GENERALI
Employee Benefits Network - GEB

Local protection, global connection

Generali Employee Benefits
Newsletter September 2011

Special Edition on Captives

in this issue...

GEB News

Editorial office: Generali Employee Benefits - Brussels
marketing@generali-international.be Tel. +32 2 5372760

Head Office
Simona Frisoli
Marketing & Communication Manager
Tel: +32 2 537 2760
Fax: +32 2 537 5266
e-mail: frisoli@generali-international.be

Regional Offices
GEB Europe, Middle East & Africa (EMEA)
Andrea Valacchi
Senior Regional Manager
Tel: +32 2 537 2760
Fax: +32 2 537 5266
e-mail: valacchi@generali-international.be

GEB UK and Ireland
Sandor Jonas
Regional Manager
Tel: +44 20 7265 6470
Fax: +44 207 481 3418
e-mail: sandor_jonas@generaliglobal.com

GEB Central Europe
Heiner Salmen
Regional Manager
Tel: +49 69 1502.2627
Fax: +49 69 1502.2603
e-mail: salmen@gebcee.com

GEB Eastern Europe
Pietro Cappello
Regional Manager
Tel: +43 1 53401 1196
Fax: +43 1 53401.1755
e-mail: pietro.cappello@generali.at

GEB Asia Pacific
Sergio Di Caro
Senior Regional Manager
Tel: +852 2521 0707
Fax: +852 2521 8018
e-mail: geb_ap@generali.com.hk

GEB Americas
Marc Reinhardt
Senior Regional Manager
Tel: +1 973 658 1034
Fax: +1 973 402 5121
e-mail: mreinhardt@gebusa.com

Introduction by GEB Chief Commercial Officer Ludovic Bayard

Dear Clients, Partners and Colleagues,

After a well deserved summer break, we are pleased to release the first special edition of GEB News. There is a lot happening in the international Employee Benefits (EB) field and we hope that our special edition newsletters with a focus on specific current topics will provide you with new insights and plenty of useful information.

Before delving into the world of captives, allow me to briefly introduce myself to those of you who don't know me. I joined the Generali Group 13 years ago with managing roles at Generali France, Generali UK and at the Generali Head Office in Trieste, Italy. In April of this year, I was asked to join GEB in Brussels as the new Chief Commercial Officer. What I've noticed very quickly since joining GEB is how much the EB market has changed during the last few years. Not only does the global macroeconomic situation continue to pose major challenges but the regulatory environment is evolving at a rapid pace and conditions in the insurance market are extremely competitive (the famous "soft market'). In this complex and difficult business climate, clients and intermediaries have become more demanding as well as specific in what they expect from their partners in the insurance industry.

These external changes invite us to continuously review our internal processes and overall business model. Investment in human capital, technology and innovative ideas are a must in order to remain competitive in this fast changing world. Only this will allow us to add value for our clients and effectively manage the increasing complexity and pace of the current business environment. Our goal is to be a high-end service provider and partner in managing risk and avoid being seen as simply another vendor of a commoditized insurance product.

As a fast growing organization, GEB has adapted its structure to deliver excellent service while staying on a sustainable and profitable growth trajectory:

1. Our multinational clients can count on our support wherever they are located through the expertise of 13 Regional Offices (each of which is fully equipped to handle sales, servicing and underwriting functions) and our technical support units in Brussels (actuarial, reinsurance, IT/Business Intelligence, finance). As a network, GEB is in a position to leverage the know-how of 100 international employees fully committed to not only maintain but further enhance our leadership position in the international EB arena.

in this issue…

2. Our international strategy balances growth in mature markets and emerging markets (APAC, CEE, LATAM, MEA) which represent an enormous potential for our business (high economic growth, low insurance penetration) and a source of risk diversification. This year, for instance, we opened a new GEB Regional Office in Miami for Latin America.
3. Challenging market conditions require both commercial flexibility and technical discipline and we strive to balance these needs when increasing our portfolio or developing new products by taking the two sides of the coin into account: risk management and market conditions.

Within this framework we want to further invest in effective communication, both internally and externally through the engagement of our employees and by sharing the latest information about our capabilities and strengths with the market. The GEB business model revolves around our clients and our open communication strategy supported by newsletters such as the present edition will underscore this focus. I would also like to mention at this point that our website is currently undergoing major renovation. Once completed, it will be a valuable, state-of-the art information tool for our clients. But more on this in one of the next special editions of GEB News.

As an "opener" we have selected the reinsurance to captive topic. Here are some of the reasons why:

- This is a market we know well because we have been one of the first networks to enter it, and we have been growing and learning with our clients. Now, after more than 20 years of activity we have reached the leadership position.
- The timing is good because insurance regulations underway and Solvency II in particular will have an important impact on the way insurance networks and captive companies run this activity because of its risk and capital implications.

