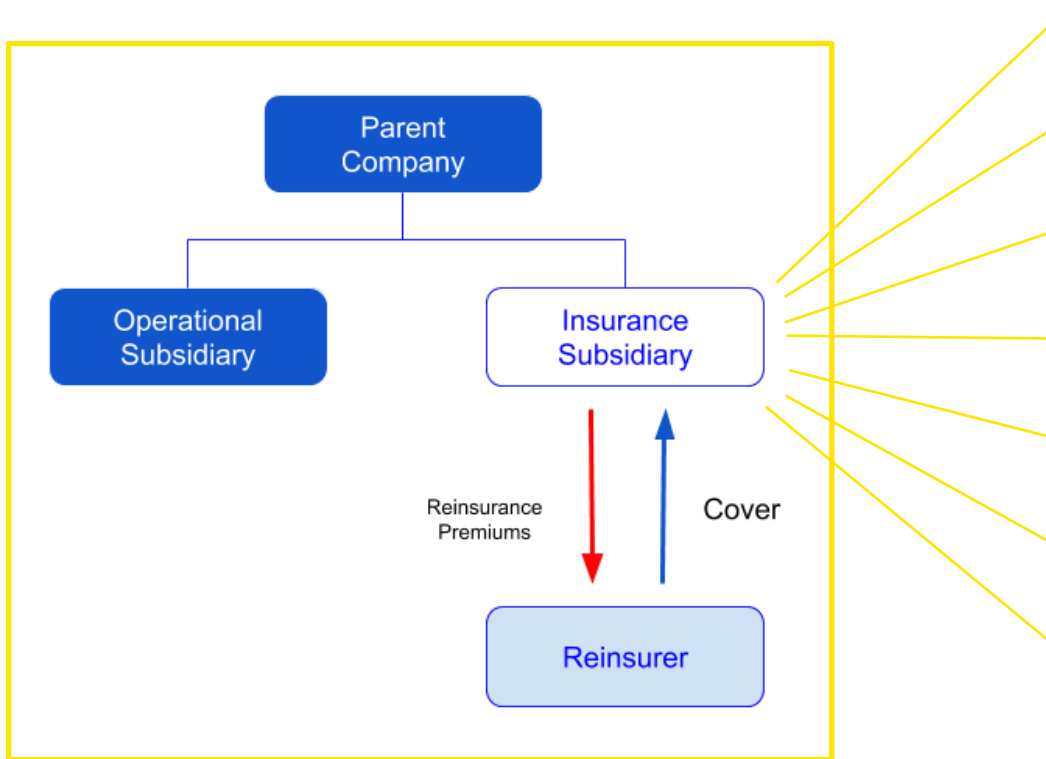
- Feasibility studies (for captive insurance and other ART solutions)
- Actuarial services (pricing, valuation etc.)
- Risk identification, assessment, and retention analysis
- Advice on investment policy and strategy
- Advice on capital adequacy, allocation, and efficiency
- Documentation and risk reporting

Captive Insurance Management Services

- Resident representative services
- Forming and licencing of captives
- Providing insurance program and risk management expertise
- Insurance administration and claims handling expertise
- Company secretarial and Accounting
- Regulatory compliance and Corporate governance



What is a Captive Insurance Company?



a company formed to insure the risks of its parent

holds an insurance license

so can reduce exposure to risk by use of reinsurance

can become focal point of risk management processes

e.g. data mining errors or incidents log for risk pricing and operational improvements

good risk management practices can show-up here first

reduces risk transfer costs and contributes to operational efficiency

Why form a Captive?



