

## Risk & Insurance Value Optimization Through Captive Insurance

### What is Captive Insurance?

A risk management strategy & solution.

**“Self-insurance”**: a captive insurer is an insurance entity wholly owned by its insured(s).

A company or group of affiliated companies will create a captive structure, with the sole purpose of **insuring their own risks**.

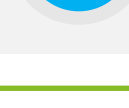
It is a way to take more control of your insurance coverage to save cost, enhance coverage and improve overall risk management.

Owning a captive allows you to **lower the cost of risk**.

**Domicile**: local or offshore options.

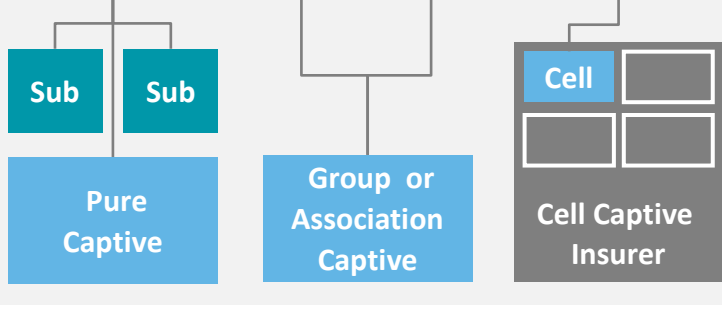


British Columbia  
Especially **Alberta**



Especially Caribbean, US  
Deloitte DARS in **Barbados**

Various forms and structures are possible



Captive insurance can be set up for a single owner (Pure Captive) or a group of associated or affiliated entities, typically with similar risks (Group or Association Captive).

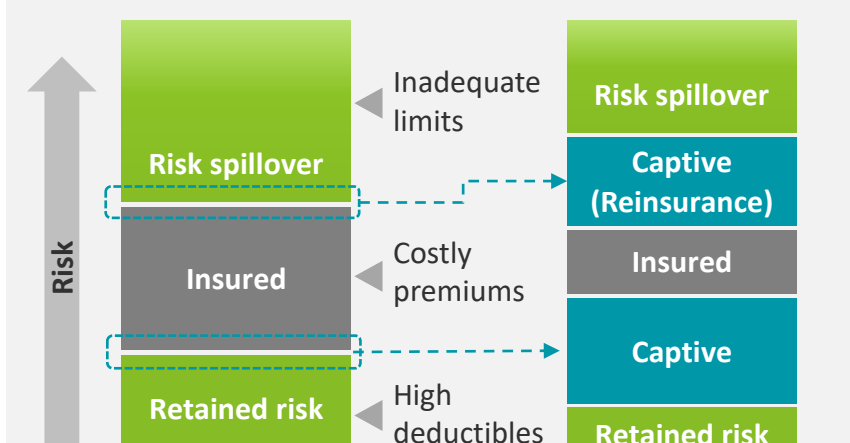
Depending on the context and requirements, various other forms of cooperative insurance are possible, such as cell captives, mutuals or reciprocal exchanges.

Central to all these structures is the principle of **risk sharing**.

Commercial insurance programs will usually involve an element of risk retention through excesses and deductibles, and often an element of risk spillover due to policy limits.

Captive insurance works in tandem with this, providing a more efficient way to manage retentions and reduce risk spillover.

If done correctly, the use of captive insurance allows organizations to reduce the amount and hence cost of external insurance required.



### Widespread Use and Application of Captives



**7 000**

**Number of captives worldwide**



**25%**

**Growth in global captive market since 2019**



**90%**

**Fortune 500 companies with captive subsidiaries**

Captive insurance has been used for many decades and in many jurisdictions across the world, and is not a novel concept, though underutilized to date.

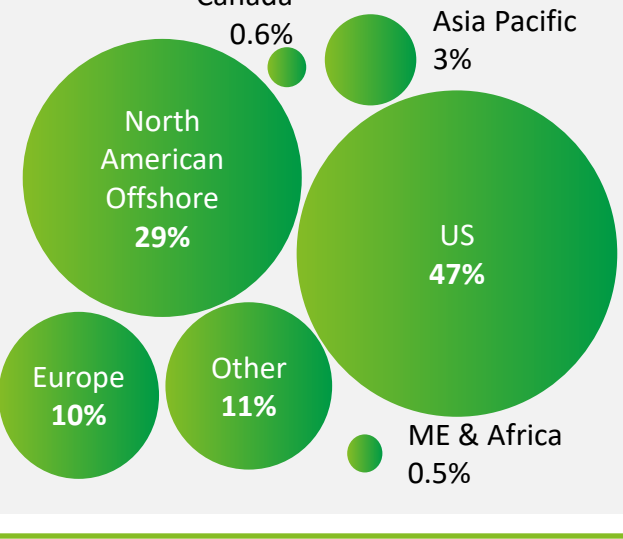
With the hardening of insurance markets in recent years and the reduced capacity for certain risk types, captive insurance has grown rapidly as an alternative risk transfer mechanism.

