

CASE STUDY: CAPTIVE REFEASIBILITY STUDY FOR FORTUNE 500 ORGANIZATION

The Challenge

Alera Group was requested to undertake a captive refeasibility study for an U.S. based multinational manufacturer of appliances with over 90,000 employees and annual sales of over \$20 billion. The organization had multiple captives and wanted to undertake the study to optimize the use of its captives and capital. The objective was to explore new opportunities to grow and capitalize the captive in light of the new regulatory and business landscape. The study aimed to explore better potential use of capital and possible opportunities for the captive and ways to add value to the shareholders while providing additional flexibility to the parent.

The Strategy

We undertook an Alera Group CARE evaluation of their current program and examined a number of alternatives, which could be placed in the captives. Our findings encompassed both Property & Casualty and Employee Benefits – guaranteed cost, loss sensitive products, self-insurance and captives. We identified potentially profitable lines by conducting an extensive evaluation using the Alera Group CARE evaluation matrix.

In the captive feasibility process, our actuaries and consultants looked at several years of experience data, including premiums, claims, expenses and exposures. We examined the enterprise impact including the Balance Sheet, Income Statement, Cash Flow, presenting results from different perspectives and entities (corporate parent, captives, subsidiaries) using industry benchmarks (A.M. Best's, etc.). We calculated the optimum retentions, volatility, capital requirements and more. The actuaries calculated the expected savings that would result from adding the various lines of business in the captives. Further, we also evaluated the best way to use all the captives based upon their domiciles and current business placed through them.

We undertook our analyses taking into account various factors such as cost of capital, internal hurdle rates and various other factors such as:

- Retention Levels
- Impact on Parent/Subsidiary
- Average cost of capital
- Cost of risk
- Domicile comparison
- Reinsurance retention levels
- Overall risk appetite and profile impact on accounting and tax – we worked with the manufacturer's accountant to help assess impact

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We viewed both Property & Casualty

- Workers' Compensation
- Product Liability
- General and Auto Liability
- Portfolio Transfer of Outstanding Casualty Reserves
- Product Liability Retention
- Property Insurance Deductible Buy-down
- Non – insured Business Interruption
- Medical Stop Loss
- Product Safety / Recall
- Trademark / Patent Infringement / Cyber
- Trade Credit
- Extended Warranty
- Reputation/Brand
- Aggregate stop-loss
- Third Party Supplier Product Liability
- Employee life insurance
- Employee AD&D
- Employee long-term disability
- Retiree medical care
- Multinational benefits pooling
- Employee pensions
- Voluntary benefits

Results

The result of the Alera Group CARE evaluation was that the manufacturer could add a number of additional lines to the existing captive with the existing level of capitalization. Additionally, with the various captives in the mix the manufacturer could utilize the additional flexibility to take on coverage for risks that were not being offered in the commercial markets. Further, the captives offered them the opportunity to negotiation with the current insurance carriers. We helped the company develop a 5-year business plan along with benchmarks to ensure timely implementation of suggested lines of coverage. Year 1 objectives for implementations have already been done been achieved and we are continuing to advise the company on the ongoing implementation.