



# Artex

## Alternative Risk Financing Strategies

Presentation to



# About Artex



500+  
employees

15+  
global offices

Licensed in 30+  
global domiciles

Word's 3<sup>rd</sup>  
largest insurance  
manager

30+  
years proven  
experience

1,500+  
risk bearing entities  
under management

\$8bn+  
Client premiums

\$80bn+  
assets under  
management

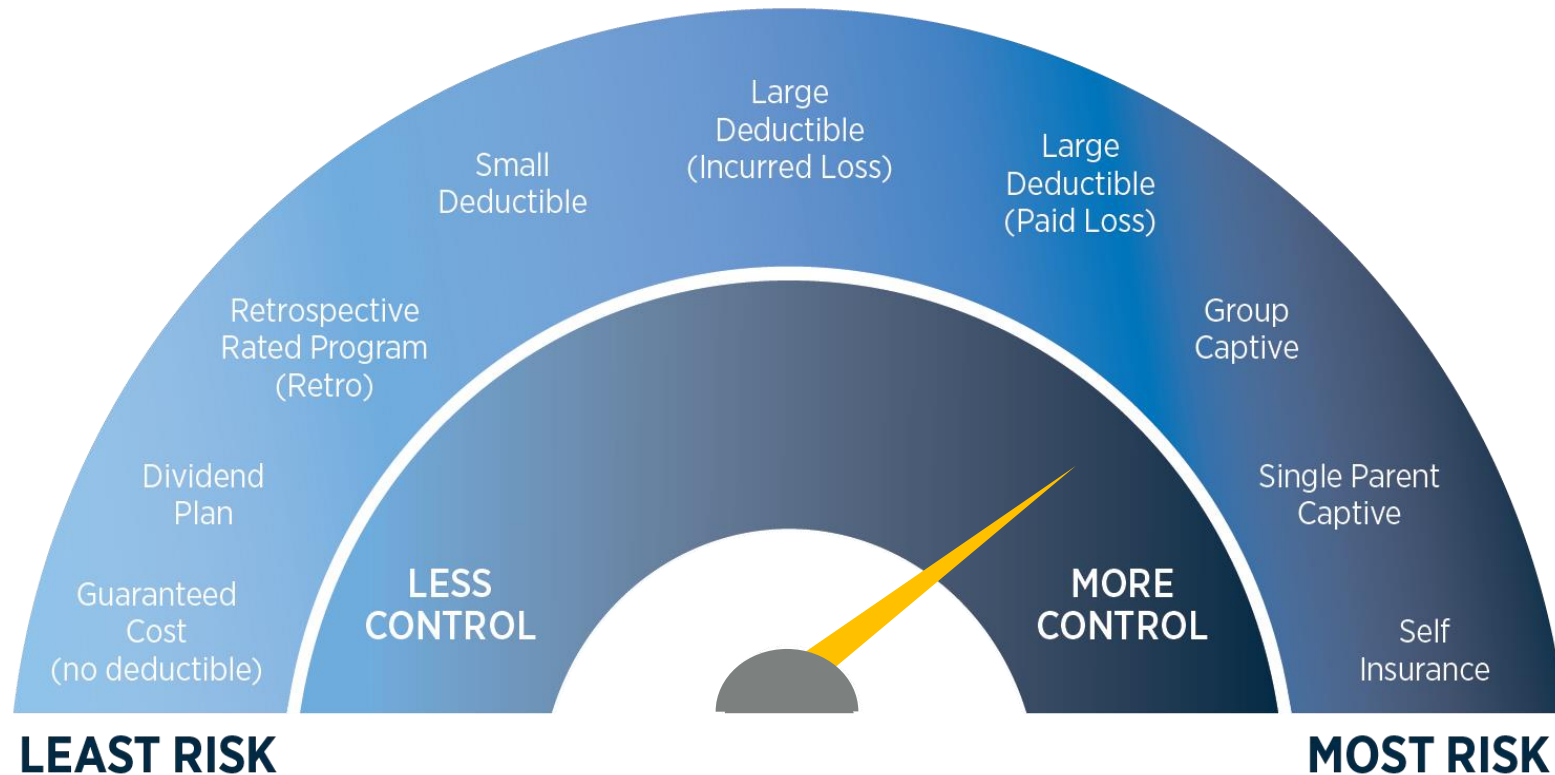
100%  
wholly owned  
autonomous  
subsidiary of one of  
the world's largest  
insurance brokers