I hope you will enjoy reading this and subsequent newsletters and that the information is both interesting and helpful. Your feedback is not only appreciated but essential. Only this will allow us to improve and live up to our commitment to always place our clients front and center. If there are specific topics that you would like to read about in future editions, let us know and we will do our very best to accommodate your requests.

In the meantime, please don't hesitate to contact me or any of our Regional Offices should you have any questions or require additional information. Thanks for your interest in GEB.

Ludovic Bayard

in this issue…

What is a Captive?

Whilst memory might bring us back to biblical times, when whole tribes would be made "captive" by other populations, today's reality in the world of captives is not quite as gruesome, although no less interesting. In essence, captives are insurance companies created to manage very specific classes of risks. According to a generally accepted definition,

> "a 'captive' insurer is a limited purpose, wholly-owned insurance subsidiary of an organisation not in the insurance business, which has as its primary function the insuring of some of the exposures and risks of its parent or its parent's affiliates" (Levick, Dwight E., Risk Management and Insurance Audit Techniques, Standard Publishing Corporation, Boston: 8-12)

A more precise description by the American Institute of Certified Public Accountants, defines captives as

> "Wholly owned subsidiaries created to provide insurance to the parent companies."

The term "captive" was coined in the 1950s by the "father of captive insurance", Frederic M. Reiss, whilst he was working with his first client, an American steel tubing enterprise with a number of mining operations whose production was put solely to the corporation's use, and which therefore were referred to as captive mines. When Reiss helped the company create its own insurance subsidiaries, they were labelled "captive" insurance companies because they wrote insurance exclusively for the captive mines. Thus, the first captive management company was created in Bermuda in 1962, chosen after extensive research because of its location and political stability.

Today, approximately 60% of Fortune 500 companies operate one or more captives.

in this issue…

What kind of Captive?

There are several types of insurance captives, the most common being defined below:

- *Single Parent or Wholly Owned Captive* - is an insurance or reinsurance company formed primarily to insure the risks of its non-insurance parent or affiliates.
- *Association or Group Captive* - is a company owned by a number of companies or by a trade/industry group for the benefit of its members.
- *Agency Captive* - is a company owned by an insurance agency or brokerage firm so they may reinsure a portion of their clients' risks through that company.
- *Rent-a-Captive* - is a company, usually established by a specialised risk consulting firm that provides insurance services to others for a fee. This structure is often used for programs that are too small to justify establishing their own captive.

Any of the above, with the exception of rented captives, can be also structured in the form of a segregated portfolio company (SPC), which by design allows for a more robust segregation of policyholder assets. These entities are characterised by a core capital and a number of ring-fenced, or segregated, capital cells for each user.

Captives can also be classified on the basis of whether they operate as a direct insurer, a reinsurer or a combined company. We will see later how, specifically in the Employee Benefits arena, most successfully operating captives are reinsurers.

in this issue…

Where are Captives located?

Certainly one of the primary concerns when establishing a captive is the choice of its domicile, as this will have considerable implications in terms of fiscal treatment on the underwriting income, solvency regime and overall regulatory environment.

So called "offshore" jurisdictions have become popular captive domiciles, thanks to their lower capitalization and reserving requirements, which may allow captives to be set up with less initial investment. In fact, depending on each local jurisdiction's provisions, start-up costs range between USD 15,000 - USD 30,000 for most captives.

However, this scenario is rapidly changing, also because local jurisdictions are becoming sensitive to the changes which will be brought forward in Europe after the implementation of Solvency II provisions.

As of August 2009, Business Insurance reported the following captive distribution by domicile:

Domicile	Captives	Percentage
Bermuda	958	19.3%
Cayman Island	765	15.4%
Vermont	567	11.4%
British Virgin Islands	195	3.2%
Guernsey	368	7.4%
Luxembourg	262	5.3%
Barbados	256	5.2%
Ireland	224	4.5%
Hawaii	163	3.3%
South Carolina	158	3.2%
Isle of Man	130	2.6%
Nevada	115	2.3%
Arizona	108	2.2%
Utah	100	2.0%
Others	417	12.7%
Total	5,000	100.0%

This list is also fundamentally confirmed under the latest update provided by other sources such as www.captive.com in August 2010.

in this issue…

Captives and Employee Benefits

As much as the utilization of captives has gained popularity since the mid '80s, with a steady increase of registered captives in each jurisdiction every year, the focus of a captive operation is still centred on very specific business lines.

The most common lines of risks written today by captive insurers and reinsurers are general and professional liability, including worker's compensation, as well as property. Whilst approximately only 5% of all premium income written by captives pertains to healthcare benefits, and 3% is related to non-healthcare Employee Benefits (Marsh Single Parent Captive Survey, 2009).

