

Customized captive solutions

A captive is an effective risk management strategy to align your earnings profile with your core business

How it works

Many risks on your balance sheet don't align with your core business pursuits, so companies often transfer these risks to a captive via an insurance contract to better manage the associated volatility. As shown in Figure 1, you can either fund the captive yourself or transfer the risk outright to reinsurers/capital markets.

Traditional uses

We've observed diverse use cases for traditional captive programs, from employee benefits, professional liability, commercial property, workers' compensation, and more.

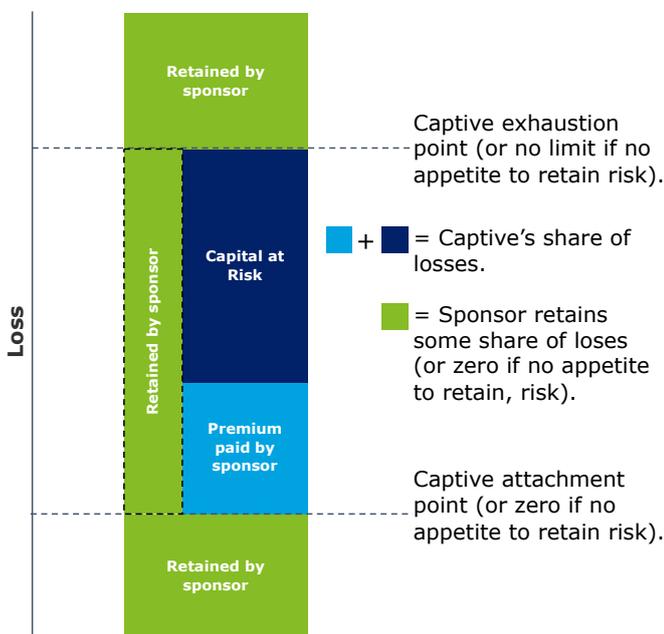
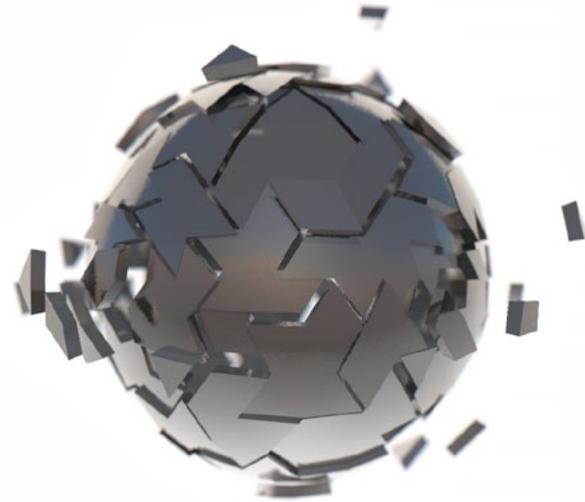


Figure 2

Emerging trends

A captive is an effective risk management strategy where companies identify emerging risks that are underserved or prohibitively expensive in traditional insurance markets. Going forward, we expect captives to help sponsors manage cyber, longevity, and many other risks. Additionally, with various financial reporting standards trending toward Fair Value accounting, we anticipate increased interest among financial institutions to use captives as a means of managing Fair Value volatility.

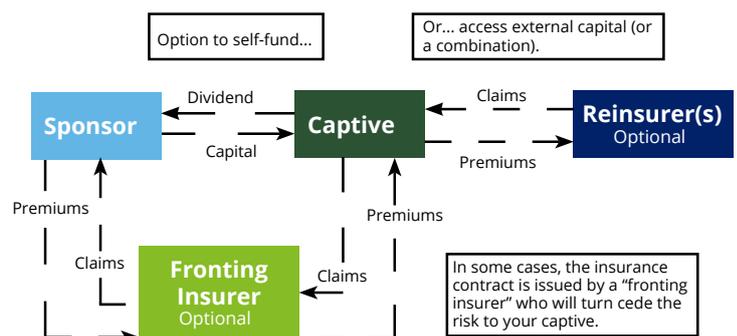


Figure 1

Success story

A client came to us with an alternative asset portfolio which is to be held at Fair Value upon implementation of IFRS 9. Based on our analysis, this would create significant volatility in the portfolio value, ultimately creating earnings volatility if kept on their balance sheet. We developed a captive structure like Figure 2 to absorb Fair Value losses within a specified range. The outcome: the client's earnings profile is better aligned with their core business and will be less influenced by Fair Value volatility swings.

Why Bermuda?

Bermuda has a strong reputation as a robust financial center and has been the premier domicile for captive programs since their inception. The incorporation and licensing process is straightforward and streamlined. Importantly, domiciling in Bermuda enables access to a deep pool of reinsurance capital that may be more difficult to access from alternate jurisdictions. Bermuda also has equivalence treaties in place with many jurisdictions, allowing you to recognize credit for your captive program.

How Deloitte can help

Whether your program’s objective is to insure employee benefit/pension obligations, professional liability exposures, Fair Value volatility, or any other risk that doesn’t align with your business goals, we have the right expertise in our global network to appropriately evaluate and develop a suitable solution.

