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Understanding Captive Insurance Companies

Definition of a captive

A captive is an insurance company that provides insurance to, and is controlled by, its owners.

In essence, a captive serves as a premium funding vehicle for self insuring the losses of the parent organization for a specific retention level designated by the parent. A captive may be owned by a corporation or an association, domiciled onshore or offshore, and has the option of writing the business of unrelated parties.

Reasons for establishing a captive

- Reduction and stabilization of Premiums
- Insuring the uninsurable
- Controlling your own insurance program (i.e. stability of premiums)
- Positive impact on risk retention, risk management and loss control
- Cash flow benefits
- Direct access to the reinsurance markets
- Diversification into a profit centre
- Potential tax benefits
- Consolidation of deductibles
- Reducing dependence on commercial insurers and insulating from insurance market cycles

Setting up a captive

1. The process begins with your broker/financial insurance consultant who will suggest conducting a feasibility study.
2. Select a licensed captive manager in the appropriate jurisdiction.
3. File an application with a business plan to the Supervisor of Insurance (Regulator).
4. Select the directors.
5. Incorporate the company with the assistance of legal counsel and/or corporate secretarial.
6. Open a bank account.
7. Select an auditor.
8. Resubmit an application with the incorporation documents and auditor's certificate of paid-in capital.
9. Obtain a licence.
10. At the same time, select an investment manager and custodian and start the process of setting up credit or reinsurance trust facilities if appropriate.
11. Capitalize the company.

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Why a captive feasibility study?

A detailed feasibility study should always be conducted and should include proper consideration of all risk-funding alternatives. Such studies are typically completed by an insurance company that specializes in this area. A feasibility study is not a legal requirement but will typically be necessary to select a domicile, project losses and provide support for the business plan. Feasibility studies are conducted by an insurance specialist.

These studies are usually detailed and can include:

- A review of coverages and whether they are appropriate for captive inclusion
- An analysis of deductibles and loss trends, and the preparation of loss projections
- The preparation of estimated pro forma financial statements for the proposed captive
- A review of possible captive domiciles: general commentary on the “fit” of a captive in the parent’s risk management strategy/philosophy

Generally, the information required to prepare a captive study is:

- A listing of policies (and any formal self-insured programs) with respective premiums and deductibles
- A complete traditional insurance program submission
- Group-up claims data (10 years if available, five years minimum)
- The client/prospect’s guidelines, objectives and risk management philosophy

The final output is a business plan, which is used for approval by the Supervisor of Insurance in the jurisdiction selected.

Why RBC for Captive Services?

The international division of RBC Wealth Management provides customized financial solutions to more than 350 captive insurance companies domiciled in Cayman, Barbados, Guernsey, Bermuda and other jurisdictions. For our captive client base alone, we hold more than US\$4 billion in assets under administration (AUM) and have over US\$2 billion in credit outstanding.

In recent years, we have invested heavily in products, services and people to provide unparalleled financial solutions to our clients — earning our international wealth management network a reputation as a premier captive services provider.

Our service model is unique in the industry in that we offer tailored solutions through a professional captive team with specialist capabilities and an in-depth working knowledge of the industry’s dynamics. Clients also enjoy a highly personalized experience with the assistance of a dedicated relationship manager who knows the business. What’s more, we provide clients with access to the full breadth of solutions available through our worldwide network of offices, the broader RBC® organization and world-class external partners.

To learn more about ways you could benefit from a relationship with RBC Wealth Management, please contact us.

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