Andrew Barile Consulting Corporation, Inc.
Insurance and Reinsurance Consultants
3 Breakfast Court
Savannah, Georgia 31411
Telephone: (619) 507-0354
Facsimile: (912) 777-6601
E-mail: abarile@abarileconsult.com • Website: www.abarileconsult.com

GLOBAL CAPTIVE INSURANCE COMPANIES DEVELOPMENT IN EMERGING MARKETS

by

ANDREW J. BARILE, MBA, CPCU
PRESIDENT AND CHIEF EXECUTIVE OFFICER
ANDREW BARILE CONSULTING CORPORATION, INC.
3 BREAKFAST COURT
SAVANNAH, GEORGIA 31411
Email: abarile@abarileconsult.com

In my 1967, almost fifty years ago, Anglo-American Fellowship Thesis to study at Lloyd’s of London, I defined a Captive Insurance Company as an insurance company owned by a public or private corporation to strategically insure the risk of that corporation. Hertz Corporation, in 1954, owning a captive insurance company to provide rental car insurance to its clients was a typical captive model. Oil companies, like Gulf Oil, Phillips Petroleum started captives using the offshore domiciles Bahamas, Bermuda and Cayman Islands to insure their parent corporation’s own risks.

Some fifteen years later, 1972, I wrote my master’s thesis, “Managing Captive Insurance Companies” for Stern New York University Business School, describing how the captive insurance company, owned by Fortune 500 companies, were being developed into profit centers by expanding insurance and reinsurance coverages beyond the risks of the parent corporation. Many captives were referred to as “naive reinsurers” as they lacked the experience of professional insurance and reinsurance executives. Some captives were lured into writing the reinsurance of Lloyd’s Syndicates thinking they were going to make a profit. Many captives survived by being conservative and only writing the risks of their parent corporation. The captive concept continued to grow, 1,000, then 2,000, 3,000, 4,000, 5,000 captives owned by both public and private corporations. The global captive insurance company despite the efforts of the traditional insurance company market became a permanent fixture of the risk management department. Verizon’s captive writing cell phone insurance, Turner Construction Company writing contractors insurance.

The last ten years has seen the growth and expansion of the captive insurance company. Domiciles and captive insurance company managers have expanded beyond belief, especially with the creation of the “micro captive” or “small captive”. The insurance term, micro captive, refers to a captive insurance company typically created by both small public corporations and private corporations. Estimates range today that there are some 3,000 small captive insurance companies.

Domiciles and captive managers seeking new business opportunities have now begun to explore frontier markets in Asia and Latin America. One must remember that small captives created by smaller companies only need to write $US 1.2 million of premium. Qualifying the small captive as an insurance company for U.S. federal income tax purposes has led to the expansion of the micro captive, geographically. The largest corporations in the emerging markets are going to get major emphasis from captive managers.

The micro captive can be formed by any corporation, both public and private, i.e. professional service companies, media and technology companies, real estate, and manufacturing. Remember micro captives require less amounts of startup capital than global captives. Micro captives provide advantages, such as not having the underwriting profit subject to federal income tax if the captive is properly structured. Micro captives can also write direct procurement insurance policies (i.e. manuscripted forms) without going through a “fronting” insurance company. Recent estimates show that approximately 80% of micro captives are owned by private corporations.

The types of insurance coverages written by captives is always dependent upon the insurance needs of the parent corporation. Studies of captives have shown that the following insurance coverages are written:

1) general/third party liability
2) property insurance
3) workmen’s’ compensation/employers’ liability
4) deductible buy down programs for workers’ compensation and auto liability
5) life insurance
6) auto liability
7) professional liability
8) products liability
9) excess liability
10) medical malpractice liability
11) marine
12) environmental
13) errors and omissions liability
14) umbrella liability
15) aviation
16) marine liability
17) fidelity
18) fiduciary

These 18 insurance coverages can be supplemented by non-traditional insurance coverages which require a good deal of creativity. Some of these include:

19) pollution liability
20) bad debt insurance
21) accounts receivable insurance
22) tax guarantee insurance
23) jewelers block insurance
24) excess directors and officers liability insurance
25) medical stop loss insurance
26) business interruption insurance
27) pet insurance
28) mortgage insurance and reinsurance

Future focus will be on health insurance, and especially employee benefits coverage. As more and more corporations suffer cyber-attacks, this coverage will be expanded into captive insurance companies. Incidents like the data breach involving the large retailer, Target Corporation, in 2013, which led to the theft of approximately 40 million credit card members, have raised the awareness of this risk in the corporate world. Cyber liability insurance will play an important role for future captive insurance companies.

Many captive insurance companies duplicate the types of coverages written by the creative Lloyd's of London Underwriters. The risk, such as supply chain, which is linked to property damage (business interruption and contingent business interruption) was first written at Lloyd's and now has some captives writing this coverage.

As the captive insurance industry continues to grow, it will look beyond the traditional geographic markets of the United States and Europe and more towards the emerging markets which are becoming increasingly aware of the advantages of the captive insurance company concept.

Owners of private corporations in the emerging markets will see the need for services from the finance industry. Captives require capital, wealth management, investment expertise, and satisfy the need for asset protection and management.

It is always apparent that government and regulatory officials who set policy must broaden their thinking to embrace the captive insurance company concept. Commentary on the different areas of the world is the first testament of what is needed for captives to expand into the emerging markets …

1) insurance liquidation in some emerging markets, such as Brazil, is still very domestically focused such that it is not possible to insure risks within the country from an international insurance company

2) will Chinese firms insure their local risks in a domestic captive, and establish a global captive in Bermuda to cover their global risk base

3) will Argentina change its regulations requiring a front

Finally, global captives, by industry, will continue to put pressure on government officials in emerging markets to make captives acceptable since they form part of an effective risk management program.

Dated: January 12, 2015 @ Savannah, Georgia