Concept to Captive Communicating to Key Stakeholders

Presenters:

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Communicate!

Communicating with key stakeholders is critical.

Know what is important to the decision makers.

- Benefits of Communication
 - Creates internal buy-in on captive formation and overall purpose
 - Establishes foundation for various future discussions, including:
 - Expansion
 - Challenges
 - Funding
 - Etc.



Captive Development Stages

Concept

- What challenges?
- How much education is needed?
- Why a captive?
- What is the loss history?
- "Sell" the concept
 - Create Internal buyin on captive formation and overall purpose

Feasibility Study

- Proof of Concept
- Comprehensive Report
- What information is needed to present to BOD?
- Critical to involve tax counsel

Formation

- Internal Stakeholder
 Communication
- Introduction of Key External Stakeholders
- Who will assist in selection of BOD and development of operational policies?

Operational Captive



Concept



Key Internal Stakeholders

CEO/CFO

- Strategic value that the captive provides
- Cost efficiencies
- Cash flow impact
- Impact on Total Cost of Risk

Treasurer

- Funding requirements and ongoing cash flow requirements
- Establish captive bank account(s) & fund capital
- Prepare/review captive investment policy

Risk Manager

- Strategic value that the captive provides
- Cost efficiencies
- Impact on Total Cost of Risk
- Control of insurance programs
- How captive will optimize insurance program



Key Internal Stakeholders (cont.)

Legal

- Determine legal structure of captive
- Determine where captive sits in organization structure
- Collaboration with
 external domicile legal
- Corporate Governance

Tax

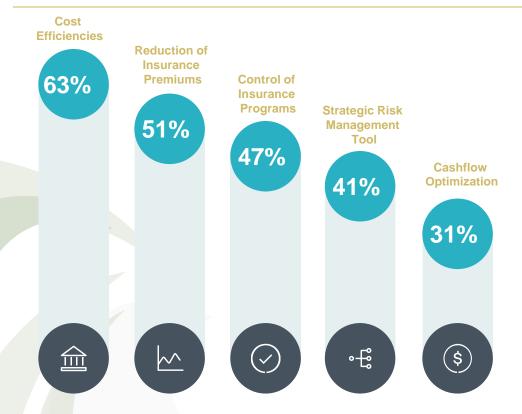
- Determine captive's tax position
- Prepare tax sharing agreement between with captive
- Identify any state tax liabilities
- Consolidation of captive into company's tax return

Internal Accounting

- Work with captive manager to establish mapping of captive trial balance for consolidation
- Select captive financial year-end
- Confirm basis of accounting
- Monthly/quarterly consolidation of captive financials
- May have some involvement in annual audit process



CFO Perspective – Value of Captive Ownership to the Organization



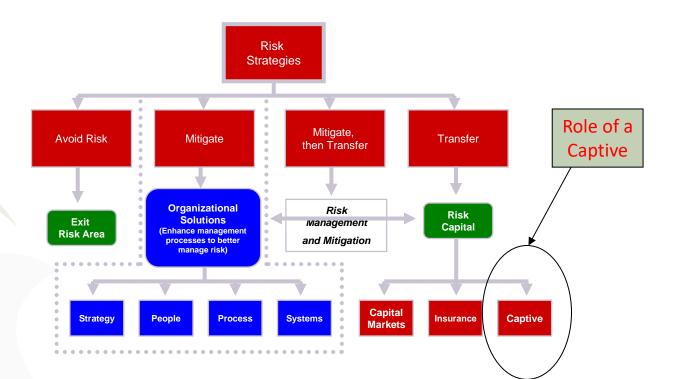


Source: Aon Captive Benchmarking Survey



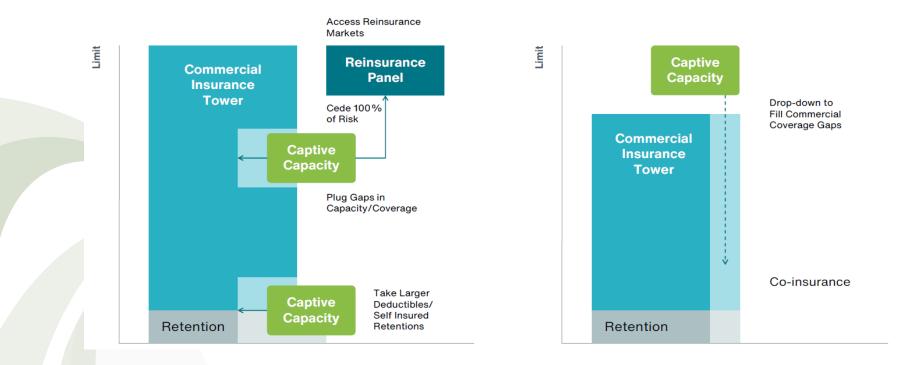
Risk Manager Perspective:

Where Does a Captive Fit Within the Wider Risk Strategy?





