

Session 4

FINANCING INTERNATIONAL
EMPLOYEE BENEFITS
THROUGH CAPTIVE INSURERS

Monday, October 14, 1991

2:00 p.m.

NEW USES FOR CAPTIVES

Michael Ponicall
Towers Perrin
245 Park Avenue
New York, New York 10167

Telephone: (212) 309-3567
Fax: (212) 309-3730

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*Financing International
Employee Benefits
Through Captive Insurers*

New Uses for Captives

October 14, 1991

RLMS -- Monte Carlo

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Agenda

- Captive reinsurance alternatives
- Approach to determine feasibility of captive usage
- Case studies

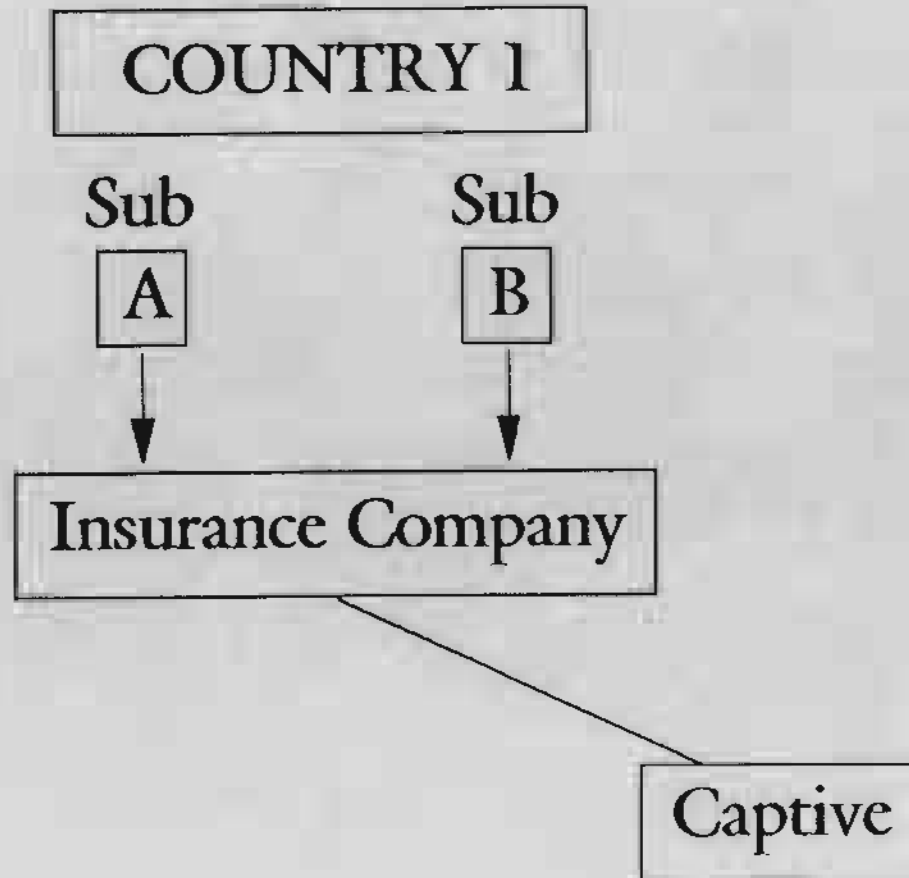
Captive Reinsurance Alternatives

- "Surplus Reinsurance"
- One country reinsurance
- Multi-country reinsurance
- Multinational pooling reinsurance

