Captive Insurance

Overview of Captive Opportunities for Alberta Businesses

Local Touch. National Strength.™

Captive insurance defined

- An insurance company that is wholly owned and controlled by its insured
- The primary purpose is to insure or re-insure the risks of its owner and affiliated companies
- A captive is a regulated insurance company that must meet the regulatory requirements in the domicile it is located.
- There are various domiciles for Captive Insurance, in Canada, captive insurance legislation has been enacted in Alberta (effective July 2022) and BC.
- Outside of Canada, key captive domiciles include Bermuda, Cayman Islands, and Barbados, among others.

Why are Alberta Businesses Forming Captives?

Due to hard market pressures, many Alberta business have been confronted with sharp insurance premium increases and reduced scope of coverage, along with constricted market access due to the departure of insurers from key market sectors. Captives can provide solutions to reduce long-term cost of risk, stabilize insurance costs in a hard market, and help a business to better manage its risks.

How it works

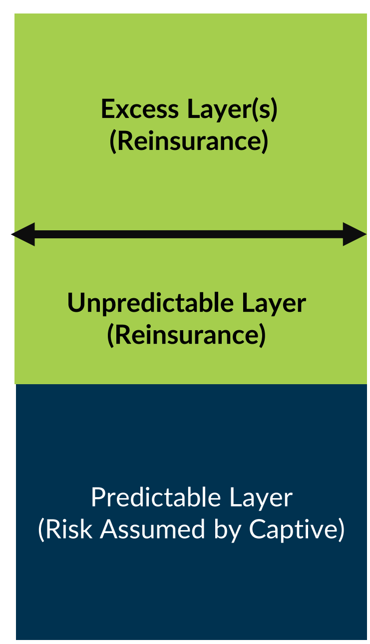
In general terms, Insurance companies assume risk in layers where their actuaries can reasonably predict the losses. Layers where the actuaries cannot reasonably predict losses are reinsured to larger carriers.

Predictable Layer – Actuaries can reasonably predict losses where the claims are of high frequency and low severity. This is the layer of risk that a captive will assume.

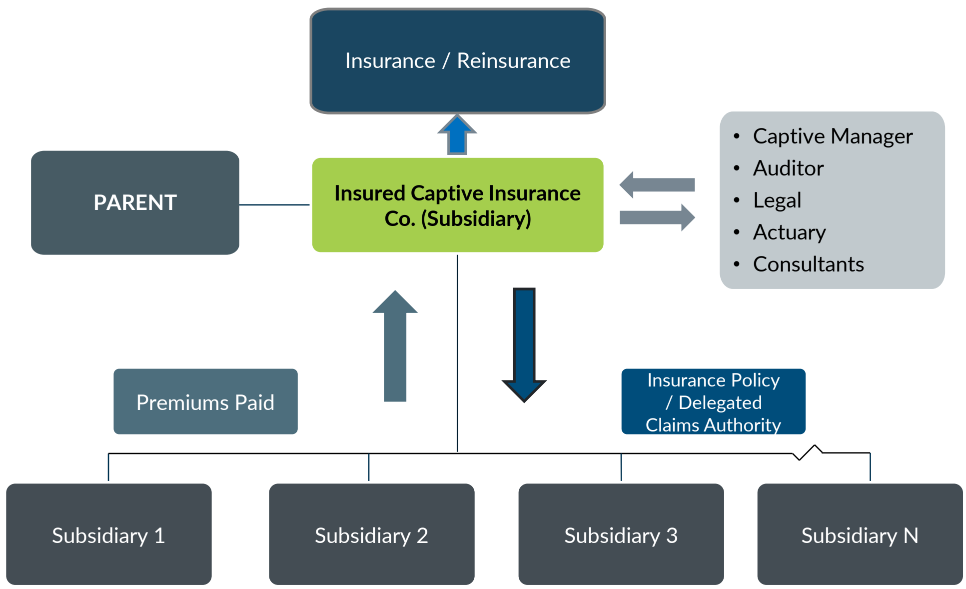
Unpredictable Layer – this would be a layer where the claims are of low frequency but high severity. As losses cannot be reasonably predicted due to its volatility and the captive will look for reinsurance to cover losses in this layer. This layer to be reinsured with a third-party independent carrier.

Excess Layer(s) – Often reinsured with an independent third-party carrier but could fit within a captive if predictable with sufficient actuarial data.