Many captives that manage biometric risks, and more specifically Employee Benefit risks, are wholly owned, single parent captives. Among these, most captives operate as reinsurance carriers rather than direct insurance operations, utilizing a local fronting insurer and/or a network of fronting insurers to underwrite Employee Benefits risk.

This approach is essentially justified by the fact that in order to comply with local labour and fiscal regulations, Employee Benefits contracts must be issued by locally admitted insurers, whereas typically captive companies are established outside each location and could only operate as direct insurers on a non-admitted basis.

Interestingly however, it is estimated that there are currently only about 60 global programmes worldwide established by active EB networks for managing Employee Benefits plans through captives.

Therefore the global market for Employee Benefits programmes where the risk is fronted to a captive appears to be yet untapped, and many see considerable opportunities in this market for the future.

Some among the active worldwide Employee Benefits networks are pursuing these opportunities by further developing their captive fronting capabilities, since a properly managed EB to captive programme adds considerable value to a captive's global strategy, and it represents an equally valuable line of business for the network itself.

Yet these opportunities are not "low hanging fruits", in that managing an EB to captive programme requires a wealth of technical, administrative and commercial expertise, not to mention a financially robust insurance operation to support the transfer of risks to a captive.

The GEB Network nowadays manages 30 of the total of about 60 worldwide EB captive programmes, and it has been at the forefront of this industry since the beginnings of its expansion in the mid '80s, mainly thanks to two fundamental attributes: strategic direction and structural organisation.

In terms of its strategic direction, GEB has always recognized the importance of embedding a customer-centred philosophy throughout its organisation, and this has greatly contributed towards establishing long term relationships with many global enterprises, their captives and their advisors. One of the keys of its success has been GEB's ability to meet the cultural challenge of dealing with two very distinct areas of competence: human resources and risk management.

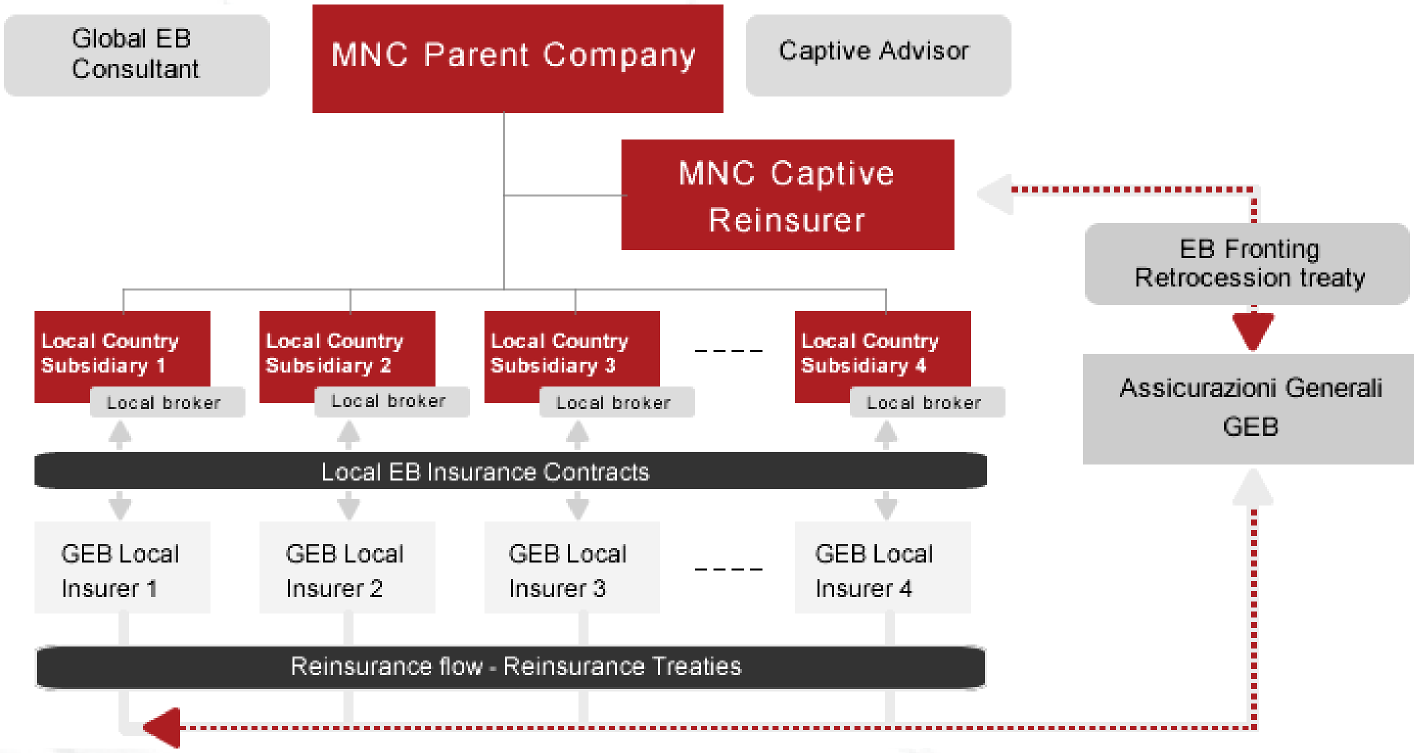
In terms of its operations, GEB's technical infrastructure is based on a network of local reinsurance treaties, which allow an efficient and transparent transfer of risk from local GEB carriers to the central fronting vehicle.