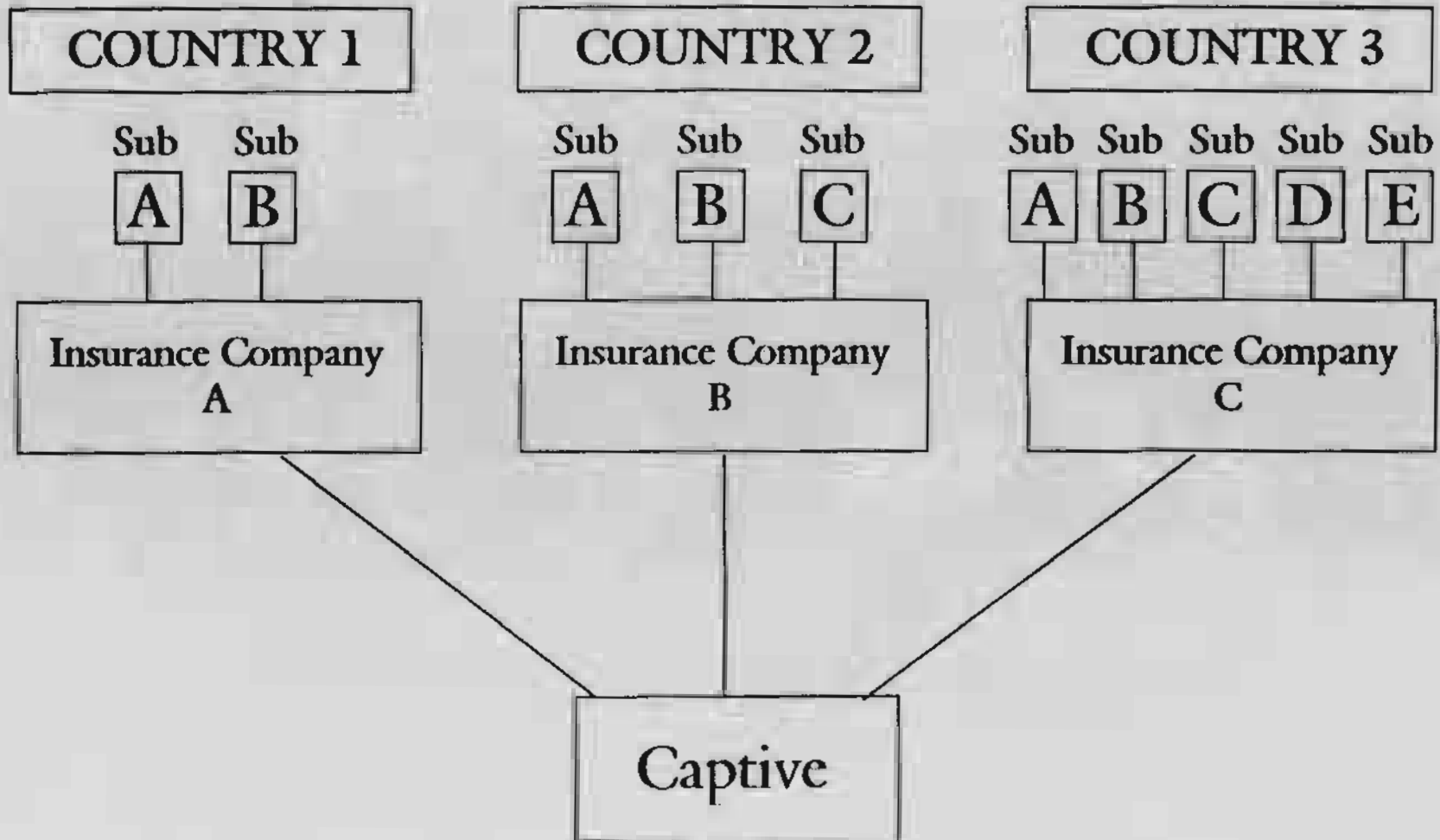
Surplus Reinsurance

- Arrangement offered by most multinational poolers
- All or part of surplus (dividend) transferred to captive
- Captive holds and serves as reinsurer

