

Concept to Captive

Communicating to Key Stakeholders

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Communicate!

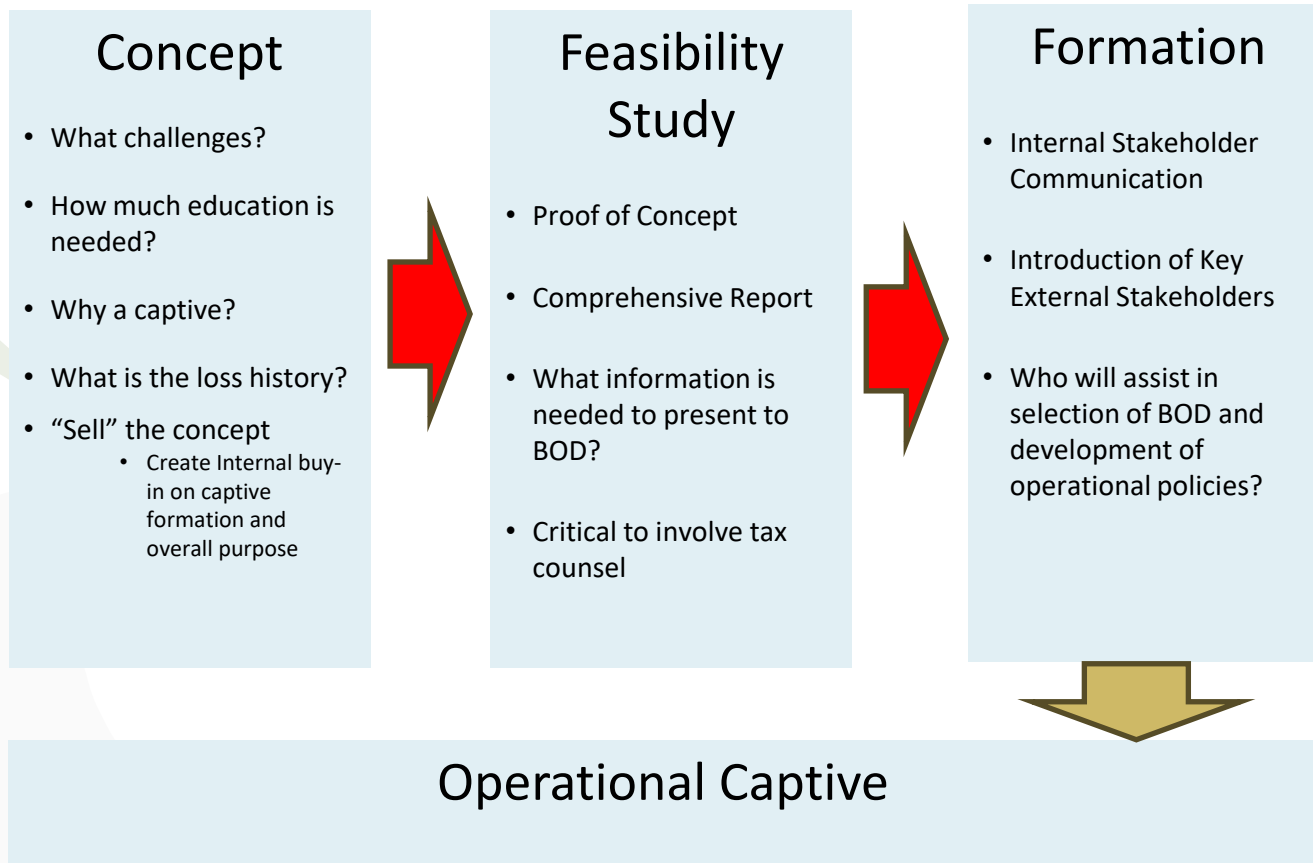


Communicating with key stakeholders is critical.