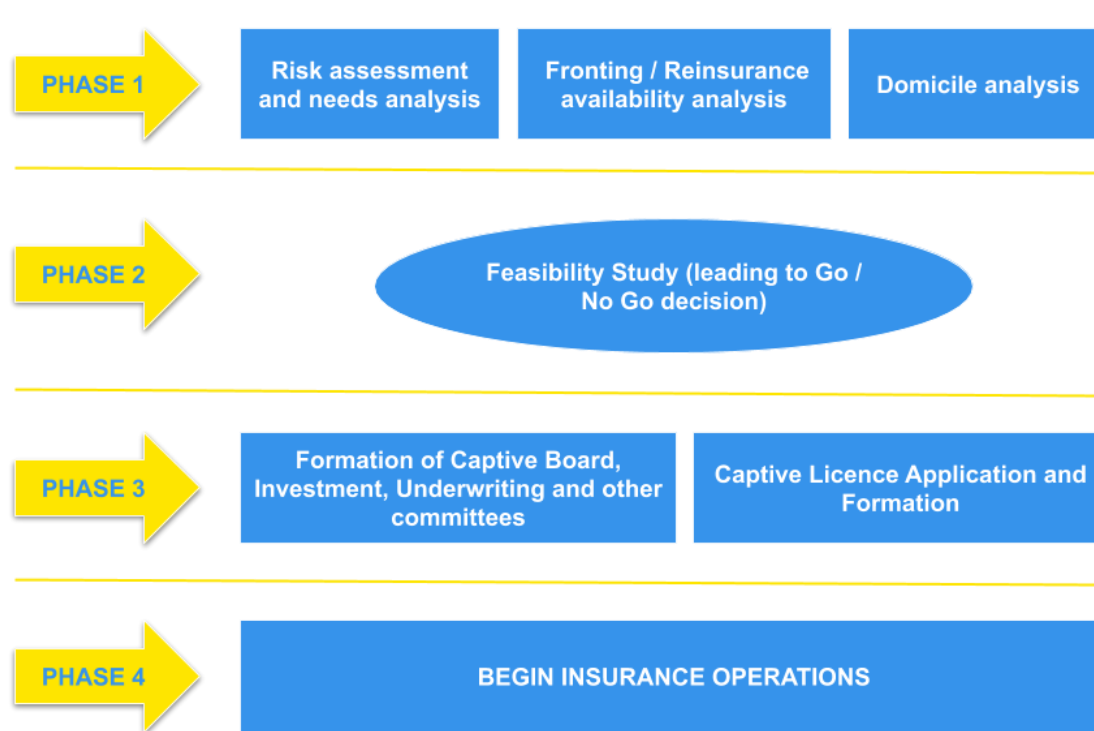
CASE STUDY

- current client – 2 founders
- grew their **innovative** business to over \$120 million over 20 years
- attracting interest from large firms e.g. Fortune 500 companies.
- so insurance requirements becoming more complicated – require best lawyers, high limits etc.
- commercial market does not understand their risks as well as they do
- so increasing premiums, limited availability, etc.
- inability to get timely reasonable cover becoming an impediment to future growth

Why form a Captive?

1. Gain control over insurance program/underwriting flexibility
2. Ability to retain profits from taking on risk
3. Lower insurance costs over the long term
4. Control over claims, through improved risk management processes
5. Opportunity to receive investment income
6. Direct access to reinsurance and carriers
7. Incentives for loss control
8. Tax advantages
9. Insure coverage gaps
10. HNW life insurance planning

Steps involved in forming a captive



formation is just the beginning. Companies generally keep their captives for many years, during which services need to be provided.

some captives grow to become huge overtime, requiring more complicated services

Illustrative Captive Costs

Set-up Costs

Cost Item	Provider Service	(USD) Low	(USD) High
Incorporation	Advisor	15,000	20,000
Registration	Regulator	3,000	30,000
Legal	Lawyer	15,000	20,000
FATCA	Tax Advisor	2,000	5,000
Misc.	Misc.	2,000	5,000
	TOTAL	35,000	80,000

Annual Operating Costs

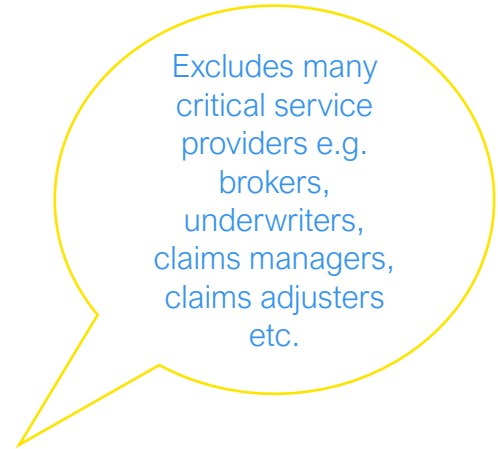
Cost Item	Service Provider	(USD) Low	(USD) High
Management	Insurance Manager	50,000	150,000
Audit	Auditor	15,000	45,000
Business / License	Regulator	3,000	30,000
Actuarial	Actuary	10,000	30,000
Legal	Lawyer	6,000	10,000
Misc.	Misc.	3,000	5,000
	TOTAL	85,000	270,000