One-Country Reinsurance



Multi-Country Reinsurance

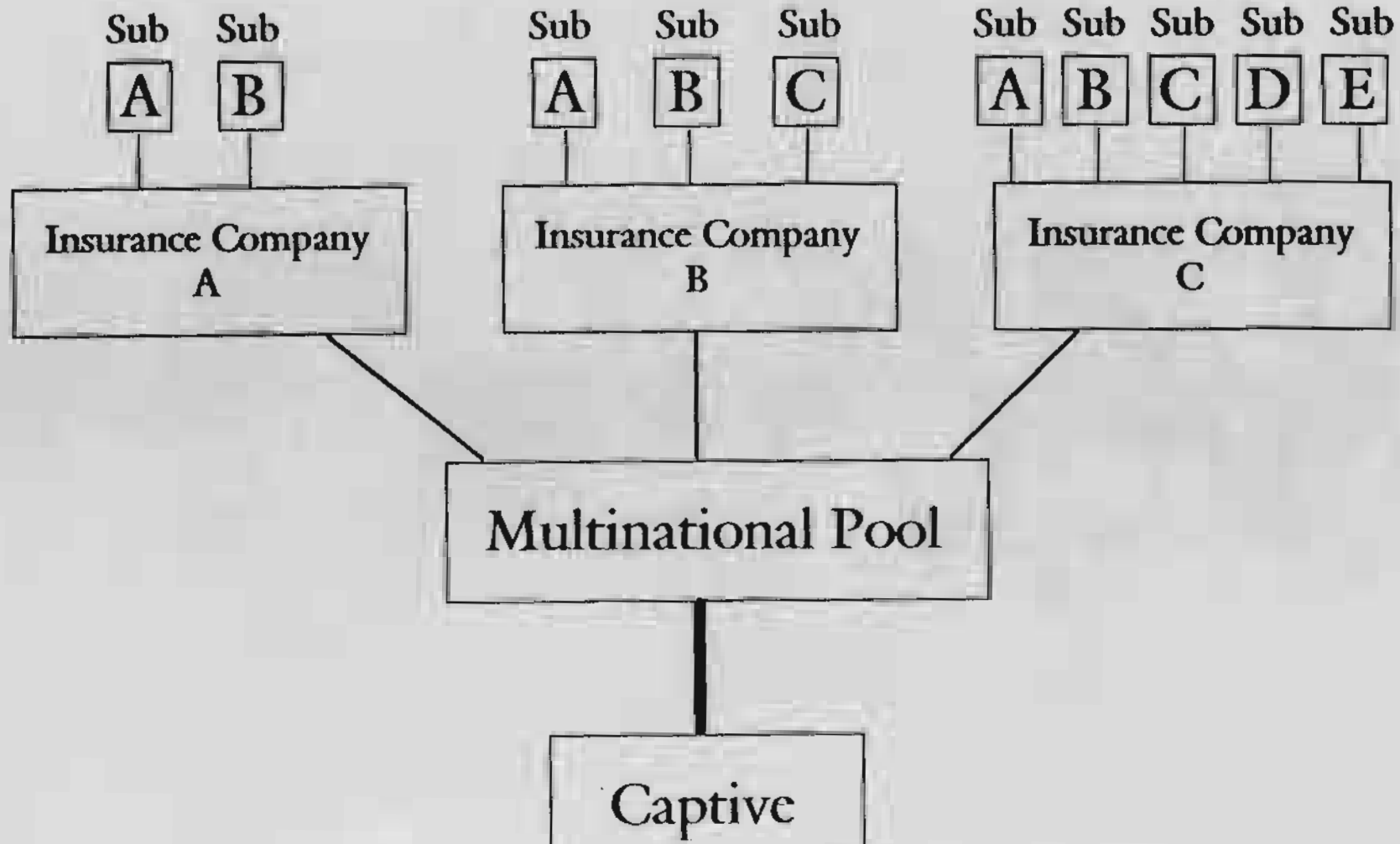


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Multinational Pooling Reinsurance