in this issue…

The GEB Reinsurance to Captive Model

GEB has developed a business model for managing a global reinsurance to captive programme of local insured Employee Benefits contracts which has become a benchmark for the whole industry, and which can be visualized in the following diagram:

1. Operational Diagram, data flows & financial flows



According to this diagram, all participating Employee Benefit contracts for local subsidiaries of a multinational company are insured in each country by the corresponding GEB Network insurer.

Each GEB insurer fronts these risks to a fronting reinsurer owned by Assicurazioni Generali S.p.A., with each cession being regulated by a reinsurance treaty.

in this issue…

The fronting reinsurer cedes 100% of the fronted risk to the multinational company's captive reinsurer on a quarterly basis, thus maximizing cash flow opportunities for the captive.

For each quarterly cession, a corresponding quarterly reinsurance statement highlighting all details of the underlying reinsurance transaction is produced by GEB and sent to the captive reinsurer.

2. Lines of Risk

The following lines of risk can be ceded to a captive:

- Group Life – Death Lump Sum plus riders (Accidental Death, AD&D)
- Group Life – Survivors' Benefits (Spouse/Orphan annuities)
- Group Accident benefits
- Group Disability Benefits – Lump Sum (typically, TPD/PPD)
- Group Disability Benefits – Annuity (typically LTD/STD)
- Group Medical Benefits

Retirement benefits and employer obligations, such as worker's compensation, are not included in the fronting programme.

3. Reinsurance Method

The great majority of local reinsurance treaties between GEB insurers and Assicurazioni Generali's fronting carrier are stipulated on a 100% Quota Share basis at original terms, thus allowing a full risk transfer to the captive. Exceptions occur in those jurisdictions which mandate a reinsurance participation by the local government through its state reinsurer, and/or a minimum quota share to be retained by the ceding company. In such exceptions, GEB will front 100% of the quota share of risk received by each local ceding company.

Fronting of all reinsured risks as described above is regulated via a Retrocession Agreement signed between the captive and Assicurazioni Generali's fronting carrier of choice, with effective date of January 1st and automatic renewal.

Under the terms and conditions of the Retrocession Agreement the fronting carrier cedes to the captive company 100% of the risks it accepts, unless mutually agreed otherwise.

in this issue…

4. Fronting Carrier

The fronting carrier of choice for GEB's captive programmes is our parent company, Assicurazioni Generali S.p.A. in Italy.

Depending on the captive's domicile, GEB can also offer a fiscally efficient risk transfer arrangement through Generali Rückversicherung Austria, a wholly owned subsidiary of Assicurazioni Generali S.p.A., with an S&P A credit rating.

5. Risk Protections

Captives are also characterized by their risk appetite with regards to the business lines they write. In order to align our captive programmes with each captive's risk profile, GEB offers the following risk management tools to protect the experience fronted to each captive:

- Individual Surplus protection
- Aggregate Stop Loss protection
- Cat XL protection

The Individual Surplus protection acts on individual sums at risk (lump sum benefits and Net Present Value of annuity benefits) by limiting the sum at risk fronted to the captive up to a pre-set Surplus level.

Any claim in excess of the Surplus level will not be debited to the captive.

This protection is funded on a pure risk premium basis, i.e. charging the captive with the risk premium corresponding to all individual Surplus risk exposures.

Available Surplus levels range from USD 150,000 to USD 1.5 million.

The Aggregate Stop Loss protection acts by limiting the maximum total annual loss, in terms of underwriting result, debited to the captive up to a pre-set Stop Loss level expressed as a percentage of ceded premium.

This protection is funded via a Stop Loss premium debited to the captive in addition to the Stop Loss-protected underwriting result. That is to say, any incurred losses which might trigger the SL attachment point do not include the negative impact of the SL premium.

Available Stop Loss attachment points range between 10% and 100% of ceded annual premium, with a total capacity of 2x annual premium.

in this issue…

Total losses in excess of the SL capacity are debited to the captive.