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

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

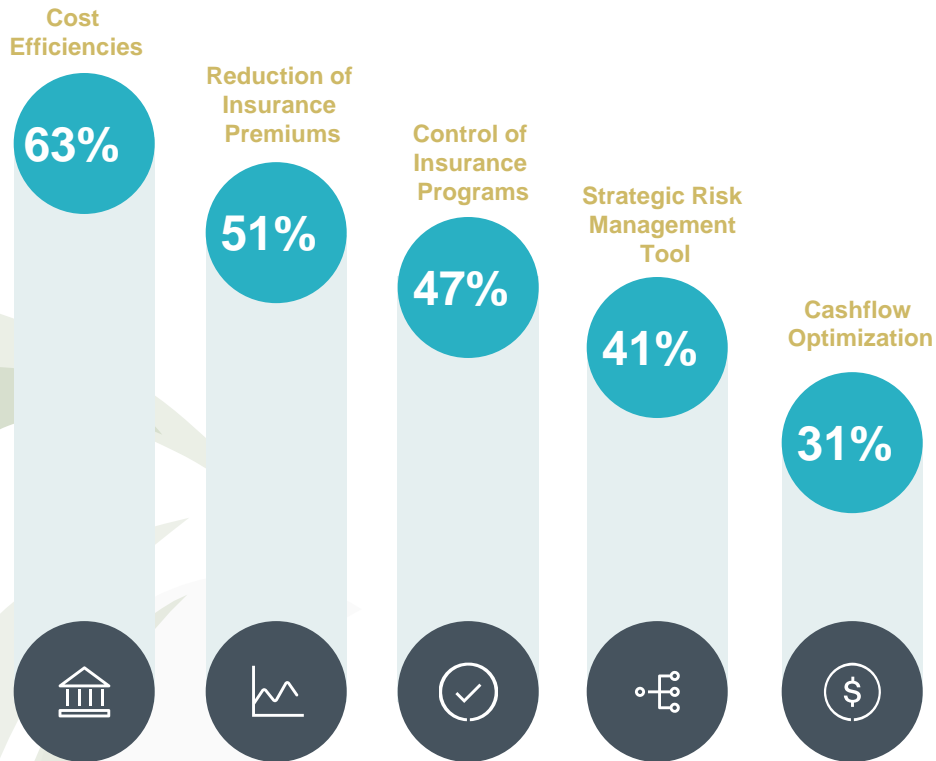
Tax

- 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

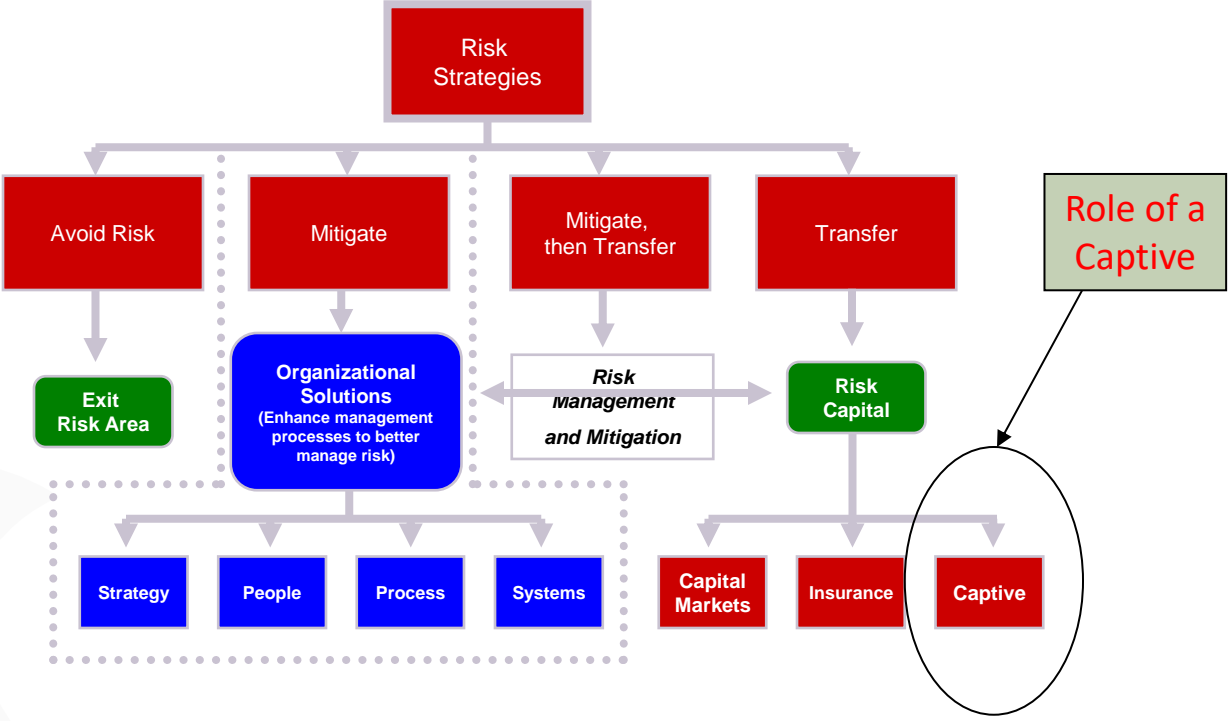
- Work with captive manager to establish mapping of captive trial balance for consolidation
- Select captive financial year-end
- Confirm basis of accounting
- Monthly/quarterly consolidation of captive financials
- May have some involvement in annual audit process