# Risk

*The word “risk” derives from the early Italian “risicare”, which means “to dare”. In this sense, risk is a choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being”*

*- Peter L. Bernstein, “Against the Gods”*

# The Risk Control Continuum



# Total Cost of Risk Analysis

Retention Level	Comm. Premium	Exp. Losses	TCOR
Scenario 1	(x)	\$1,000,000 (a)	(x) + (a)
Scenario 2	(x) – (y)	\$1,750,000 (b)	(x-y) + (b)

- Optimal retention where  $(y) > (b-a)$
- But taking into account:
  - Confidence level funding
  - Potential adverse loss experience in 1 or more years
  - Per line or aggregate analysis

# Traditional Self-Insurance/Captive Value Proposition

Academic

$$\begin{aligned} & \text{Losses} \\ & + \text{Expenses} \\ & - \text{Investment} \\ & \quad \text{Income} \\ & \quad + \text{Profit} \\ & \quad \underline{\quad} \\ & = \text{Premium} \end{aligned}$$

Insurance Co.



Self-insurance



# Getting Ready to Take Risk

- Risk mapping
- Economics of risk retention vs. risk transfer
- Protection against catastrophic risk
- Satisfying contractual requirements
- Long-term commitment to paradigm shift
- Financial commitment/discipline for risk funding
- Claims administration/defense
- Risk management/loss prevention



## Captive Insurance, Generally

A licensed, regulated insurance company designed to provide insurance to and owned/controlled by its policyholders and which:

- Manages a Loss Fund
- Pays Losses to Policyholder from Loss Fund
- Accrues Investment Income on Premiums
- Returns Underwriting Profit to Shareholder(s)
- The same 4 things commercial carriers do, but on 1<sup>st</sup> party basis.





# Captive Insurance Strategies



## Types of Captives

- Group Captives
- Rent-a-Captives
- Single Parent Captives

## Why Do Organizations Use Captives?



Creates a mechanism for companies to pay a predictable premium over time to reduce volatility of loss events and protect parent balance sheet.



Allows for better accounting of true Cost of Risk.



Provides a platform for self-insurance that satisfies contractual insurance requirements (fronted captives).



Provides a tool for more efficient distribution of risk among affiliated companies and allocation of premiums.



Direct access to reinsurance markets.



Potential preferential tax treatment of claims expense.

## Captives vs. Self-Insurance Programs

Feature to Compare	SI	Captive
Lower Insurance Cost	Yes	Yes
Tax Deductible Premiums	N/A	N/A
Claims Control	Sometimes	Yes
Asset Protection	No	Yes
Investment Income	No	Yes
Policy Design Control	No	Yes
Access to Reinsurance Markets	No	Yes

# Access to Alternative Capacity

- Direct access to reinsurance
  - Reduced pricing
  - Ceding commissions
  - Larger population of markets
  - More stable access to capacity
    - Shared and layered programs
    - Quota share arrangements
    - Carrier diversification
- Insurance Linked Securities (ILS)



## Other Alternative Strategies



- Risk Pooling
- Risk Retention Group
- Risk Purchasing Group
- Loss Portfolio Transfer (Legacy Liabilities)

## Where to Begin

- Feasibility Analysis - \$\$
  - Actuarial retention analysis
  - Comparative structural analysis (SI, captive, others)
  - Decision making tool, determines expected financial outcome
- If Captive – \$\$
  - Fronting, reinsurance
  - Capital, Corp. Governance
  - Domicile



Questions? Thank You!

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