The Cat XL protection operates on catastrophic events according to the following parameters:

- Priority (maximum Cat XL claim amount borne by the captive)
- Capacity (maximum amount covered by the Cat XL protection)
- Warranty (number of lives affected by a single claim, above which the Cat XL event is triggered)
- Maximum Any One Life (MAOL, maximum amount payable for each insured individual affected by the Cat XL event)

All the above risk protection tools are provided by Assicurazioni Generali S.p.A., acting as a reinsurer to the Captive.

6. Reporting & Currency

Four quarterly retrocession reports are produced for each captive programme, representing an annual underwriting cycle with a preferred inception and renewal date of January 1st.

The Q4 report each year provides additional consolidated information on the yearly underwriting result.

Each report includes a summarized PDF invoice and a detailed Excel file containing the following exhibits:

- Quarterly P&L reinsurance statement, aggregated and detailed by country, line of risk and local policy;
- Contractual currency reserves and local currency reserves as at end of quarter;
- List of individual claims (Life, Accident and Disability) including all relevant claim data (claim date, payment date, beginning reserve paid amount and ending claim reserve amount);
- List of all participating policies;
- List of local brokers;
- List of currency exchange rates.

Each quarterly statement includes local experience data converted to the contractual currency according to the Financial Times exchange rate at the end of each quarter.

The Q4 report contains annual consolidated figures, as the sum of all previous quarterly statements in contractual currency as at the end of each respective quarter, without an annual contractual currency re-calculation.

In addition to this, GEB has created a range of BI tools, both off and online, to further enrich the analytical features of this product.

7. Treatment of Reserves and Deposits

Under the Retrocession Agreement terms, the following reserves on a country by country basis are reported in each quarterly reinsurance statement:

- Unearned Premium Reserves;
- Outstanding Claims Reserves;
- IBNR Claims Reserves.

For most countries all local reserves are managed on a funds withheld basis, that is to say, all deposits corresponding to these reserves are held by each ceding carrier.

However, with the provision of financial collateral in the form of a Letter of Credit, the client has the option of the local deposits corresponding to Outstanding Claim Reserves and IBNR Reserves being transferred to the captive company, depending on local regulations and market practice.

In such event, the captive must provide a financial collateral to guarantee the debt undertaken towards the fronting carrier by retaining its deposits, in the form of a yearly renewable Letter of Credit for a face amount equal to the total value of the deposits being transferred.

8. Collateral

Admissible forms of collateral to guarantee the captive company's solvency in respect of all risks fronted by Generali are:

- Parental Guarantee
- Letter of Credit

Any additional measures implemented to strengthen a captive's solvency position, such as an independent credit rating or specific external reinsurance protections on the captive's overall risk exposure (such as Cat XL) may reduce the amount of required collateral, but will not be accepted as a replacement to the Parental Guarantee or Letter of Credit.

in this issue…

The typical Letter of Credit face amount is 3x annual premium, annually renewable with an evergreen provision. Acceptance of the LoC is subject to evaluation of the issuing financial institution's own credit worthiness and again this level might vary in accordance with the captive's risk profile and existing reinsurance protections.

9. Advantages

There is a wide variety of literature available on the advantages for a corporation in setting up its own captive, however in our context we shall focus on the value-adding services that GEB has been consistently delivering to its customers:

- Local underwriting expertise

GEB's network carriers underwrite EB risks pertaining to local subsidiaries of captive clients with the same prudence and technical expertise as they would for any fully retained risk. Their knowledge of local market conditions and technical indicators is an asset for the captive.

- Central underwriting control

GEB Regional Offices along with the central underwriting team in Brussels review and certify each local quote taking into account the overall underwriting result of the global captive program and the client's expectations and instructions in terms of local underwriting strategy.

In this capacity, GEB effectively acts as the captive's consulting underwriter.

- Fully compliant local insured Employee Benefits contracts

The advantage of relying on the GEB Network as the fronting vehicle for locally insured EB plans is that each local contract is always issued on a fully admitted basis, thus benefiting from the best possible fiscal treatment and complying with local fiscal, social and labour law provisions.

- Relationship management of local subsidiaries, captive company, parent company and their brokers and advisors

GEB provides the captive with a single point of contact, through its dedicated customer care team in each GEB Regional Office, in order to effectively address any issues pertaining to existing contract maintenance and business development opportunity.

- Best in class Business Intelligence tools

GEB's range of BI tools and services, such as interactive captive reports, between-quarter reports, analytical tools and online solutions is unmatched in the market.

in this issue…

- Client's access to own section of GEB CRM system

GEB has recently developed a Customer Relationship Management online tool which can be customized to each client's need and provide additional information on its captive program.

- Transparent risk fronting and fee structure

GEB's captive accounting is based on a streamlined Profit & Loss format which reflects the underlying Quota Share risk transfer mechanism. This approach provides full transparency and accountability of data.

Our fee structure, which includes a breakdown of local reinsurance commissions and central network charges, is equally transparent. With GEB there are no hidden costs or set up fees.