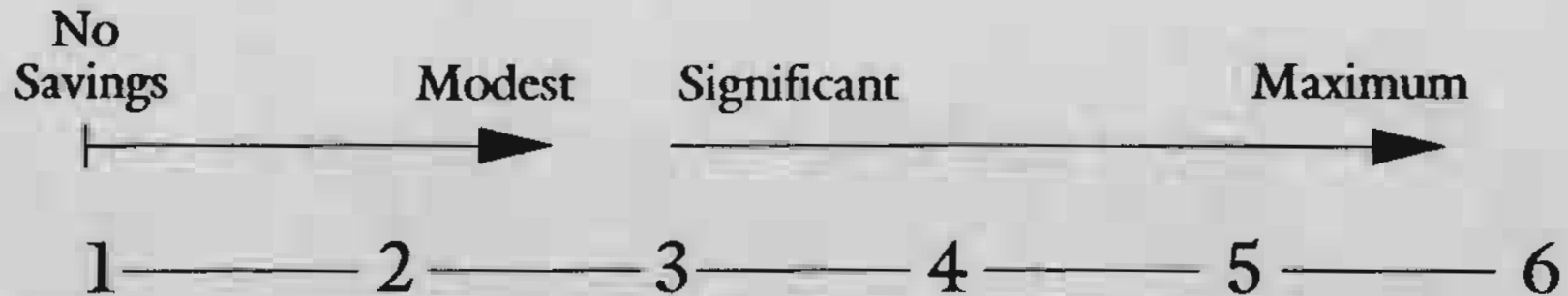
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Feasibility Determination

Financial Improvement Scale



1. No pools
2. Traditional pooling
3. Client pool(s) (negotiated improvements)
4. Client pool(s) reinsured to central reinsurer
5. Pool(s) reinsured to captive
6. IASO with captive no local reserves

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Level 2 -- Traditional Pooling

- Local contracts moved to network partners
- Coverage "pooled" via multinational reinsurance agreements
- Terms and conditions dictated by poolers

Level 3 -- Client Pool

- Client dictates terms and conditions
 - reduced retention
 - reserve release (IBNR)
 - pre-payment of local and MN dividends

AND/OR

- Local self insurance

Level 4 -- Central Reinsurer

- Same as level 3, but ...
 - reinsured to domestic insurer
 - result = minimal risk charge

Level 5 -- Captive Reinsurance

- Client captive serves as reinsurer
- % of risk premiums is ceded to captive
- All risk is transferred to captive and (in some cases) reinsured
- Reserves (IBNR and claims) transferred to captive

Level 6 -- IASO

- ASO with administrative fees based on services
- All other aspects as level 5

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Feasibility Determination Methodology

Step 1 Determine where you are now

- Present insurance arrangements
- Premiums and insurance costs
- Reserves?

Step 2 Financial analysis to determine potential savings and means

- Via multinational pooling
- Via captive reinsurance

Step 3 Review financial projections to determine optimum strategy

Factors

- Degree of control
- Cost containment objectives
- Captive objectives

RJR Nabisco Experience

Background

- 35 countries; \$3,500,000 premium; 26,000 employees
- 4 pools
- Combined retention 17.9%, return 24.9%

RJR Nabisco Experience

Objectives

- Consolidate to one or two pools
- Maximize use of RJR Nabisco captive
- Minimize insurance expense
- Eliminate risk charge
- e.g., move from stage 2 ==> 5 (6)

RJR Nabisco Experience

Results

- 2 pools
- 75% of premium ceded to captive
 - premium loan
 - 1/4 or 1/2 yearly settlement
- Reduced administrative charge
- Release of all reserves to captive (where legal)
- No risk charge
- Annual savings \$450,000 p.a.

Case Study #2

Background

- 25 counties
- 2 pools, \$14,000,000 of group insurance premiums
- \$4,000,000 of non-pooled premiums
- Combined retention 13%

Case Study #2

Objectives

- Retain both pools
- Maximize use of captive
- Minimize insurance expense
- Eliminate risk charge
- Move from stage 2 ==> to 6

Case Study #2

Results

- 100% of risk premium, \$12,000,000 ceded to captive
- Insurers have call on captive via electronic funds transfer
- Reduced administrative fee
- No risk charge
- Release of all claims reserves with all risk reserves transferred
- Estimated annual savings \$4,000,000