

# Captive Re-Feasibility

- Does having a captive continue to make sense?
- Are there opportunities to improve how our captive operates?
- Should we consolidate multiple captive operations or re-domicile?
- What else can we do with our captive to better protect our assets and drive further reductions in our cost of risk?

## Overview

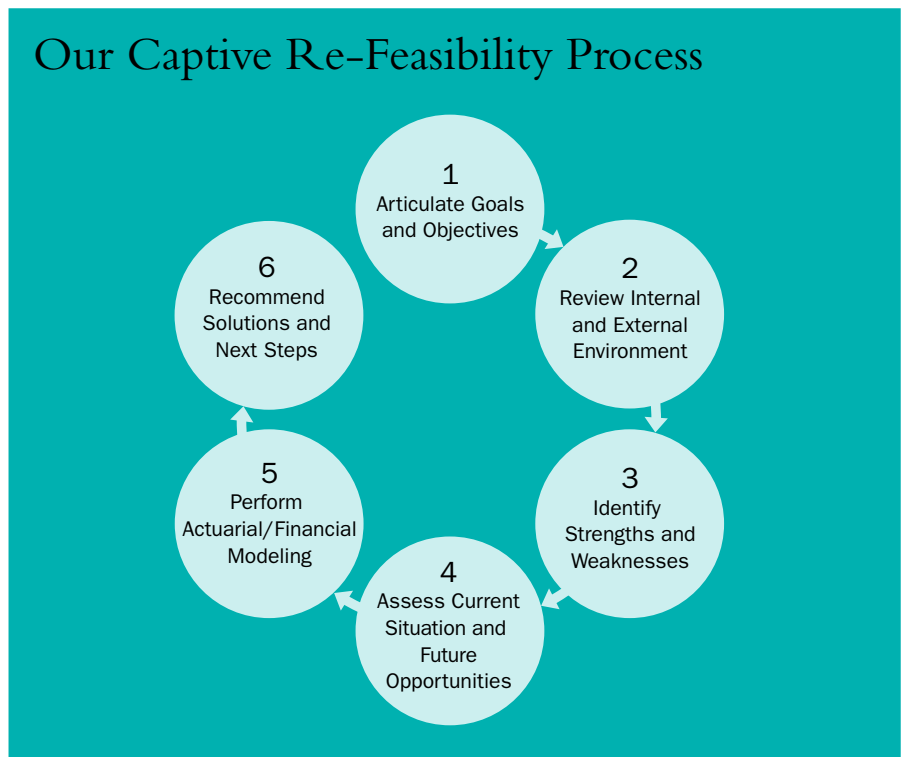
Change is a constant in the captive arena. Operating issues often arise because of (re)insurance market price swings, shifts in fronting availability and cost, counterparty risk concerns, domicile developments (e.g., new domiciles, regulatory staffing changes, onshore/offshore perceptions), and changes in laws, regulations or IRS rulings/guidance. The list goes on.

Leading companies regularly take a fresh look at their captives — a re-feasibility study — to keep pace with these changes. A re-feasibility study may entail a review of the entire program or only key components related to changing external conditions. Its purpose is to improve the current program, sharpen or redefine the captive’s strategy, and identify other value-added opportunities a captive can provide to the organization.

Some companies undertake a captive re-feasibility study because of internal events such as senior management change, a new director of risk management, acquisitions (including inheriting a captive) or changes in the company’s objectives. Others conduct a review because of an audit committee’s inquiry or as a periodic due diligence exercise as part of good corporate governance.

## The Towers Watson Approach

We work closely with our clients from the outset to identify the strategic goals of captive insurance within their organization, the questions that should be answered and the problems that need to be solved.



Towers Watson’s re-feasibility studies typically address the following issues:

- First, does having the captive continue to make sense? Has it achieved the benefits for which it was formed, and does it continue to provide value to the organization? Looked at from a different perspective, if the company did not have a captive today, would forming one now be the suggested course of action?
- Second, if the captive continues to make sense, could it have additional uses? Are there other risks that should be financed in the captive?

- Third, if the captive continues to make sense, is it operating effectively and efficiently? Are retentions appropriate and in line with the organization's risk-bearing capacity? Are the service providers doing a quality job servicing the captive? Are the captive's expenses reasonable? How do its key financial metrics compare with appropriate benchmarks such as Towers Watson's Recognized and Accepted Captive Standards (TRACS)? Does the current domicile remain appropriate?
- Fourth, if a captive no longer makes sense, what is the best operating plan to address past liabilities and ultimately close it down?

At a high level, a captive re-feasibility study typically includes the following steps:

- Review key background information on the parent company, its insurance program and its captive.
- Meet with company senior management and staff to:
  - Discuss issues that arise based on a review of the background information.
  - Understand the company's strategic objectives, both generally and as they relate to having a captive.
  - Discuss the reasons for the captive's original formation and whether the captive has met (or is meeting) those objectives.
- Conduct discussions with each of the key service providers to understand more fully the breadth and depth of the services provided by each organization, the key operational issues of the captive and its current standing, and to address other questions we may have.

- Evaluate the captive's financial standing and performance relative to our proprietary TRACS measures and other insurance industry benchmarks.
- Assess the relative merits of the captive in the company's risk financing program, its future strategic opportunities, and opportunities to improve on its administrative and cost effectiveness.
- Conduct a "high level" analysis to identify other coverages for potential inclusion in the captive.
- Perform financial modeling of the captive program in comparison to the "next best" alternative.
- Prepare and discuss the report of our findings, conclusions and recommendations.

## A Record of Success

Towers Watson is recognized as an industry leader in the area of captive structuring and advice. We have worked with hundreds of clients worldwide to:

- Determine the feasibility of a captive for improved risk management and control.
- Review their existing captive's retentions and reinsurance program.
- Examine the continued appropriateness of the captive's domicile.
- Identify other coverages to insure in their captive.
- Develop an operating plan to close a captive, if warranted.
- Reduce their long-term cost of risk.

## About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.