

# Captive Strategic Review Frequently Asked Questions

## Why should an organization consider a strategic review for its captive?

A captive strategic review can reveal overlooked possibilities for tapping the economic and risk management benefits available with the use of a captive. These typically include:

- expanding the coverage offered through the captive to manage additional risks;
- returning cash to the parent and intercompany investment opportunities;
- providing an update on relevant federal and state tax issues affecting captives;
- reviewing the impact of recent case law and IRS tax authority;
- consolidating multiple captives; and
- evaluating the location of the captive and assessing whether a domicile change may be appropriate.

## When is the right time to conduct a strategic review?

Normally a strategic review becomes appropriate two to five years after the inception of the captive. This is how long it takes for a captive to become seasoned, obtain loss experience, and accumulate investment income, among other things. A strategic review is also useful to support the ongoing management of mature captives. We recommend conducting a strategic review every five years.

Other triggers for conducting a strategic review include:

- a change in domicile regulations;
- new guidance from the IRS or the courts that could effect operations;
- appointment of a new risk manager or other management; and/or
- an acquisition or merger whereby an organization inherits another captive.

## What will a strategic review present?

There are two levels of strategic review, each with its own deliverable:

1. a written report with captive pro forma model addendums; or
2. an executive summary of our findings.

## How long will a strategic review take to perform?

A strategic review normally takes between 30 and 60 days, depending on the scope of the project and availability of necessary information for analysis.

## How much will a strategic review cost?

Fees for a strategic review vary according to the client's needs. Fees can range from US\$25,000 to US\$50,000. All strategic reviews are customized to the individual client and its captive(s). Many factors determine fees, including the depth of review requested, the complexity of the captive structure, the number of captives included in the review, and the quality of the data.

## How much information and time is required to do a strategic review?

The strategic review process begins with a kickoff meeting, preferably conducted in person. Team members vary by client and by the project, but generally involve personnel from risk management, tax, treasury, and other disciplines. The information required will depend on the scope of the project and what needs to be analyzed, but will always include:

- financial statements for the captive and parent company;
- captive application package, including original business plan;
- recent actuarial analysis, including loss forecasts;
- captive management trial balance and manager's accounts;
- organizational chart of the parent company;
- parent company effective federal and state tax rates, time value of money, and internal rate of return; and
- complete schedules of insurance for the parent company including deductibles, limits, terms of policy, and premiums.

## What does Marsh evaluate as part of a strategic review?

Operationally, Marsh reviews the lines of business in the captive to determine whether there is an opportunity to include additional lines of coverage within the captive.

Marsh reviews the retained losses, conducts a domicile analysis to ensure the captive is domiciled in the most beneficial location, and examines expected losses. Using this information, Marsh then prepares pro forma models of the captive under various financial scenarios.

Marsh also considers the captive's investment policy and explores ways to increase returns to the parent company. We also provide information on the relevant federal, state, and international tax issues and their implications. A budget and an implementation plan can also be prepared to optimize the captive. In some situations, it is also appropriate to discuss consolidation of multiple captives, and runoff or liquidation issues.

**Will a strategic review recommend additional lines of coverage for the captive?**

Depending on the situation, Marsh may recommend including additional lines of business (property, casualty, TRIA), such as related party; or unrelated business, extended warranty or employee benefits. Marsh will work with captive owners to determine what makes the most sense in the context of a total risk management approach.

**Will a strategic review give me options on how to return cash from the captive back to the parent company through intercompany investments?**

Marsh will review and analyze the current investment policy of the captive and determine if there is an opportunity to increase returns and eliminate opportunity costs through expanding the captive's investment policy to include arms-length investments such as accounts receivables factoring, unencumbered mortgages, and real property, etc...

**Will a strategic review look at the captive's tax position?**

Marsh will discuss relevant rulings that the IRS has released and applicable case law on the deductibility of premiums paid under captive arrangements. Marsh does not provide tax advice, but works with several expert third-party providers who can provide such advice under a separate engagement.

**Will a strategic review include a domicile evaluation?**

Selecting a location for a captive involves an analysis of domiciles and a comparison of local insurance laws, regulatory flexibility, tax considerations, services, capitalization, and annual expenses. Marsh will conduct an analysis to determine

whether the current captive is suitably domiciled and, if appropriate, consider alternative domiciles.

**Will a strategic review involve a retention analysis?**

If necessary, Marsh can arrange to have actuarial consultants perform a retention analysis/reserve analysis and loss projections. There are additional fees associated with these services.

**Will a strategic review look at captive liquidation, commutation, or runoff options?**

Yes, if appropriate for the captive under review.

**Can a strategic review be conducted if the captive is managed by a firm other than Marsh?**

Yes. Marsh performs strategic reviews for both Marsh and non-Marsh managed captives.

**For more information, contact:**

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