Captives and the Management of Risk

Table of Contents

Captives and the Management of Risk (3rd ed.)

- Preface
  - Acknowledgement
  - About the Author
  - Frequently Asked Questions (CAPFAQs) Addressed in this Book

- Chapter 1: Introduction: Alternative Risk Financing Mechanisms
  - Defining Alternative Risk Transfer
    - Alternative Risk Financing Mechanisms
  - The Elements of Captive Insurance
    - Choosing To Put Capital at Risk
    - Working Outside of the Commercial Regulated Marketplace
    - Achieving the Insured's Risk Financing Objectives
  - Types of Captive Insurance Companies
    - Pure Captives
    - Industrial Insured Group Captives
    - Risk Retention Groups
    - Sponsored Captives
    - Association Captives
  - Discussion Questions
  - Key Words & Phrases To Understand

- Part 1: Understanding Risk
  - Chapter 2: Insurable Risk
    - What Kind of Risk Can Be Insured in a Captive?
    - The Components of Risk
    - Insurable vs Uninsurable Risk
      - Commercial Insurability
      - Requirement for Underwriting Risk
      - Risk Pooling
    - Underwriting Risk in the ART Market
      - Different Relationships
      - Statistical Predictability
      - Classifying Risk
    - Discussion Question
    - Key Words & Phrases To Understand
  - Chapter 3: Managing Risk
• Risk Management Purpose
• Risk Management Process
• The Captive’s Role in Identifying and Quantifying Risk
  ▪ Measuring Cost of Risk
• The Captive’s Role in Loss Reduction
• The Captive’s Role in Risk Financing
  ▪ Defining the Captive's Purpose
  ▪ Calculating the Financial Impact of Managing Risk
• Discussion Questions
• Key Words & Phrases To Understand
  ○ Chapter 4: Financing Risk
    ▪ Avoidance
      ▪ Noninsurance Risk Transfer
    ▪ Retaining Risk
      ▪ Deductibles
      ▪ Coinsurance
      ▪ Postloss Risk Financing
      ▪ Self-Insurance
    ▪ Ins Risk Financing Plans
      ▪ An Imperfect Risk Transfer Mechanism
      ▪ Guaranteed Cost Insurance
      ▪ Cash Flow Plans
      ▪ Profit Sharing Plans
    ▪ Captives: Risk Transfer vs Self-Insurance
    ▪ Discussion Question
    ▪ Key Words & Phrases To Understand
  ○ Part 2: Captives as Risk Retention Mechanisms
    ○ Chapter 5: Reducing Risk Financing Expenses
      ▪ Differences between Captives & Commercial Insurers
      ▪ How a Captive Can Reduce Costs
        ▪ Reduction in Underwriting Expense
        ▪ Reducing Reinsurance Expense
        ▪ Profit and Administration Expense
        ▪ Reduction in Self-Insurance Operating Costs
        ▪ Use of Filed Rates
        ▪ Improved Cash Flow Control
        ▪ Capturing Investment Income
      ▪ Discussion Questions
      ▪ Key Words & Phrases To Understand
    ○ Chapter 6: The Financial Impact of Captive Insurance
      ▪ Accounting for Risk
      ▪ Smoothing the Financial Impact of Risk
- Taxation of a Captive's Income
  - Tests for Whether the Captive Is Not an Insurance Company
  - Tests for Whether Premiums Are Deductible
  - The "Tax Deferral" Effect
- Discussion Question
- Key Words & Phrases To Understand
  - Chapter 7: Captive Retention Mgmt Policies
    - Increasing Retention Capacity
    - Types of Policies
      - Self-Insured or Deductible Reimbursement Policies
      - Direct Aggregate Excess Liab Policies
      - Retro-Penalty Policies
      - Difference in Limits or Difference in Conditions Policies
      - Deductible Equals Limits Policies
      - A Retention Buy-Down Policy
    - Captive Pools
      - The Benefits of Pooling
      - A Source of Unrelated Risk
    - Integrated Risk Programs
    - Discussion Questions
    - Key Words & Phrases To Understand
  - Part 3: Captives as Risk Transfer Mechanisms
    - Chapter 8: Protecting the Captive
      - Predicting Risk
        - The Loss Development Approach
        - Bornhuetter-Ferguson Technique
      - Rate Making
        - Cash Flow Underwriting
        - Spread of Risk
        - Rate Setting for Unpredictable Risks
      - Limitation of Risk
      - Calculating the Total Amount of Risk Retained
      - Discussion Question
      - Key Words & Phrases To Understand
    - Chapter 9: Captive Reinsurance
      - The Regulation of Reinsurance
      - Types of Reinsurance
        - Facultative Reinsurance
        - Treaty Reinsurance
        - Pro Rata Reinsurance
        - Surplus Share Reinsurance
        - Excess of Loss Reinsurance
- Facultative Excess of Loss Programs
- Retrocessional Reinsurance
- Reinsurance Agreements
- Discussion Questions
- Key Words & Phrases To Understand
  - Chapter 10: Nonconsolidated Options
    - Finite Risk Protection
    - Portfolio Transfers
    - Ownership Structures
    - Risk Securitization
      - Creating a Market for Risk-Based Securities
      - The Captive as a Special Purpose Vehicle
      - The Difference between Risk Securitization & Reinsurance
      - Onshore Risk Securitization
    - Discussion Questions
    - Key Words & Phrases To Understand
- Part 4: The Legal Environment of Captive Ins
  - Chapter 11: Forming a Captive
    - Feasibility Studies
      - Motivating Factors
    - Domicile Choice
      - Taxes
      - Regulations
      - Infrastructure
      - Perception
    - Confidentiality of Business Plan Information
    - Required Organizational Documents
      - Articles of Incorporation & Articles or Memoranda of Association
      - Bylaws
    - Filing Procedures
      - Other Documents
      - The Legal Environment
    - Discussion Question
    - Key Words & Phrases To Understand
  - Chapter 12: Operating a Captive
    - The Ongoing Responsibilities of Directors
      - The Legal Definition of Insurance
    - Underwriting Documentation
      - Clearly Stated Policy Terms
      - Record Retention
      - Issuing and Distributing Captive Policies
      - Use of Named Insured Certificates
• Lead Policies
• Reports and Filings
• Captive Financial Statements
  ▪ Board Reporting
  ▪ Performance Reporting
• Discussion Questions
• Key Words & Phrases To Understand
  o Chapter 13: Future Directions
    ▪ Unrelated Business
      ▪ Controlled Unaffiliated Business
      ▪ Purpose of a Captive's Unrelated Business
    ▪ Types of Profit Center Captives
      ▪ Customer Relationship Captives
      ▪ Business Partnership Captives
      ▪ Employee Retention Captives
      ▪ Risk Concentration
    ▪ Discussion Question
    ▪ Key Words & Phrases To Understand
• Appendix: Glossary