Getting There and Staying There

Successful EB captives

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Overview of the captives

Captive Name	Parent Sponsor	Annual EB Premium	Domicile	Effective Date Benefits Included	Fronting Partners	Benefit Lines
Le Rock	Sanofi	€15m	Luxembourg	2013	Generali, IGP, Maxis	Life, Disability, Medical, Accident
Intercona	Nestle	CHF40m	Switzerland	2009	Generali, Zurich	Life, Disability, Accident
HSBC Insurance Bermuda Ltd	HSBC	$50m	Bermuda	2008	Allianz, Generali, HSBC, Maxis	Life, Disability, Medical, Accident
Risicom	Siemens		Germany	2012		Life, Disability, Accident

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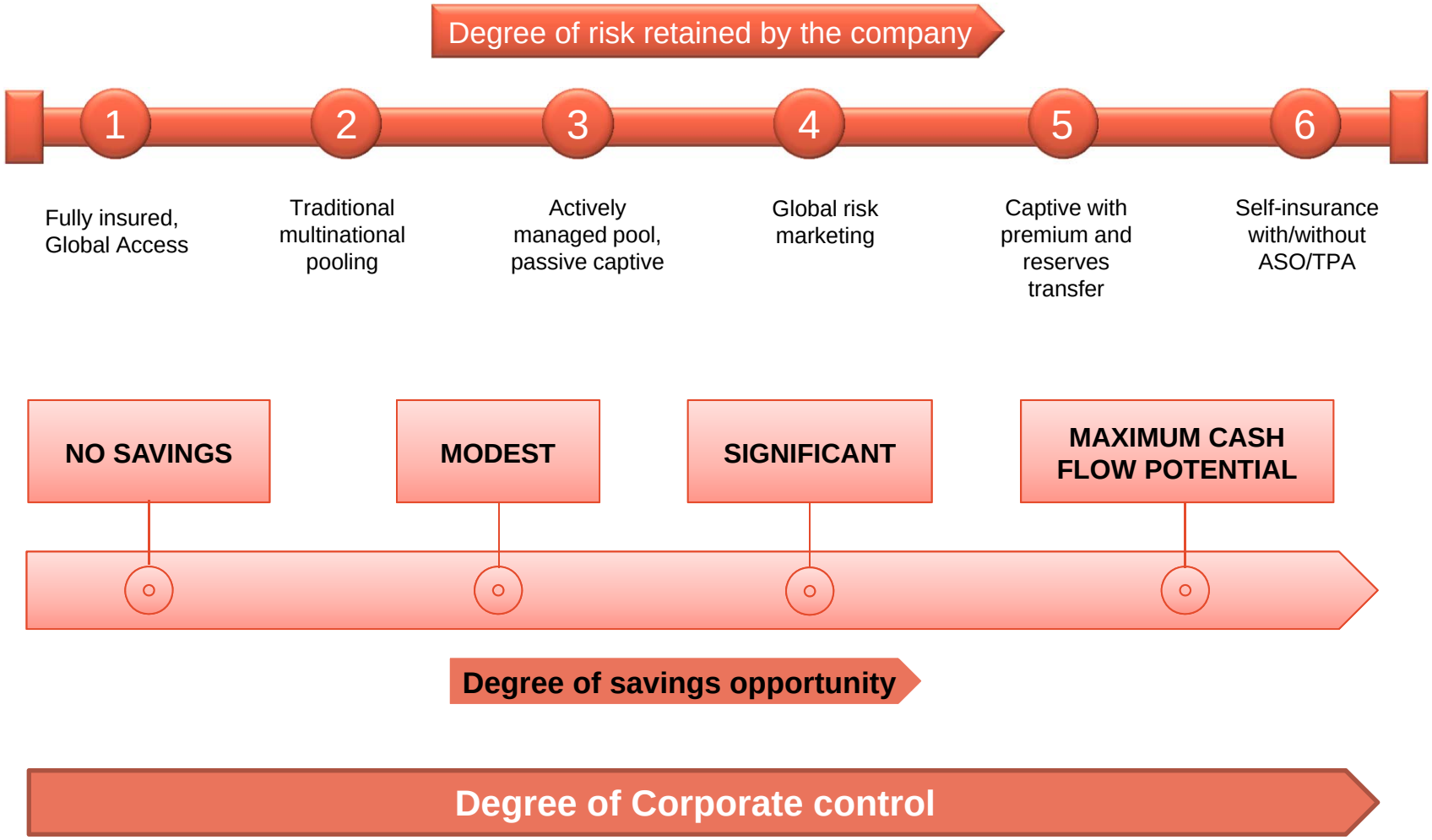
Finding the right balance of cost, risk and control is key



