

Captive Solutions for Financial Institutions



Captive insurance companies play an increasingly important role in the risk financing strategies of financial institutions today. Volatile insurance markets rates, corporate governance obligations and a growing sophistication of risk financing techniques have all contributed towards a steady uptake in captive insurance solutions. The impact of Basel II also has a part to play on the development of captives.

Marsh's Captive Solutions team consists of a dedicated group of specialists focused on providing clients with bespoke advice on captive insurance solutions. Our global team, based in 35 countries offers in-depth insight and expertise in establishing, managing and reviewing the performance of captive insurance companies.

Value creation

At Marsh, we have substantial experience in assisting financial institutions to establish, manage and review the performance of captive insurance companies. We have consulted a number of institutions, including a top five UK bank, leading Dutch and Irish banks and a Swiss private bank.

In addition, through our extensive database, we maintain details on over 900 captives, of which 180 are owned by financial institutions. This unique database gives Marsh an unparalleled understanding of how peer group companies utilise their captives.

In conjunction with the global captives database, Marsh has also developed a captive financial analysis tool with a specific segment for financial institutions to ensure that the best practice approach to operation reflects the underlying risk areas of these companies.

Our expertise

As a world-wide leader in captive solutions, we provide objective, specialist advice on the strategic and practical matters relating to a captive. Our solutions include:

1. **Captive feasibility studies:** We frequently engage in captive feasibility studies as part of an overall risk financing review. Deciding on the viability of a captive involves consideration of its practicality, structure and operational issues, and its alignment with overall business objectives. We assist clients in determining whether a captive is commercially, financially and operationally viable, which risks it should assume and how it should be structured. Our balanced and expert advice ensures that our clients set up captives for the right reasons and in a way that will deliver optimal results.
2. **Strategic reviews:** We undertake strategic reviews for our clients' captive insurance programmes to ensure they meet their objectives in a dynamic business environment. This includes an independent review of the captive's historic performance, structure, location and classes of business written. All organisations experience change, which may result from a shift in product, market or distribution focus, a change in regulatory environment or an acquisition/divestiture. Therefore, it is imperative that the relevance and performance of captives continue to be reviewed and assessed. We also assist clients in the implementation of any recommendations.
3. **Domicile reviews:** The location of a captive may also need to be periodically re-evaluated. Fronting fees may compromise the efficiency of the risk financing programme, Letter of Credit collateral requirements may be tying up working capital or changes in the organisation and/or the domicile may render the captive less appealing. Marsh has pioneered a process of moving a captive from one domicile to another, choosing the most appropriate location based on the long term risk financing strategy of the organisation.
4. **Captive management:** Drawing upon our information base (See box: Global Captives Benchmarking Study) and experienced captive management team, Marsh provides clients with comprehensive captive management solutions, including accounting, treasury, regulatory compliance, provision of underwriting expertise and coordination of third parties. Our team seeks to continuously challenge captive usage and focuses on the most efficient and effective risk financing strategies.

Global Captives Benchmarking Study

The "Next Generation Captives – Optimising Opportunities" report, developed in 2009 by Marsh's Captive Solutions practice, is the first ever global benchmarking report examining the use of captive insurance companies by today's global firms. Drawn from a database of 900 captives – the most extensive captives database available – the report details how captive usage compares by region, by domicile and by industry.

The report provides executives with a unique benchmarking tool to assess how they compare against peers in their industry and against captives globally.

Looking specifically at the findings for captives parented by financial institutions, our report reveals:

- Financial institutions account for 20% of all captives, with healthcare companies owning 11% and manufacturers 10%.
- Captives owned by financial institutions do not rely as heavily on reinsurance as captives parented in other industries, with 62% purchasing no reinsurance.
- Captives parented by financial institutions write more professional liability and directors' and officers' insurance than those in other industries, reflecting the more litigious nature of the financial services industry.
- Financial institutions tend to domicile their captive within their region of operation. For example, Luxembourg (43%) and Guernsey (20%) are the preferred domiciles in Europe, Middle East and Africa (EMEA).
- The three major categories of business written by financial institutions' captives in EMEA are financial products (21%), property damage (16%) and professional indemnity (14%). The financial products are principally mortgage insurance, surety bonds and credit risks.

5. Exit strategies: Changes in the business and insurance landscape and their resultant effect on the organisation's overall risk profile may sometimes mean that the captive no longer provides optimal value. How the exit strategy is developed and deployed can make a marked difference to the future risk financing success of the organisation. Marsh guides clients through the process of closing down a captive and releasing the capital in it. We ensure a seamless transition from the closure of the captive to the redesign of the risk financing programme.

Client testimonials

"The captive allows us to provide businesses with cover that would in the market be either unavailable or uneconomic"

Ken Peck, Standard Chartered Bank

"Utilising a captive to finance the right risks complements our overall business strategy."

Clive Clarke, Schroders Plc

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