Insurance Layer(s)

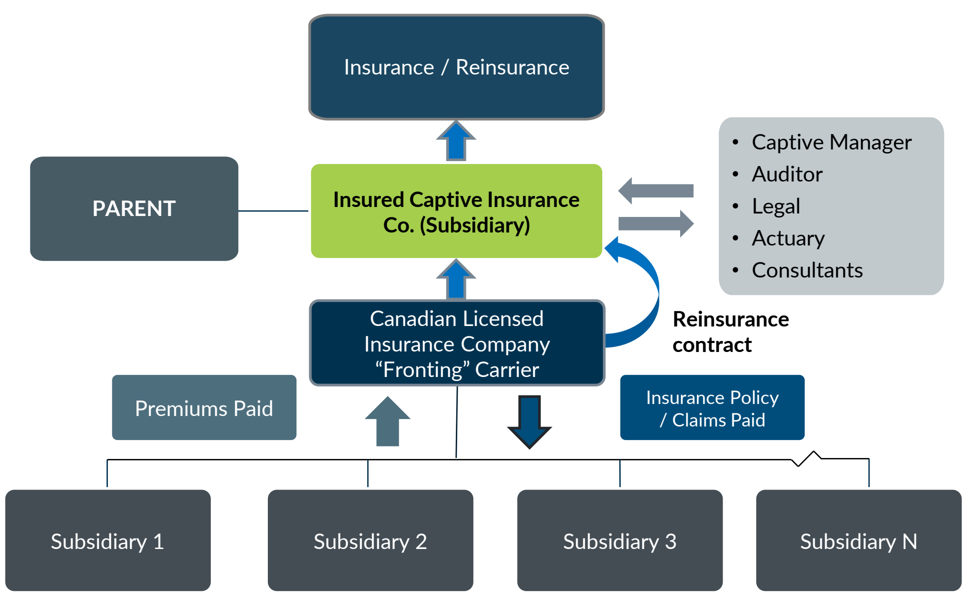


Single Parent Captive – Alberta licensed



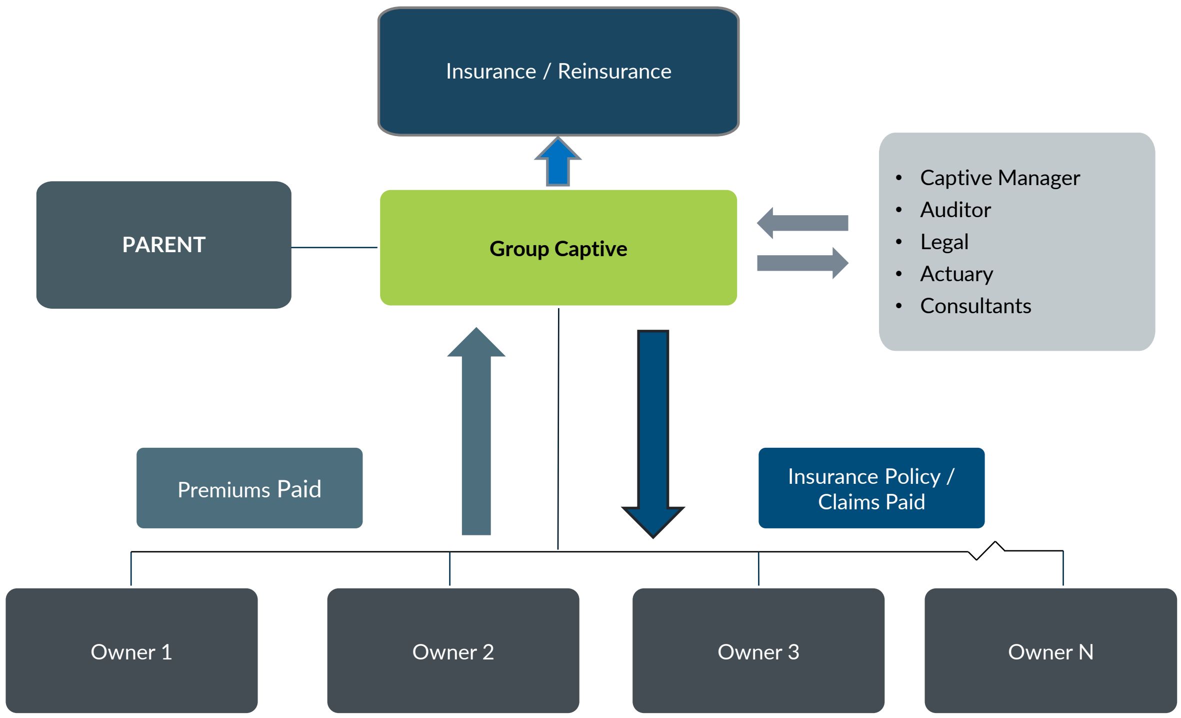
- Captive is established under Alberta legislation and issues policies directly to the insureds.