- Effective reinsurance protection on fronted risks

As highlighted earlier, GEB's comprehensive reinsurance wrapper on its fronted risks, which includes a fully customizable Surplus, aggregate Stop Loss and Catastrophic Excess of Loss, is an effective way to help captives manage their risk appetite.

All GEB deliverables are guaranteed, and all KPI's and financial penalties pertaining to each GEB service can be formalized via a Service Level Agreement.

10. Fees

GEB's fronting fees are among the most competitive in the market, and they are transparently indicated in each quarterly retrocession statement as:

- Local reinsurance commissions, variable by country and line of risk, as stipulated in each local reinsurance treaty between the issuing carrier and the fronting vehicle;
- Network fronting fees, calculated according to total ceded premium volume, number of countries and distribution by line of risk.

These fees include both a charge for GEB's administrative services and the cost of capital incurred by the fronting vehicle when setting aside the solvency margin required by the transfer of risk towards the captive.

Both local and network fronting fees are deducted from the quarterly underwriting result payable to/from the captive.

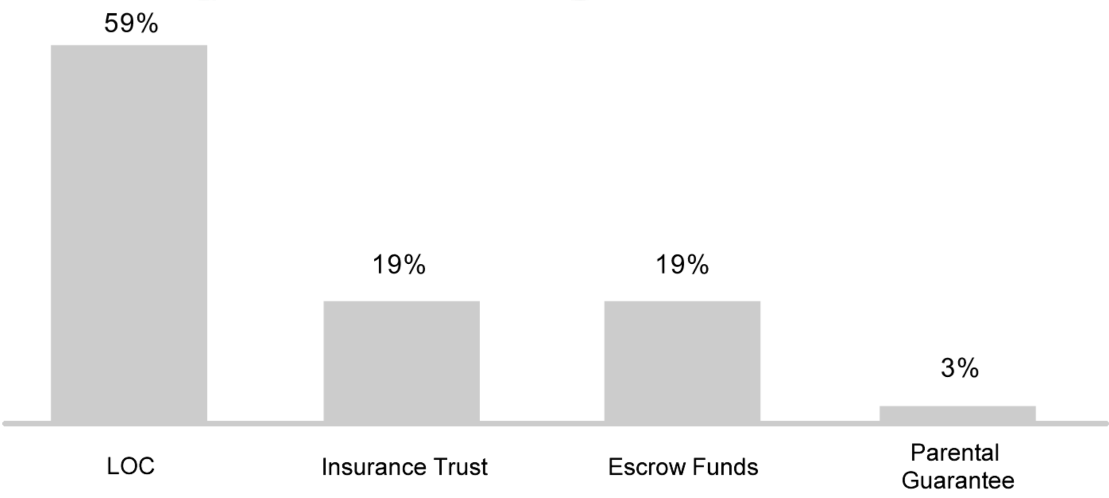
in this issue…

Captive Solvency and Collateral

As mentioned earlier, captives are fully fledged insurance companies, which like any commercial insurer are financial entities at risk for the lines of business they write and their overall economic capital. Captives, whether direct insurers or reinsurers, are therefore generally subject to fairly tight solvency provisions irrespective of their domicile of choice. Nevertheless, in its relationship with the fronting network, a captive is often required to provide a guarantee on its solvency with regards to the risks it has reinsured.

This solvency guarantee is also known as “collateral”, and the act of pledging certain captive assets against the risk of captive default is referred to as “collateralization”.

At present, the most widely utilised forms of collateral are Letters of Credit (LOC), followed by Insurance and Escrow Funds, and Parental Guarantees.



(“Single Parent Captive benchmarking: capital & collateral” – Marsh Inc., 2010)

The choice of the preferred collateral is complex and often determined by the collateral’s cost, especially in times when these costs rise as a consequence of economic volatility: for example, the ever-rising costs of a LoC, due to stricter capital requirements imposed on financial institutions under the new Basel II rules, whereas Insurance Trusts are often seen as a perhaps less acceptable, but cheaper alternative.

in this issue…

Captives and Solvency II

The pending implementation of Solvency II in Europe and the introduction of Solvency II-equivalent provisions in other traditional captive jurisdictions abroad, which had traditionally offered a more lenient regulatory environment in terms of captive solvency, have prompted captive owners to review their solvency strategy and reserves.

With the relative increase of EEA-based captives, comes a first conclusion that, in accordance with the European Solvency II Directive (recital 10, articles 13(1) and (2) and article 14) the Solvency II regime will apply to EEA captives in broadly the same way that it will apply to other EEA insurers and reinsurers.

