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CAPTIVE SPECIAL



CAPTIVE INSURANCE: TAKING CONTROL

GCC DOMICILES DUBAI, BAHRAIN AND QATAR ARE READY AND WAITING TO ACCOMMODATE CAPTIVE INSURERS. CORPORATIONS IN THE REGION ARE NOW WAKING UP TO THE RISK MANAGEMENT BENEFITS CAPTIVES CAN BRING.

EVOLVING A CAPTIVE INTO ITS MATURITY

- *Ahmed D Alumran, executive director and managing partner at Ensurion, on how captive owners can get the most from their programmes after their first year and beyond*

Ensurion was the first insurance manager to be licensed in the Middle East and specialises in the formation and management of captive insurance companies. Regulated by the Central Bank of Bahrain, Ensuriion currently manages the first regionally domiciled captive, Tabreed Captive Insurance Company (TCIC), on behalf of Abu Dhabi's Tabreed, the world's largest district cooling company.

Having worked closely with many of the region's major insurance buyers, Ensuriion has spent a significant amount of time with board members and senior management teams discussing the strategic and financial merits of captive insurance. Additionally, having managed TCIC for over 18 months, the Ensuriion team has several insights to share about the post-formation activities of a captive insurance company. This article highlights some of the key initiatives that should be undertaken once a captive has been under management for at least its first year.

Captive performance

Given that a captive is effectively a subsidiary insurance company, it is important for the parent company to view its captive as it would any investment into a new subsidiary company. To this end, it is important for the parent to compare the captive's financial results to the initial business plan, and confirm whether the captive has financially performed as anticipated.

If the captive has performed, then the captive should be commended and this achievement should be used to generate further 'buy-in' and interest in the parent's new insurance subsidiary. If the captive did not perform as planned, then the captive's board should work closely with the manager to determine the cause for any divergence between expected and actual results. A thorough analysis of any such divergence could provide valuable insights about the parent's operations and risk-management practices.

As important as the captive's financial performance, the parent should inquire as to whether the captive has clearly delivered on some of the less quantifiable 'strategic' benefits that were expected. For instance, has the parent experienced a better sense of control and visibility over its risks? Is the parent getting a more professional and responsive service from the insurance function within its organisation?

Strategic role

When the occasion permits, the captive manager should be provided with opportunities to engage the parent's various operating units, subsidiaries, and affiliates in order to build relationships with the relevant management team members and increase awareness about the captive's strategic role within the parent's organisation. Such opportunities may include group events, management off-sites, or conferences where a meaningful interaction could be achieved.

Increasing awareness about the captive should help improve the efficiency of the captive's interaction with the rest of the parent's organisation, which can result in better access to risk information, more timely claims settlements, and a more cohesive integration of risk management into the organisation's culture and forward planning.

Growth opportunities

When a captive is initially formed, it typically only covers a subset of the full set of risks the parent has to offer. This initial underutilisation is typically due to the fact that the captive is often sufficiently attractive on the basis of that subset of risks, and that it is prudent to proceed with the captive without unnecessary delay.

Over time, however, it is greatly in the benefit of the captive's parent to continually seek opportunities to grow the captive in terms of both size and scope. By increasing its premium base, the captive should be able to secure better terms from re-insurers and other service providers over time.

As such, the parent should work closely with the manager to extend coverage to parts of the organisation that were previously excluded, to operations in different countries, or to other entities such as subsidiaries, affiliates, and joint ventures.

In addition to simply increasing the premium base for existing lines of business, there may be other lines of coverage that could be integrated into the captive. These are lines that were either not initially explored in the feasibility study, or more commonly, new lines of businesses that were not previously available in the traditional insurance market. Since the captive has direct access to the global reinsurance market, it would be able to provide tailored or non-traditional coverage that may be beneficial to the parents.

As the captive ultimately grows and becomes better diversified, it should be able to demonstrate a better loss experience and by extension an increase in surplus. Such a surplus would provide the basis for the captive to truly transform the parent's insurance function from a cost centre into a profit centre by either increasing its retention and reducing premium payments, or alternatively, by beginning to pay dividends.

