CAPTIVA
INSURANCE MANAGERS

REPORT

# Want higher profits?

## How to make your captive insurance company more profitable

Some of the biggest risk takers of all time have been, and are still, insurance companies. Their business is to accept other people's risks, and they have long understood that the better the risk can be managed, the fewer claims will occur, and the more profit they can make.

A common factor of all successful companies is their ability to adapt and manage risks. Insurance companies learned many years ago that once they were able to control their losses, any new business added generally produced healthy profits.

The same principles apply even more to captives. Whereas regular insurance companies insure many different companies and people, captives tend to insure only a few. Although this lack of diversity can be a risk, it is also a huge advantage. The clients of traditional insurers have no real financial incentive to reduce their losses, whereas the owners/insureds of captives most certainly do.

How then can captives learn from the traditional insurance companies?

### Capital investment

Once a fully tax-compliant captive has been established and is running smoothly, it is easy for the owners to forget just how much time, effort and money was invested in its original set-up. This is especially the case when the captive is making healthy profits.

The problem is that a captive, by its very nature, tends to be profitable. Because of this, it is tempting to leave it as it is and not carry out strategic reviews of its usefulness on a regular basis. Because a well-managed captive often involves little day-to-day input from the parent, its potential usefulness is sometimes forgotten and taken for granted.

### Opportunity

This is similar to having built a beautiful and exclusive hotel but only having one room occupied. Although the charges paid by that one guest may be enough to cover the operating costs of the hotel, just think how much more could be made if other rooms were also made available.

As with the owner of the hotel, the captive owner needs to carefully consider how he can make more profit by making better use of the captive's resources.

In order to achieve the goal of making a captive more profitable, two steps must be taken.

## 1st Step: Risk management

For a captive to be successful, its parent company must have in place a top class, risk management framework. This will help identify, analyse, manage & control the risks being insured to the captive, with the resultant profits being more than enough to cover the additional costs of risk management. Risk management is the backbone of success.

This is all common sense, and applies equally to the hotel manager who also uses risk management techniques to ensure that all his guests are well behaved and pay their bills.

## 2nd Step: More premium

Once the risk management framework is in place, it's just a matter of adding more risks and premium to generate more profits, or for the hotel manager, making more rooms available.

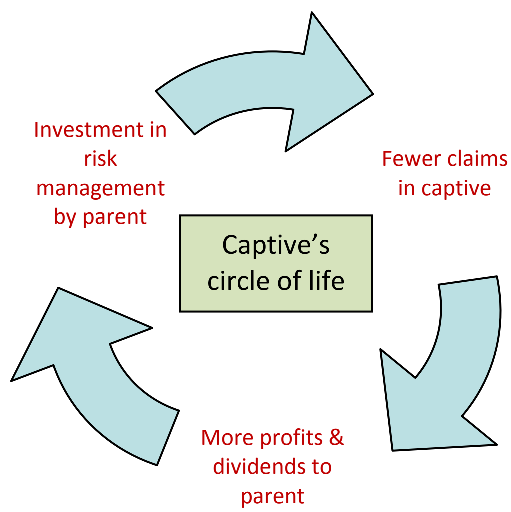
## Accepting more risks

Lessons can be learned from the older captives based in other domiciles such as Bermuda and in Europe. The majority of these captives tend to insure a number of different types of risk, whereas in North America and the Caribbean, it is common for medium sized or large captives to only insure a few risks.

Based on the experience of these older captives, we know that almost any type of risk can be insured. In addition to traditional risks such as property and general liability, captives can write virtually whatever they like ranging from workers compensation to marine cargo to IT hacking and even kidnap and ransom.

One thing these multi-line captives have in common is that they all tend to generate very healthy profits. More often than not, a good proportion of the profits are then reinvested back into the parent company's risk management programme to help fund ongoing safety training, updating safety equipment and reinvesting in procedure changes.

This should be the "circle of life" for a captive; a symbiotic relationship with its parent company.




## In conclusion

The parent company risk manager and the captive's directors should conduct a review of how the captive can be developed to make it even more efficient. In particular, if it's only writing one or two risks, they should seriously consider writing more to make their captive insurance company more profitable.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