Risk Manager Perspective: How Can a Captive Fit Into an Insurance Program?





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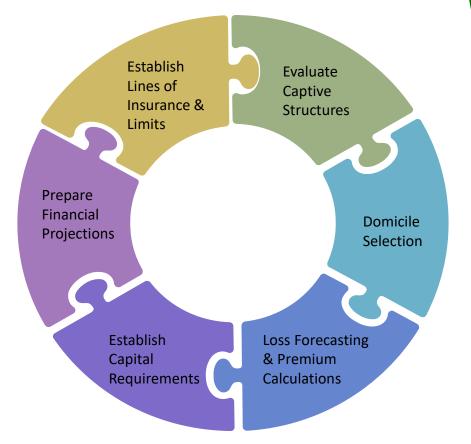
Feasibility



The Captive Feasibility Study Process

The feasibility study will result in a report that can be shared with Stakeholder but is not the end of the process but one stage of the Formation stage.

- Who is the audience?
- Education needed?
- Need to Explain changes to final program?
- Foundational





Loss Forecasting – The Foundation of The Study

Loss Data

- Historical
- Annual Evaluations
- Detailed loss runs
- Large loss listings

Exposure Data

- Historical
 - Will vary by LOB
 - Payroll
 - Sales
 - Vehicles
 - e Etc
- Prospective
- Descriptions
 - Locations



Captive Formation

- Key Decision Points for Internal Stakeholders:
 - Type of captive/license needed to support business plan
 - Choice of entity
 - Tax structure



Types of Captives

- Type of captive determines:
 - Who can own the captive
 - Who can be insured by the captive
 - Types of permissible coverage
 - Capitalization requirements
 - Investment restrictions
- Need to consider future possible uses in determining type of captive



Choice of Entity

- Choice of Entity Considerations
 - Tax Consequences
 - Ownership/Governance Flexibility
 - Regulatory Certainty
 - Veil Piercing
 - Creditor Limitations



Formation



You are about to enter a regulated industry...

Regulators

- The roles of regulators include:
 - Review of application
 - Issuance of Insurance License
 - Ensuring that captives adhere to compliance with captive laws and regulations
 - Monitoring the ongoing solvency of regulated entities



Key Elements of Captive Application

- Detailed Plan of Operations
- ▷ Feasibility Study

****Output from feasibility study**

- ▷ Five-year Pro Forma Financial Statements
- Draft Policies/Reinsurance Agreements
- Articles of Incorporation & Draft Corporate Documents
- Board of Directors & Biographical Affidavits
- Draft Service Agreements
- Parent/Ultimate Parent Financial Statements



Other Key External Stakeholders

- IRS? DOL? Other governmental bodies?
 - Communication as to:
 - Program structure / elements for requested PLRs, etc.
 - Regulatory approvals
- Third Party Insureds
 - Communication as to:
 - Governance Rights
 - Scope of Coverage
 - Coordination with Existing Coverage / Policy Years
- Service Providers
 - Communication as to:
 - Conflicts
 - Scope of Engagement



Other Key External Stakeholders

Brokers/Risk Advisors

Did concept originate with them? Captive seen as competition for revenue? Challenges with related and unrelated entities? Opportunity for Reinsurance Brokers?

Others

Banks Claims Administrators Credit Facilities/Bond Covenants Employee/Franchisee Contracts Hospital Credentialing Certificates of Insurance Other?



Other Key External Stakeholders

Auditor

- Annual audit is required by local regulation
- Current audit services at the parent level may be extended to the captive
- Most large multinational firms have a presence in major captive domiciles

Actuary

• Engagement of a loss reserve specialist in respect of the captive's loss and loss expense provisions is mandatory in most jurisdiction

Claims Management

- A captive is required to manage claims that occur within its share of retained risk
- Depending on volume & complexity, this is usually outsourced to a TPA

Legal Counsel

- Incorporation and regulatory support
- Ongoing legal and secretarial support

Captive Manager

- Financial Accounting/Management
- Insurance Services
- Compliance Services
- Cash Management
- Board Meeting Services

Investment Manager

- Long-term and more aggressive investment strategies should be developed by a professional investment manager
- Management of short-term investments can be provided by the captive manager or in-house

Fronting and Partner Insurer(s) (if applicable)

• A fronting insurer may be required to issue a local policy where legislation requires it



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Captive

Communication with captive stakeholders

- Identify Key Participants
- Know the experience levels of Key Decision Makers
- Establish key points when setting expectations
- Ensure of stakeholder understanding of the current insurance programs
- Know and understand your audience
- Patience is a virtue!



Communicate!

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Communicating with key stakeholders is critical.

Know what is important to the decision makers.



Contact Information

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