Likewise, non-EEA based captives writing risks originating in the EEA, as well as captives based in non EEA jurisdictions which are owned by, or operate for, corporations domiciled in the EEA, will be indirectly affected by Solvency II. In particular, those captives may be required, for commercial or regulatory reasons, to alter their fronting arrangements and (perhaps) pay higher fees for the cover and services provided by the fronting insurer, since their risk profile and the corresponding supporting capital might not have been "sanctioned" by a full Solvency II-equivalent test.

The above considerations outline the fundamental principle of Equivalence associated to the implementation of Solvency II: many non-EEA jurisdictions are in fact considering the adoption of a Solvency II-compliant, or "equivalent", regime, in order to attract and/or retain captives established in their domicile, whilst maintaining a fiscally attractive regime.

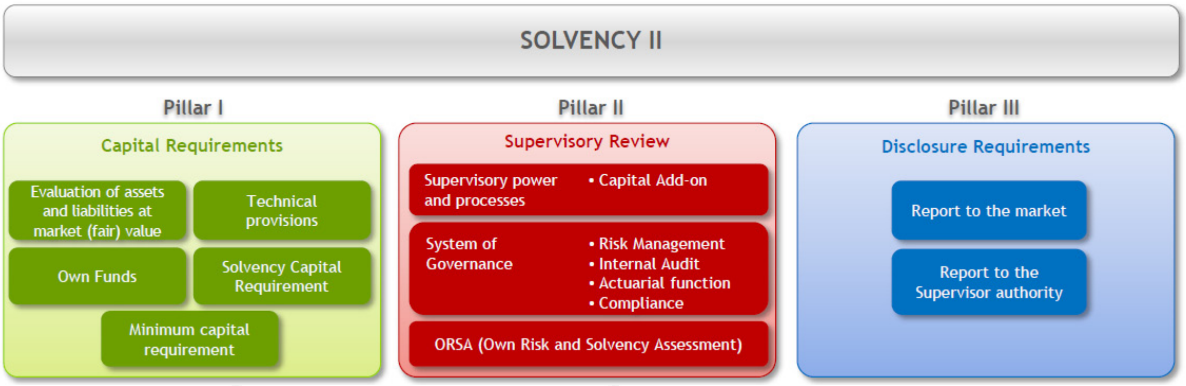
Currently, Switzerland, Bermuda and the US are being considered for the first Equivalence test, with Japan possibly following. A notable exception to this pattern is the case of Guernsey, where the local financial authorities recently declared that there are no plans to seek Equivalence, as the current solvency regime will instead continue to be aligned with IAIS regulatory standards.

The implementing guidelines of Solvency II do not differentiate between commercial insurers/reinsurers and captives. This means that some provisions implied both under Pillar II and III and, perhaps most importantly, their impact in terms of capital requirement (Pillar I, see diagram below), are seen as "overkill" in the context of captives.

For example, one of the aims of Solvency II is to pursue customer protection, in order to ensure that individual customers across Europe are treated with the utmost fairness and integrity.

Now, virtually all captives do not write retail, individual business, and as such the above concern may not apply to their operations.

in this issue…



To address this and other issues, captive operators are invoking the principle of Proportionality for the implementation of Solvency II rules: the ECIROA (European Captive Insurance and Reinsurance Owners' Association), in coordination with other industry representations from major brokers and consultants, as well as risk management associations, has recently issued a position paper to the various Ministries responsible for the implementation of Solvency II, arguing precisely that

"The proposed standard formulas, when applied to captives, result in much higher levels of prudence for captive undertakings than for commercial insurers and reinsurers because the current formulas are not adapted to the business model of captives. Both the formulas and the corporate governance principles need to be simplified and aligned to the captive business model." (ECIROA et al, "Letter to Ministries", January 26, 2010)

This notwithstanding, and taking into account that captives will be affected by Solvency II to different degrees, whether they are established in an EEA territory or abroad, it is fair to say that in general the introduction of Solvency II is seen favourably by the great majority of captives and their owners.

Author: Marco Giacomelli, GEB Chief Operating Officer

in this issue…

What do GEB Clients think of Captives?

Aware of the general lack of information on the world of captives when it comes to Employee Benefits and stirred by the will to better serve its clients, GEB carried out a survey to gather valuable feedback to optimise this sophisticated product and make it even more appealing for existing and prospect customers. Below you can find a summary with the comments that our clients kindly provided us with.

1. **What do you think of the development trend of the captive operating model in the EB arena?**

All respondents agree that there has been a growing interest from multinationals in using their captives to finance Employee Benefits as more and more risk and compensation managers get involved. As other networks notice this trend, they are absolutely willing to undertake this kind of business too. “We see the captive model as the best way to achieve our financial targets and keep the flow of information on a higher level”, Mr. Reichel, Head of Group Insurance at **Adidas Group**, commented, “We oversee almost all EB contracts globally via our central approach.”