CFO Perspective – Value of Captive Ownership to the Organization

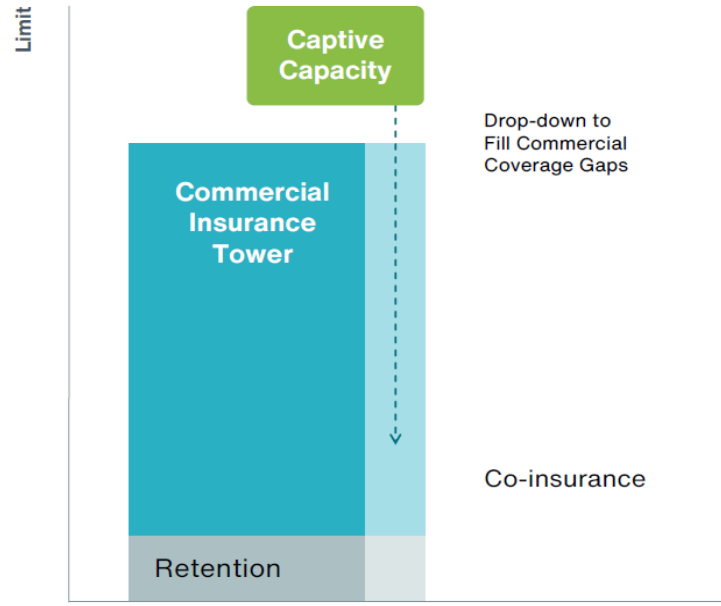
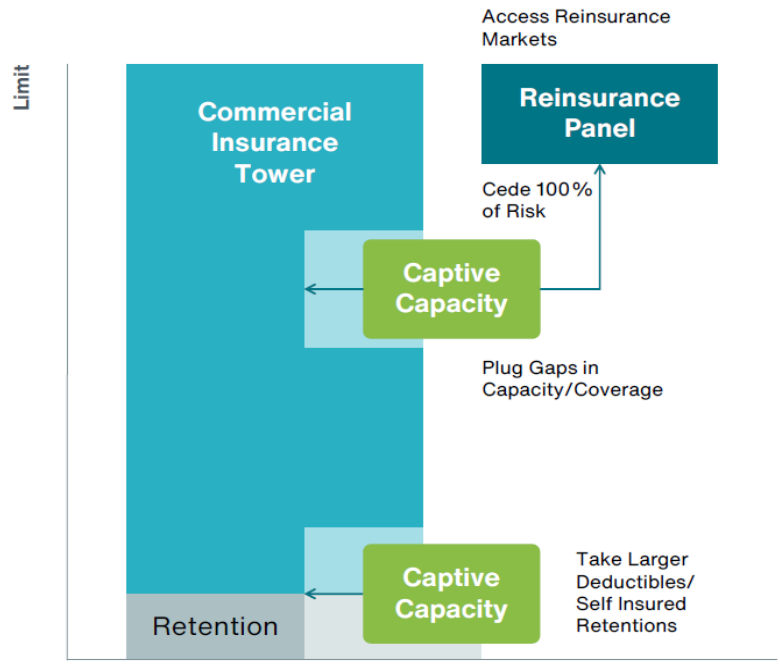


Source: Aon Captive Benchmarking Survey

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?