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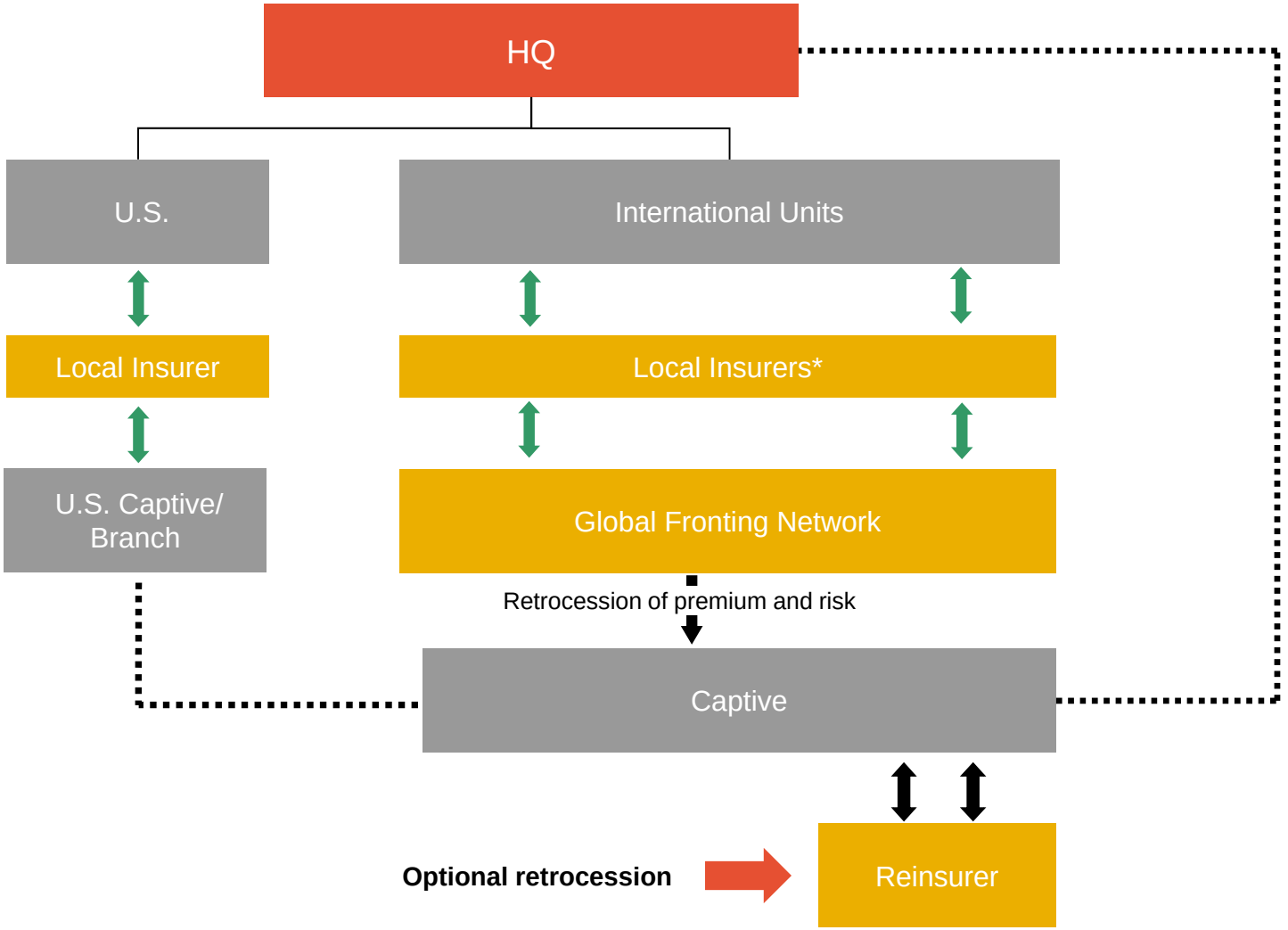
How a captive arrangement for employee benefits is typically structured



*Members of Global Network. Independent fronting companies can also be used in, for example, the U.S.

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Captives are used for a range of employee benefits

Highest

Savings potential and difficulty of implementing transaction

Lowest

- Defined benefit plans
- Post-retirement medical

- US Group Life
- US Long Term Disability
- US AD&D

- Group Life
- Long Term Disability
- Accident
- Medical

* : Long Term Disability
** : Accidental Death and Dismemberment
*** : Department Of Labor

…in different ways in different parts of the world

OTHER COUNTRY SPECIFIC

- Customized responses to particular issues
- Often tax and/or investment driven
- Pensions uses developing

US SPECIFIC

- Captive financing for US Life, LTD* and AD&D** now common
- DOL*** exemption required – process now simplified