Large organizations with mature risk management have led the growth in this space, benefiting from the value that captive insurance offers.

Globally, the dominant captive domiciles are the **US (47%)** and the collective **North American offshore (29%)** domiciles, including locations like Bermuda, Barbados and Cayman Islands.

This is because these jurisdictions offer favorable and robust regulatory environments, robust infrastructure, and a strong captive insurance industry.

In **Canada, Alberta** recently implemented new captive regulations to attract and encourage the formation and redomiciliation of captive insurance to the province.



**Canadian-owned Captives (221)**



The significant majority of **Canadian-owned** captives are located in **Barbados**.

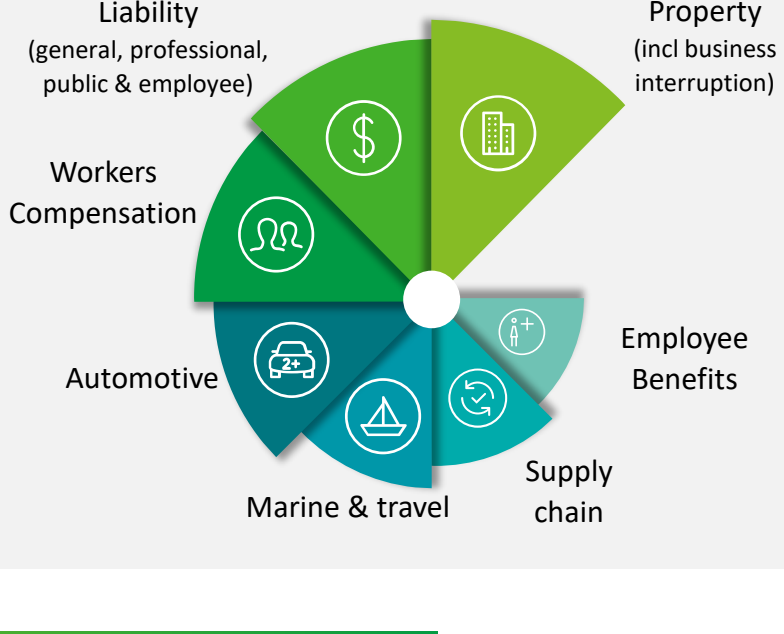
Selecting the optimal domicile for a captive depends on a number of factors, and will differ between organizations. Factors such as taxes, minimum capital requirements, regulatory maturity, captive “infrastructure” (e.g. TPAs), fronting requirements and costs (fees) are all critical.

Deloitte’s captive manager in Barbados, DARS, gives us market-leading insights into captive insurance industry developments, both locally and internationally.

Over recent years, the risks shown in the graph to the right were most commonly seen in captive insurance vehicles globally. However, captives are formed to cover virtually every insurable risk.

Captive insurance for **Cyber** risk is gaining popularity as businesses seek customized coverage, cost stability, and improved risk management in the face of increasing cyber threats.

We expect to see a similar trend emerge for **Climate and Sustainability** risks as companies are increasingly recognizing the financial and reputational impact of climate-related events and the need to address sustainability concerns



### How does captive insurance help?



**Customized coverage**



**Better control: risk profile & insurance costs**



**Financial benefits**

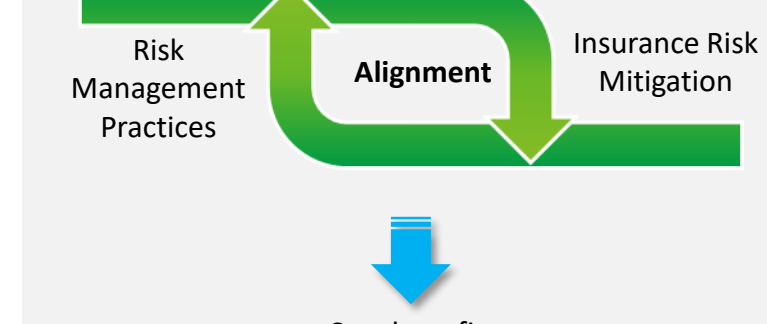
Correctly used, a captive will provide **better control** of your insurance **coverage** and **spend**.

