

Captive Insurance Solutions

Understanding the how, where and why



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Who we are and our long history serving the Captive Insurance market



Captive insurance companies (“Captives”) continue to be an extremely important element of the general insurance industry. There are over 7,000 captives globally with over 70 domiciles having captive legislation in place. Captives are an important part of the risk management toolkit for major corporations. Approximately 80% of the S&P 500 companies have their own captive subsidiary.

The Caribbean is home to two of the largest domiciles for captive

insurance registrations in the world – The Cayman Islands and Barbados. As organizations’ understanding of risk deepens and their strategies become more sophisticated, companies have increasingly seen the benefit of adding captive insurance structures to their corporate risk management toolkit. RBC is proud to have supported the Captive industry in our markets for over 20 years. Serving over 200 clients, North American companies from across a wide cross section of

industries, have turned to RBC to support their captive insurance companies in the Caribbean. From assisting with fronting requirements through letters of credit structures to banking and investment products, we have the resources, the expertise, and them experience to ensure that you are provided with a first-class holistic solution.

Reasons for Establishing a Captive

1. Reduction in premiums

Probably the most common reason for establishing a captive is to minimize overall costs of risk and risk management. Insurance purchased in the conventional market includes an allocation for the insurer's overheads and profits, which is expected on average to be about 30% of the premium. Many insurers purchase coverage through the traditional distribution system, which often includes significant friction costs. For example, the premiums paid to the insurance broker can be subject to a commission of 10% before being passed to the insurer. The latter will assume some, often a small portion, of the risk, then purchase reinsurance coverage. The premium for this is paid to a reinsurance broker who takes a commission of 15%-20%. Many reinsurers will seek retrocession protection again through a broker. Establishing a captive often eliminates at least one layer of friction costs at material savings.

Other cost reduction opportunities include:

- Establishing the captive as the insurer or direct writer. This reduces the commission costs associated with commercial insurance companies.
- Incurring the costs of its affiliated risks without sharing the poor experience of other insurers. Commercial insurers have to factor their overall



pool of risk into the premiums charged to any one insured.

2. Insuring the uninsurable

Some captives have been formed because coverage – for example for a new or potentially hazardous product – is either unavailable in the conventional market or is only available at an unacceptably high price. Other examples include inadequate conventional coverage availability for environmental pollution, medical malpractice and natural catastrophes.

3. Controlling your own insurance program (i.e. stability of premiums)

The insurance industry is subject to considerable cyclical changes in which excess capacity leads to competition resulting in decreased premium rates and subsequently high loss ratios. This results in increased rates and reduced capacity, which may cause some types of coverage to be unavailable until increased capacity re-establishes a market. This sudden unavailability or excessive cost of the required coverage may cause insureds to contemplate the establishment of a captive. A captive can create a stable base from which the insured can be confident in obtaining coverage, irrespective of the commercial market offerings, and pricing control.



4. Positive impact on risk retention, risk management and loss control

The assumption or retention of its own risk within certain limits is attractive to a company with a better loss history than its industry's average. The existence of good risk management capabilities and the use of risk management tools, such as intensive claims analysis, related loss prevention and other control methods, can maintain and improve loss profiles and cost.

5. Cash flow benefits

The insurance industry has traditionally relied upon investment income to supplement its often negative or modest underwriting results. Investment income is generated primarily from funds held as unearned premiums and reserved but unpaid losses. Premiums are usually paid in advance, often annually, while

claims tend to be paid out over a period of time, the length of which depends on the type of business.

6. Direct access to the reinsurance markets

Another benefit resulting from establishing a captive is its ability to gain access to the international reinsurance market – the wholesale market for insurance. As well as avoiding possibly one layer of friction costs and commercial insurance company costs, the insured is able to present its case face to face with the main risk taker. The reinsurance markets are generally financially stronger and more sophisticated than the primary market. These presentations allow the insurers to better understand the nature of the insured risks. This has proved to be one of the most significant benefits of captive insurance.

7. Diversification to develop into a profit centre

Another reason for establishing a captive is to diversify into open market insurance services and operate as a separate commercial profit centre. Although the primary reason for forming a parent-only captive is usually to reduce insurance costs, an ancillary benefit may be the generation of profits from unrelated business. However, the underwriting of such business also exposes the company to less controllable underwriting

losses. Successful examples of such captives indicate that some underwriting control by the parent, including a professional selection of business underwritten, is desirable.

8. Potential tax benefits

The subject of tax planning in connection with the use of captives is a complex one and antiavoidance tax legislation now exists in many countries. Consequently, expert legal and tax advice must always be sought in advance of establishing a captive insurance subsidiary. As indicated above, the establishment of a captive insurance company should always be determined by its viability as an insurance operation, independent of any tax consideration, which should be viewed as incidental.