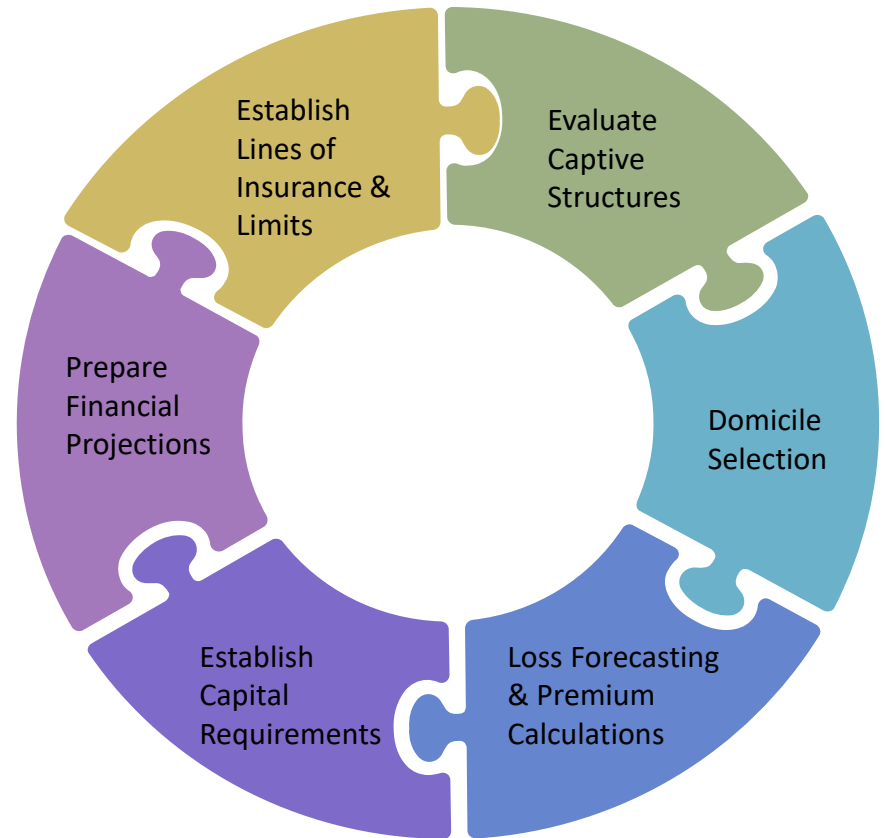


Feasibility

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
 - 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
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- ▷ 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

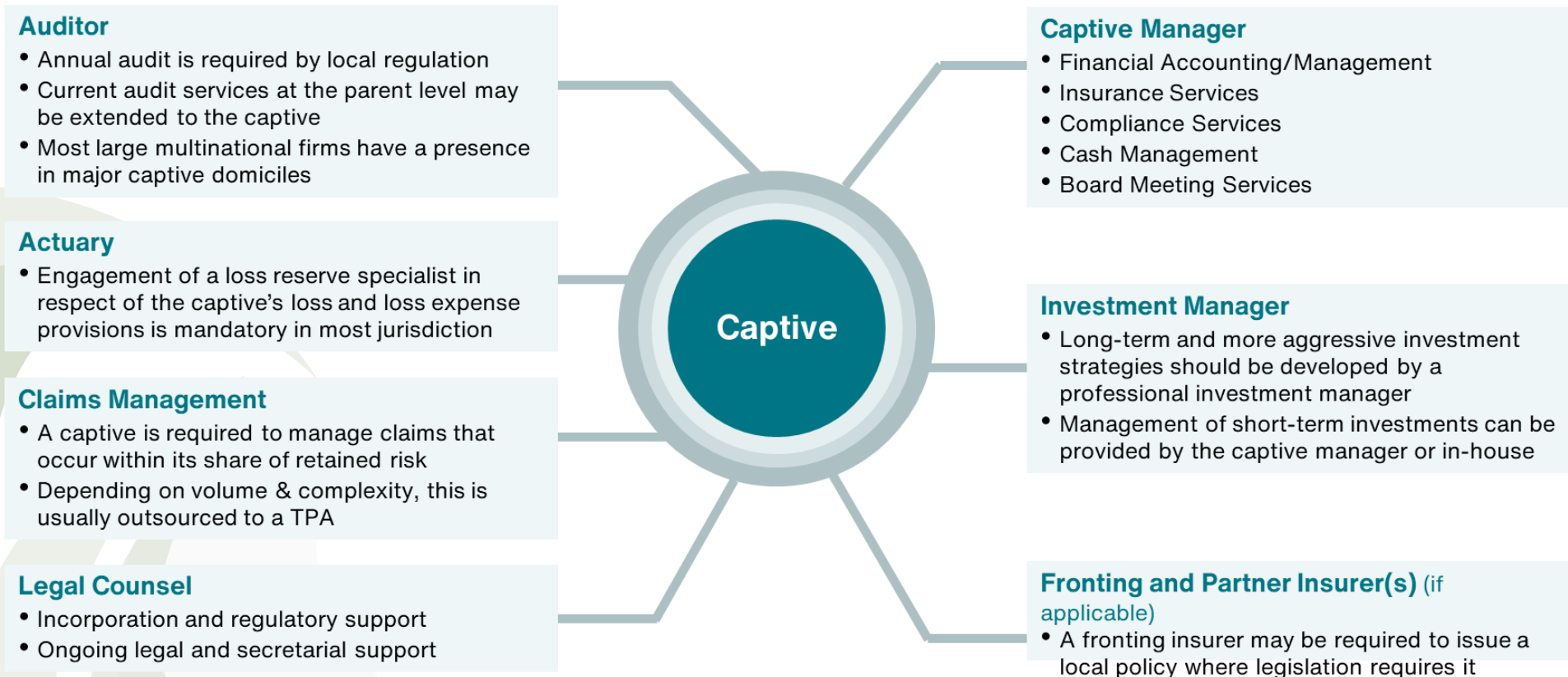
Brokers/Risk Advisors

- 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



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!



Communicating with key stakeholders is critical.

Know what is important to the decision makers.

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