Sources: Deloitte; Bermuda Monetary Authority (2018); Bermuda Business Development Agency (2018)

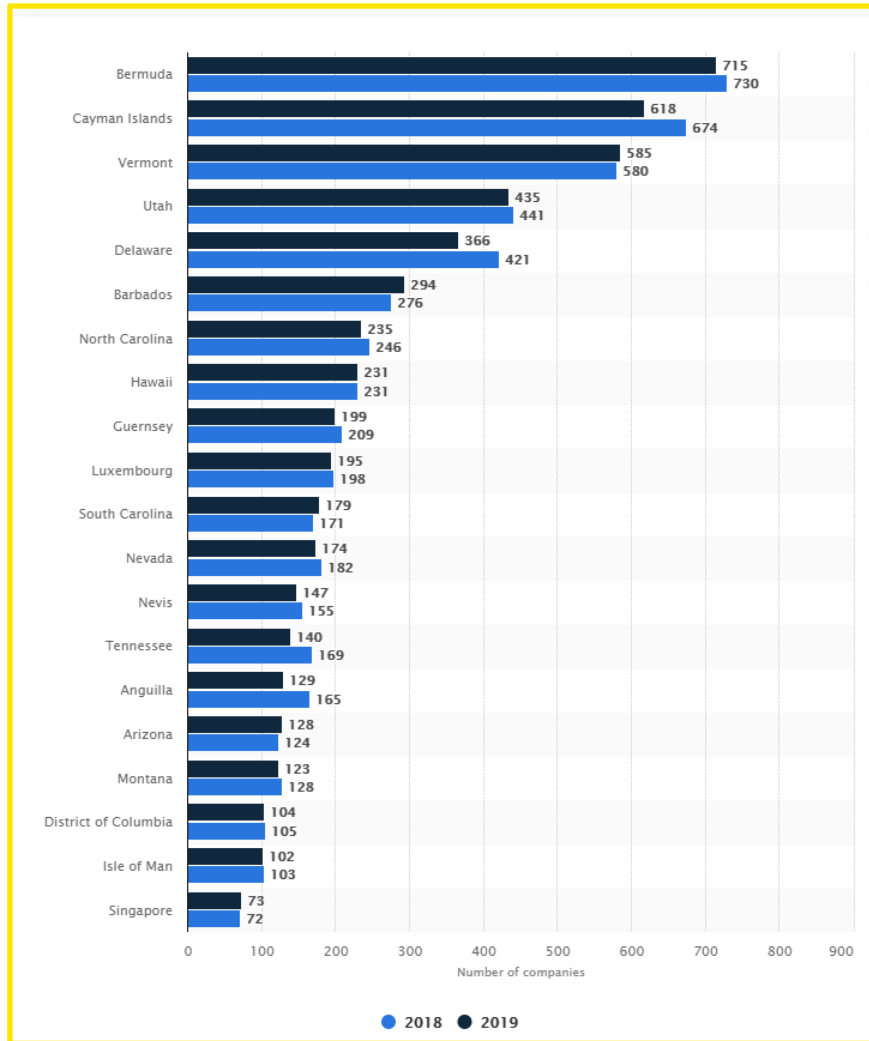
Typical professional service providers



Lawyer Prepares registration documents and insurance contracts. Superintend all matters connected with judicial offices	Auditor Provides independent assurance of business records.
Captive Manager Administrative and operation oversight	Accountant Budgeting, Cash management, Bookkeeping, Ledger maintenance
Risk Manager / Advisor Assists in overall analysis of insurance program.	Actuary Premium funding and loss reserve analysis
Resident representative Understanding of business plan, policies, procedures and compliance	Bank Holds accounts and/or collateral in trust. Provide advice on financial requirements of businesses