The global healthcare spending is increasing at an unsustainable rate and it is a general statement that captives are a valid tool that can help tackle the problem: having an “internal” insurance company delivering claims data and analysis to local business units allows a much more constructive and transparent dialogue around problematic trends and potential solutions.

According to all our interviewees, the captive involvement in EB schemes has a significant future growth potential. As a general trend, small captives focused on limited classes of risk are evolving towards more complex captives with wide and mixed portfolios of risks, including programmes structured at corporate level (network agreements) with pre-selected carriers, in order to benefit of less cost of service.

2. **In your opinion, will Solvency II new quantitative and qualitative requirements have an impact over the captive business model?**

Mr. Cosimi, Insurance VP at **Saipem Corporate**, emphasizes how “Solvency II has raised the bar in terms of capitalisation and regulatory requirements which will cause insurance and reinsurance companies – thus including captives – to face additional capital needs and review their solvability threshold.”

On the other hand, if internal expenses and capital requirements increase, captives may be looking to diversify and write additional lines of business in order to help offset costs and ensure that the financial advantages of a captive programme still justify the efforts. Employee Benefits could become attractive to more captives as a source of additional premiums. “With an increased awareness of inherent EB risks and the underpinning risk drivers”, Mr. Helmbold, Global Benefits Manager at **Syngenta International**, added, “we see yet unexplored opportunities to shape portfolios and combinations with risk transfer products to better manage capital requirements for this risk segment.”

in this issue…

3. What are the predominant features an insurance network must present in today's business environment to attract the interest of a captive client?

According to the survey, GEB clients proved to have a clear mindset of what they are looking for in an insurance network.

A strong global presence that matches the client's geographical footprint is the starting point for a good network that must be able to guarantee high quality service at local level.

Additionally, the capacity of a global network to deliver reliable data in due time is another fundamental condition for all our captive clients.
Another relevant feature is a good governance both at central and local level, together with the capacity of the network to prove its flexibility when it comes to support individual clients' needs.

4. Are new reporting trends surfacing in the market place?

On a general note all GEB clients emphasize how the industry needs to follow up with Information Technology in order to supply valuable and consistent reporting.

Mr. Reichel from **Adidas Group** underlines that "The most common reporting tool is still represented by simple Excel spreadsheets, which is not a favourite among clients who require more innovative software solutions".

"Expectations on reports' content are becoming more stringent", as Mr. Breutel, Head Insurance at **Syngenta** summarized, "more details and transparency are required to also satisfy audit requirements and allow clients to live up to risk governance regulations. The need to better manage claims data will be even more evident under Solvency II – in particular with respect to Pillars 2 and 3".

Mr. Prévost, **Nestlé** S.A.'s Deputy Risk Manager, summarized the main features required by the market's current reporting trends as follows: "More data quality, more speed in providing the information by the agreed deadlines, and also more predictability in how premiums may evolve in the future for budget purposes."

in this issue…

5. At the time the relationship was formalised, what were the main driving factors to choose Generali as a captive vendor?

The main driving factors that emerged from the survey reflect Generali's features in the management of Employee Benefits. Generali's excellent reputation on the market certainly plays an important role. "The factors that have driven our decision to choose Generali", Mr. Cosimi from **Saipem** commented, "were mainly connected to the well-established relationship with the parent group of companies and Generali; in this respect the cooperation is aimed to maximise the opportunities that Generali can offer worldwide, including the reduction of acquisition costs for the captive by decreasing the number of ceding companies".

Through its leading position on the market, Generali has developed a deep understanding of all captive requirements and a sound expertise that is put at the clients' service day by day. Flexibility, professionalism, financial strength and a strong approach of GEB's Head Office towards its Network partners are only a few of the reasons that led our clients to choose Generali as their captive vendor.

GEB Editorial Office would like to thank all clients who shared their precious feedback on captives with us.

in this issue…

Bibliography

"Business Insurance", August 2009

"The John Liner Review", Vol. 14, No. 1, Spring 2000

"Risk Management and Insurance Audit Techniques", Levick, Dwight E., Standard Publishing Corporation, Boston

Wragge & Co LLP, 55 Colmore Row, Birmingham, B3 2AS

"Why Dream of Captives in Today's Insurance Market?", N. Shpritz, A. Calder - Liberty Mutual Group

"Captive Review", April 2010

"Captive Insurance Companies", P. Theriault, Wilmington Trust SP Services, VT, Inc.

"Single Parent Captive Benchmarking", Marsh, 2010

"Interim Domicile Update – January 1 - July 31, 2010", www.captive.com

"Captive 101: managing cost and risk", Towers Watson

"European Captive Insurance Market Review", A.M. Best, 2009 Special Report

"Solvency 2 to transform the European captive industry", A.M. Best, 2011 Special Report

"Solvency 2 Position Statement", Guernsey International Finance Centre, January 2011

in this issue…