We can also help with the “rent vs. own” decision. Renting a segregated account is a cost-effective approach for certain transactions, while setting up your own entity generally provides greater operational flexibility and control.

Once you’re ready to set up your program, you’ll need to select professional service providers and prepare the relevant documentation, as shown in Figure 4. We have experience developing pre-incorporation documents, and great relationships with local service providers, and can help you with your application. From there, it is a streamlined process to receive your insurance license.

If you’d like to learn more about the application process, or would like more information on captive use cases we’ve observed in the market, please don’t hesitate to contact us.

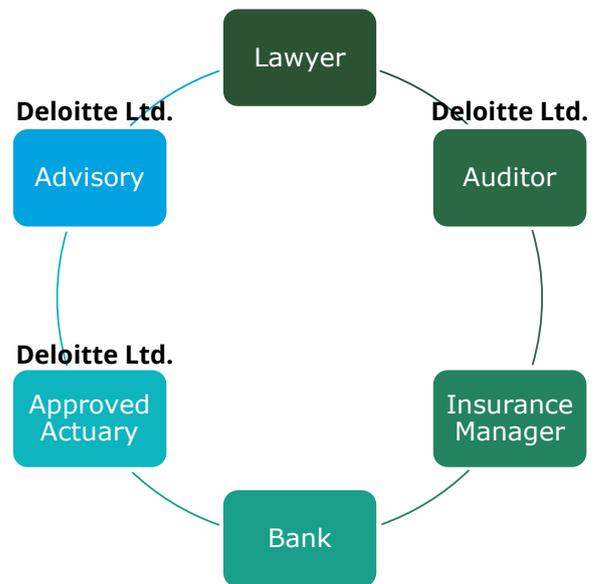


Figure 3

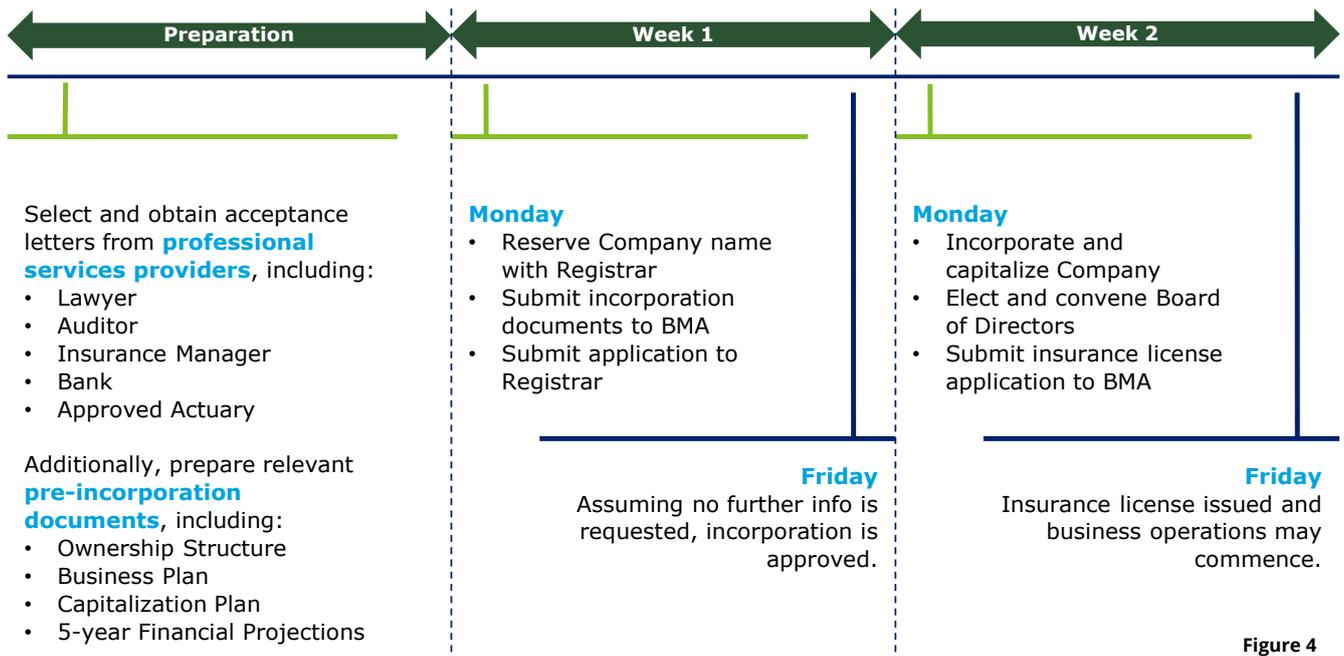


Figure 4



Yulia Bruszkova
Director
T: +1 441 299 1387
M: +1 441 595 5505
yulia.bruszkova@deloitte.com



Gokul Sudarsana
Senior Manager
T: +1 441 298 1132
M: +1 441 524 1159
gokul.sudarsana@deloitte.com

Contact information:

Deloitte Ltd.
Corner House
20 Parliament Street
Hamilton HM 12
Bermuda
Telephone:
+1 (441) 292 1500

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Ltd. is an affiliate of DCB Holding Ltd., a member firm of Deloitte Touche Tohmatsu Limited (DTTL).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017 DCB Holding Ltd. and its affiliates