9. Consolidation of deductibles

A captive may be used to centrally retain risk at a level that a group as a whole can afford, while allowing operating units to retain only those levels which they can individually afford.

Conclusion

A detailed feasibility study should always be conducted and should include proper consideration of all risk funding alternatives. Such studies are typically completed by an insurance company that specializes in this area.

Benefits

Our Caribbean based team provides customized solutions to more than 200 captive insurance companies domiciled in key captive insurance jurisdictions including Cayman and Barbados.

Tailored, bundled, industry-specific solutions delivered through a dedicated specialist Relationship Manager:

- ✓ Access to banking, credit, and investment products, including online access
- ✓ One of the leading providers of credit solutions to the Caribbean captive insurance sector
- ✓ Industry specialists in both Jurisdictions
- ✓ Expertise in adapting to regulatory changes and associated business needs
- ✓ Robust banking platform leveraging the strength and stability of RBC's global network.



Investment Solutions

RBC Caribbean Guaranteed Return Term Deposits

Put your excess capital to work, while protecting it, with a Guaranteed Return Term Deposits. Your interest rate is guaranteed, so you don't need to worry about changes in the markets or the economy.

- ✓ Both principal and interest payments are guaranteed
- ✓ Can be used as collateral to support your letter of credit requirement for your fronting insurance provider

✓ A great variety of product features, terms and interest payment options are available

- ✓ Available in USD or CAD
- ✓ Automated renewals along with annual statements and maturity notices so that you can keep track of your investments
- ✓ Option to roll over principal only or principal plus interest earned
- ✓ Flexible investment terms—ranging from 90 days to 13 months

RBC Caribbean, through its affiliates, can also help you with:

Dual Currency Deposits

Make deposits in a foreign currency at a fixed rate of interest and receive your principal and interest either in the currency of the initial deposit or in another agreed-upon currency.

Sovereign Bonds and Corporates

Receive trade ideas and purchase government bonds or corporates issued in local or foreign currency.

RBC Wealth Management Affiliation

Benefit from award-winning research and strategy using our Wealth Management platform. For a more sophisticated approach to investing, RBC Caribbean can leverage the

expertise of our Global Wealth Management platform which opens access to Discretionary or Advisory Investment Management solutions based on the current stage of your captive's life cycle and its stated risk appetite.

Your advisor—who helps you realize your goals for growth, income and capital preservation—is supported by several global teams that help identify investment opportunities in today's ever-changing markets.



Letters of Credit

Backed by the financial stability and strength of Canada's largest financial institution¹, RBC Caribbean can provide competitively priced and flexible letters of credit to captive insurance companies and managers. Our solution meets the standards established by the National Association of Insurance Commissions (NAIC) and other

regulatory bodies. We have been supporting captives with letters of credit to capitalize captives or meet the security requirements of ceding/ fronting companies and regulators. Our credit experts understand the market and can provide letters of credit in favor of your fronting insurer, whether in the USA or Canada.

¹ Based on market capitalization as of April 30, 2021.

Day-to-day banking solutions

We understand the need to safely and conveniently access your funds to run the day-to-day operations of your captive. Led by your local relationship manager, your banking needs are met by a dedicated team of captive specialists on the Island.

Our banking services include:

Current accounts in USD or CAD

International payments to most points of the world through our global interbank network of approximately 3,500 correspondent banks

Online Bulk Wire capability allows you to send up to 200 wires in one transaction file

Online access to all captive accounts

Foreign Exchange

Deal in foreign currencies and reduce exchange rate risk.

RBC Caribbean Treasury and your Captive Insurance Team work closely with RBC Capital Markets to tailor innovative and attractive solutions to your foreign exchange exposures. We provide our clients with easy, efficient and affordable access to spot, forward and some hedging products in most major and minor currencies.

Our team can provide foreign exchange market information, competitive pricing and swift order execution. Our goal is to

help your business guard against currency fluctuations with solutions customised to suit the

volume, size, timing, currency pairings and market sensitivity of your transactions.



Other ways you can transact your business

Details

Spot Transactions

Lock in your rate on the day you transact your business even if you are transacting with countries in different time zones.

FX-All major currencies

Buy and sell all major foreign currencies at excellent rates.

Interest Rates Swaps*

Protect from rising interest rates in any major (G7) currency.

Commodity Hedges*

Protect from increasing commodity prices eg. Oil.

* Available through our RBC Capital Markets Partners.

Regional Office Locations

Barbados

**RBC Global Business
Royal Bank of Canada**

Building #1,
Chelston Park,
Collymore Rock,
St. Michael,
Barbados.

The Cayman Islands

**RBC Global Business
Royal Bank of Canada**

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