Global Risk & Healthcare Benefits

- Stage beyond multinational pooling
- Market growing in recent years

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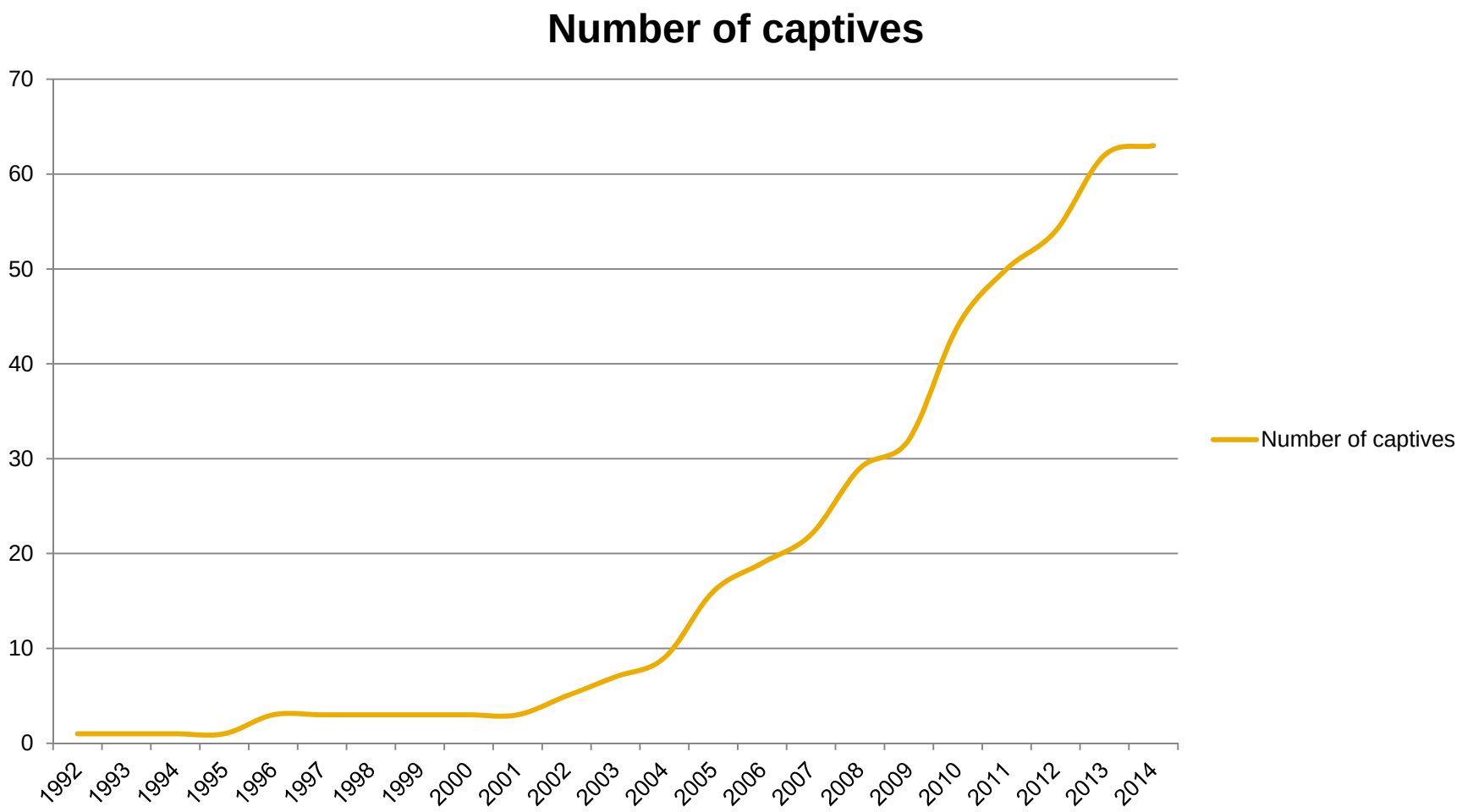
Number of EB captives



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“Getting there” – Recent Best Practices for negotiation and implementation

Best Practices*
1. Insurer should be selected through (a) initial screening of qualified insurers; (b) competitive bidding by and interviews of two to three selected insurers; (c) execution of a Service Level Agreement prior to execution of the pooling agreement and reinsurance contract
2. Use of one or more insurers is clearly defined
3. A local company — i.e., sponsor liaison with local insurer — is needed
4. Regular communications with local sponsors are essential for fact finding and to ensure smooth implementation
5. Dedicated full-time staff resource(s) or a supporting partner are required to lead and direct implementation
6. Weekly progress on implementation should be tracked against specific goals of the company, insurer(s), local companies of insurer(s), and local operating companies
7. Management information on the cessions, claims and claims payments must be quarterly, no later than 30 days post quarter close, and should be defined and agreed before execution of contracts
8. Implementation should strive to achieve the highest possible penetration as soon as possible by following the 80-20 rule: 80% of the premium is usually held by 20% of the local companies
9. Premium payment should ideally be annual in advance but no less than quarterly
10. Reserves should be ceded and held by the captive wherever legally permitted

*The Best Practices are general.

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“Staying there” – Best Practices for maintaining a successful program

Best Practices**
1. Establishment of and rollout of governance framework and guiding principles
2. Formation of advisory committee to Captive Board made up of relevant stakeholders
3. Dedicated full-time staff or a supporting partner with clear roles and responsibilities
4. Annual price checks
5. Monitoring of Service Level Agreement

*The Best Practices are general.
**There is a natural overlap between Best Practices for implementation and ongoing success. The Best Practices above are largely applicable to ongoing success.

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