Single Parent Captive - Fronted



- For captives domiciled outside of Alberta (such as Bahamas or Cayman Islands, among others), the captive must be "fronted" by a licensed Canadian insurer to comply with federal / provincial regulations

Group Captive – Alberta licensed



- Designed for a group of companies to pool their risk
- Obtain greater control of losses and insurance program as well as reduce market premium volatility
- Organizations that come together to create a solution for the industry as whole and provide a voice – strength in numbers
- Profits are redistributed back to the members as distributions

Advantages of Captives

✓ REDUCE COSTS

- Will reduce long term cost of risk over time
- Underwriting gains and investment income are retained by the owner(s)
- Owner benefits from its own loss experience – Premiums are based on own loss experience rather than exposure to industry wide experience

✓ CASH FLOW

- Improved cash-flow particularly for liability coverages
- Ability to deduct loss reserves as incurred
- Profits are paid back to the Owners(s)

✓ FLEXIBILITY

- Can insure/reinsure risks considered uninsurable or too costly to insure via traditional insurers
- Direct access to reinsurance markets
- Ability to customize insurance programs
- A vehicle to finance larger deductibles imposed by the insurance market

✓ CONTROL

- Greater insight into the types of losses, including loss frequency and severity and underlying causative / contributing factors
- Ability to implement risk control / mitigation practices to improve experience over time
- Reduced exposure to insurance market volatility
- Integral part of a corporation's Enterprise Risk Management Program

Considerations

- May require collateral to set up and operate
- Difficult to unwind particularly for long-tailed lines of coverage
- Increased administrative attention towards loss mitigation / control mechanisms
- Increases risk which may require additional capital.

How Do I know if a Captive is Right For Me?

- If you have exposures to risk that are difficult to place or expensive relative to your losses
- Are looking for a strategic approach to managing risk, exposures and optimizing the cost of risk for the firm, rather than focusing on providing the lowest cost for insurance
- Your company has a commitment to improving your overall risks and losses and see the benefit by having a long-standing relationship with insurance partners
- If the company has high deductibles or are being forced to increase deductibles / self-insured retentions
- Desire for greater flexibility in the design and / or control of the insurance program

Do You Qualify?

To qualify for a single parent captive you need:

- To have a healthy balance sheet
- Better than average loss ratios
- You need good loss data

Risk Selection

The following are key considerations used to assess the appropriate lines of coverage to consider in a captive, at least initially:

- Lines of insurance that are predictable in nature
- Lines of insurance that are either excluded, difficult to place, limited market capacity and/or appetite
- Lines of coverage that are currently experiencing or is expected to experience increases in insurance costs that does not reflect the insured's own experience
- The nature of the exposure and the inherent volatility the line of coverage(s) has to the overall organization

How is Captive Feasibility Determined?

3 STEP PROCESS

PHASE 1
Actuarial & Financial Modelling

- Collect & Review historical loss and exposure information
- Perform Actuarial modelling of various program structures
- Prepare 5-year financial pro-forma's based on actuarial analysis

COST:

- Dependent on number of coverages to be considered
- Dependent on quantity and quality of loss information
- **Ranges from $10K - $50K+**

4 – 12 Weeks

PHASE 2
Carrier Partnership & Implementation

- Price reinsurance
- Prepare a business plan for regulator
- Visit/Select domicile, appoint service providers, open bank account, register and license the captive
- Prepare budget
- Obtain regulatory approval

COST:

- Dependent upon complexity of the program
- **Ranges from $10K - $30K+**

4 – 12 Weeks

PHASE 3
Writing Business/ Ongoing

- Capitalize the captive
- Negotiate reinsurance and policy wordings
- Collect premiums
- Ongoing consulting and insurance program support

COST:

- Ongoing consulting and insurance program support to be scoped and priced separately

TBD

Contact one of our expert advisors today to conduct a feasibility study and see if a captive is the right solution for your business.

Contact Us:

403.263.9654
info@irsnavacord.com

irsnavacord.com
navacord.com

IRIDIUM RISK SERVICES EVOLVED | NAVACORD