Benefits of a captive:

- **Cost saving**: premiums, tax, cashflow
- Customized coverage
- Improved risk management embeddedness
- Access to insurance **profits**
- Access to specialized services & data e.g. **Cyber Security Services**

Captive insurance offers the opportunity to enhance your business:

- Redirect some of your risk and spend to your captive.
- Take control of the gaps and inefficiencies in your existing insurance programs.
- Move **inefficient on-balance sheet provisions** into structured programs.
- Virtually **any risk** can be placed – a distinguishing feature of a captive



Captive insurance presents a highly customizable way to structure strategic responses to:



**Cyber risk**



**Climate risk**

Captive insurance is often utilized for risks that are not easily or cost-effectively covered by traditional insurance markets. It is well-suited for insurance risks that are unique, non-standard, high-frequency with low severity, long-tail, or strategic in nature.

For **cyber risk**, it incentivizes risk mitigation efforts, promotes better cybersecurity practices, and provides stability in premium costs.

Similarly, for **climate and sustainability** risks, captive insurance incentivize risk reduction measures, encourage sustainable practices, and helps manage the challenges associated with environmental and social impacts.

Captive insurance’s unlimited customizability results in applicability in **virtually any industry or sector**.

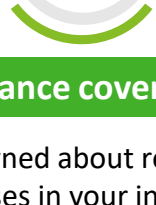
Examples of successful captive usage in Canada includes many well-known organizations in the transportation, retail, mining, energy, insurance and banking sectors (to name but a few).

Co-operative insurance is also widespread in Canada with many examples of mutuals and reciprocals in farming, schools and universities, municipalities, medical fraternities and hospitals.



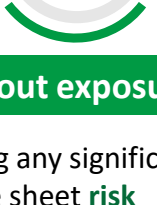
### Is captive insurance right for me?

Answering ☒ **“YES”** to any of these, suggests that captive insurance might be of value:



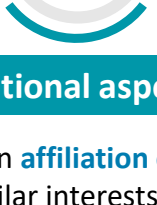
#### Insurance coverage

- ✓ Concerned about recent increases in your insurance **premiums**?
- ✓ Under pressure to accept increased insurance **deductibles**?
- ✓ Spending over **\$500k annually** on insurance coverage?
- ✓ Difficulty find the right **cover** and adequate **limits** for certain risks?



#### Stand-out exposures

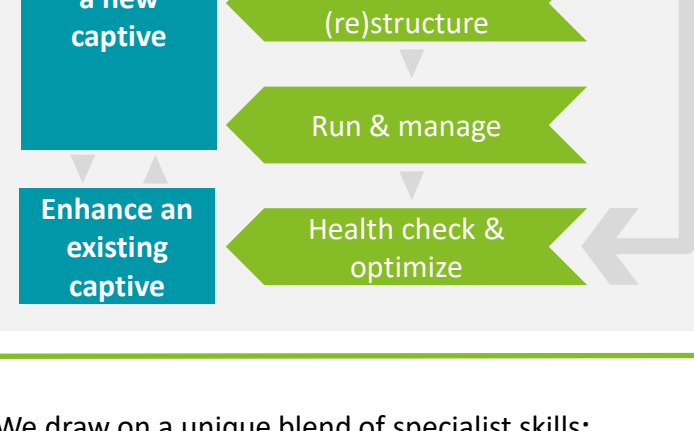
- ✓ Carrying any significant on-balance sheet **risk provisions**? (e.g. risk funds, warranty funds, employee benefit obligations)
- ✓ Faced with **“chunky” exposures** (e.g. trophy properties, capital assets)
- ✓ Do you have a pool of **similar risks**? (e.g. fleets, employer managed benefit plans)
- ✓ Concerned with managing **cyber, climate** or other **emerging** risks more strategically?



#### Organizational aspects

- ✓ Part of an **affiliation or group** with similar interests? (e.g. groups, fraternities, guilds) This could be an opportunity to pool risks and benefit from economies of scale.
- ✓ Eager to **derive more financial** value from proactive risk management efforts, reduce insurance costs?
- ✓ Part of a **multinational** group?
- ✓ Own an **existing captive**?

### How does Deloitte assist?



We assist with both **new** and **existing** captives.

**New**: we assist with the end-to-end process of determining the feasibility of a captive structure, the optimal form, and finally the establishment and running thereof. Our approach involved modelling of pro-forma results to demonstrate the potential financial value to your business.

**Existing**: we review existing structures to ensure they provide optimal value to your business. In some cases, regulatory developments have led to domiciliation of captives, and we are able to guide you on this journey.

We draw on a unique blend of specialist skills:

- Actuarial & Insurance: Reserves, capital, premium rate setting and reinsurance
- Risk management: Governance & controls
- Compliance & Regulatory
- Reporting & disclosure
- Tax & legal
- Technology & processes

Deloitte operates a registered Captive Manager in Barbados:

**DARS** (Deloitte Alternative Risk Solutions Inc.)



We would love to have an exploratory conversation about how Captive Insurance can add value to your business.



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