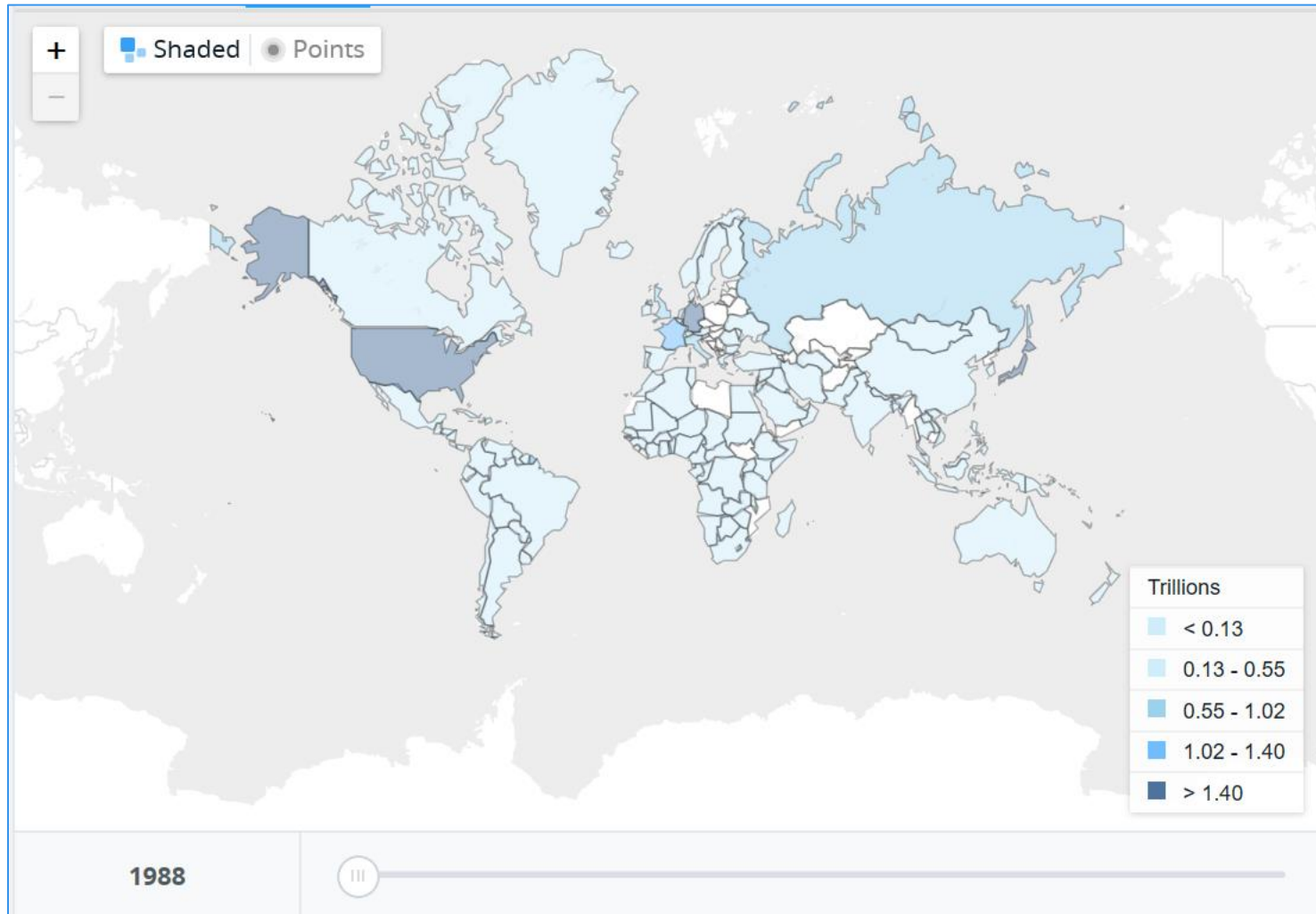


Leading Domiciles (by count)



count can be misleading (older domiciles have huge complex captives); note numbers in USA; does not reflect CELL

SME's: GDP by Region 1988 World Bank



SME's: GDP by Region 2018 World Bank



Q & A

Thank you very
much for your
time

