

Captive Finality Solutions

Captives, and their parent groups, come in a variety of different forms, from the pure captive, wholly owned by a single parent, to a group captive acting, in effect, as an ‘industry’ mutual.

Whatever its form and ultimate parent group, a captive can play an important role in any organization's risk financing strategy. However, if that risk financing strategy changes or the parent group's broader strategic objectives alter, and organization (or in the case of a group captive, its members) may find it desirable to ‘exit’ from captive participation.

Why consider captive closure?

There are many reasons why a captive's parent group may take the decision to close its captive down:

- The captive has been dormant for many years, and the parent group wishes to save the annual running costs and management time associated with managing the vehicle;
- A wish to release cash back to the parent group on a finality basis (rather than, for example, by inter-company loan);
- A desire to finalize the parent group's exposure to long-tail liabilities;
- A concern that regulatory changes may make the captive less economically viable;
- Insurance market conditions are such that commercial insurers are underwriting risks at prices below the technical rate;
- The parent group has acquired multiple captives through M&A activity and wishes to rationalize its arrangements, generating additional efficiencies and cost savings; and
- Members (in the case of a group captive) decide that they wish to exit from the arrangement, making the captive no longer viable.

However, for whatever reason, once the decision has been made to close the captive, there are a number of routes open to the parent group:

1. Sale of the legacy insurance liabilities to a third party via a commutation, novation or loss portfolio transfer (followed by a voluntary liquidation)
2. Creation of a more efficient run-off structure (utilizing a protected cell structure)
3. Sale of the captive as a going concern to a third party

The implications of pursuing each strategy will vary, and the most appropriate route will change, depending on the specific circumstances of each captive and the broader objectives of each parent group. Indeed, the optimal solution may draw upon all the methodologies and Aon has extensive experience in successfully structuring and executing all approaches.

We're here to empower results

Learn more about Aon's Captive Finality Solutions approach from our experts.

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What are the benefits?

Depending on the circumstances, exiting from a captive may result in a number of benefits for the parent group:

- The creation of certainty of cost for the run-off of old exposures
- The releasing of collateral for liabilities (such as LoCs) and improved liquidity
- The redeployment of capital elsewhere in the parent group's business
- The possible realization of a profit
- The elimination of annual management costs
- Reduction of senior management time burden at the parent group

Market View

With increasing market capacity and more and more carriers entering into the market, captive owners have never had as many options for selling legacy books. One risk for captive owners when considering a sale of their liabilities, is potential reputational issues arising from the sale and the associated due diligence that should be completed on the proposed buyer. Understanding the approach the buyer will take to running off the claims is key for a captive whose underlying policy holders will have some connection to the parent entity.

About Aon's Global Risk Consulting

In today's challenging global environment, business risks are no longer isolated by industry, geography or country. Economic slowdown, regulatory changes, cyber, crime, terrorism, increased competition, damage to reputation, and other critical risks are complex, inter-related and global in consequence. Aon's Global Risk Consulting is the world's leading risk consulting organization. With nearly 1,350 risk professionals in 50 countries worldwide, our consultants have the expertise and experience to recognize and address the unique challenges and opportunities that face our clients.

In close partnership with Aon's broking team, Aon's Global Risk Consulting provides comprehensive and tailored solutions through a consistent global approach backed by a panel of industry experts.

Our Risk Consulting business unit includes leading disciplines ranging from risk control and claims to actuarial & analytics, business continuity management, enterprise risk management, risk management outsourcing, risk finance, captive consulting and captive reinsurance.

Aon's Captive & Insurance Management practice is widely recognized as the leading captive manager, managing nearly 1,400 insurance entities globally with local capabilities in over 30 countries.