



ISLE OF MAN. WHERE YOU CAN BE CONFIDENT IN A PREMIER CAPTIVE DOMICILE

Why use a Captive?

Introduction

Captive Insurance Companies have been used for many years as a risk management tool, assisting organisations to manage their risk exposures. There are now over 5,000 Captives worldwide.

Definition

"A Captive is a bona-fide licensed insurance company established as a subsidiary typically of a non-insurance entity, and operated almost exclusively for the use or needs of that entity."

Drivers for Captive Establishment

Typical reasons for the establishment of a Captive are generally a mix of strategic, financial, market conditions or operational considerations. Examples of these are shown in the table on the right.

Any prospective Captive owner must consider both the possible advantages as outlined and the possible disadvantages which can include:-

- Possibility of a loss
- Capital requirements
- Demands on management time
- Concentration risk too high
- Collateral requirements

Typical Business Written by a Captive

Captives can underwrite any class of business. However low severity, high frequency losses with an established loss record are ideal as it is easier to predict future loss ratios. Captives are often also used as 'risk incubators' writing classes of business which are either new or not fully understood by the Insurance Market. The risk is often written by the Captive until the market is in a position to write the risk at acceptable terms. Examples of this are Non-Damage Business Interruption, Environmental Liability or Cyber Risks.

DRIVERS FOR CAPTIVE ESTABLISHMENT

Strategic

- Platform for the implementation of a Company's risk management strategy
- Provision of risk management discipline
- Formalised risk retention
- Flexibility
- Develop Capacity as a defence to the Hard Market

Operational

- Access to reinsurance market
- Focus on risk management
- Enhances insurance buying strategy
- Deal with uninsurable risks

Financial

- Participate in underwriting profits
- Benefit from improved cashflow
- Premium savings
- Maintain provisions for unknown losses
- Improve risk finance budgeting
- Development of a profit centre

Market Conditions

- Premium Volatility
- Cover Restrictions
- Reduced Capacity
- Increased Deductibles
- Lack of (affordable) Coverage

Choice of Domicile

When choosing a Captive domicile, an entity must have regard for the reputation and regulation of that domicile.

Key criteria would include:

- Access and Communications
- Regulatory Environment
- Reputation and Political Stability
- Financial and Fiscal considerations, including capital requirements and tax regime
- Operational considerations, such as type of corporate structures available

The Isle of Man Captive Association has produced a jurisdictional comparison which acts as a useful starting point for consideration of selection criteria.

Typical Operations

The Captive management functions must be carried out in the domicile itself by experienced professionals, and typically the day to day management of the Captive will be outsourced to

a professional Captive management company.

However, for good governance, the company will ordinarily be required to appoint at least one, and more usually two, non-executive directors.

The Isle of Man is ideally suited for the establishment of a company's Captive insurance operations, and this is borne out by the blue-chip companies who have already chosen to set up their captive in the Isle of Man.



Contacts

For further details of Captive Insurance Services in the Isle of Man please refer to:

www.wheretheyoucan.im/captives
www.iomcaptive.com
www.gov.im/ipa