
Captive Insurance: Assessing the Appetite and Opportunities for Captives in the Middle East

Ensurion W.L.L.

Proprietary and Confidential

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Ensurion W.L.L. is an insurance management company regulated by the Central Bank of Bahrain

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Contents

- I. What is captive insurance?
- II. How did captive insurance start?
- III. How does captive insurance differ from conventional insurance?
- IV. The role of a captive is to bring a number of potential benefits to its owner
- V. The captive brings a number of potential benefits to its insurance partners
- VI. Outlook
- VII. About Ensurion

I. What is Captive Insurance

A. Definition of Captive Insurance

A captive insurance company, usually just called a “captive,” is a subsidiary insurance company whose primary function is to insure all or part of the risks of its owner, or owners, usually referred to as its “parent” or “parents.”

A “captive” is an insurance company owned by a non insurance company, that is set up specifically to underwrite the risks of its parent company or companies.

- It is an insurance subsidiary for one or more insurance buyers
- It is risk management tool that has been used globally for decades
- There are more around 5,500 captives worldwide
- Most of the world's leading firms utilize captive insurance companies
- Captives can be owned by almost every type of insurance buyer, in sectors such as energy, industry, real estate, financial services, transportation, utilities, etc.
- Subject to minimum regulatory and capital requirements and are set up in various jurisdictions known as captive domiciles

II. How did Captive Insurance Start?

The term "captive" was coined by Frederic M. Reiss in the 1950s. The Youngstown Sheet & Tube Company in Ohio had a series of mining operations that its management referred to as captive mines. When Reiss helped the company incorporate its own insurance subsidiaries, they were referred to as captive insurance companies and Reiss continued to use the term.

Although the term "captive" was not used until the 1950s the principal of an entity that exists to insure the risks of its owner or owners, goes back to the very origins of insurance for example 3000 years ago Phoenician Merchants shared their cargo risk with each other, 2000 years ago Roman Burial Societies were formed to ensure that their members would be buried, 350 years ago Lloyds of London was formed and every Mutual Insurance Company or Takiful Company is set up on fundamentally the same principals, i.e. that the risks of the members/owners are shared by all.

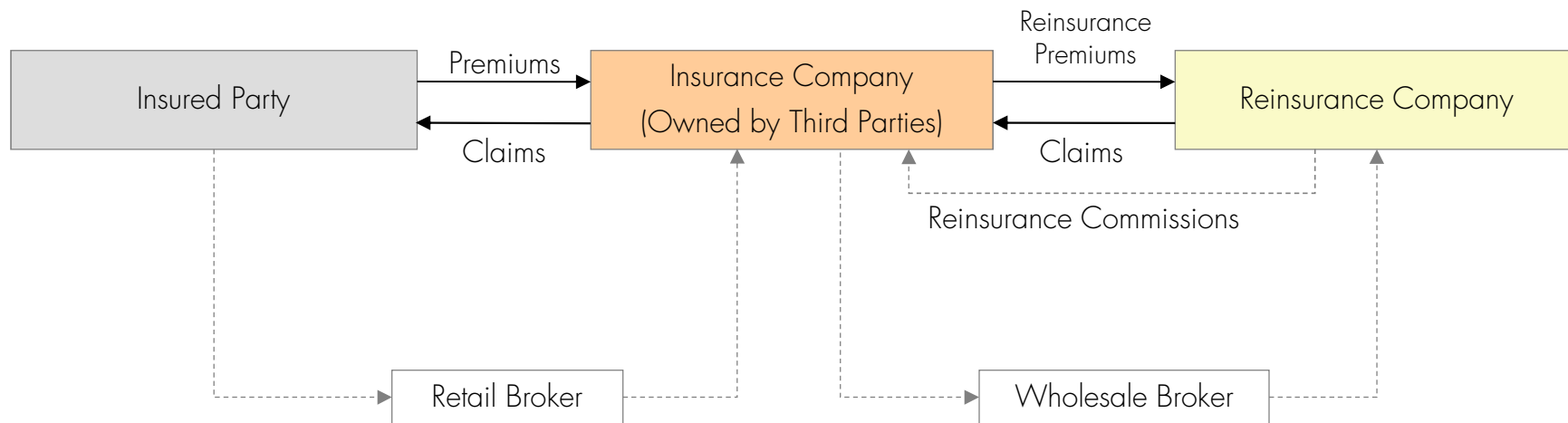
Commercial Union was established in 1861 following the Great Tooley Street Fire, which destroyed a number of warehouses and wharves along the river Thames in London. The existing fire insurance companies were hit by a series of massive claims and consequently increased their fire insurance rates so dramatically that a group of local merchants and brokers decided to form their own insurance company, which became the Commercial Union Assurance Company Ltd. This was in effect a captive insurance company.

III. How does captive insurance differ from conventional Insurance

A. Traditional Insurance Model

In the traditional insurance model, the insured party pays its premiums to an insurance company, often through a third party broker, and the insurance company in turn passes the risks onto a reinsurance company.

Model Overview

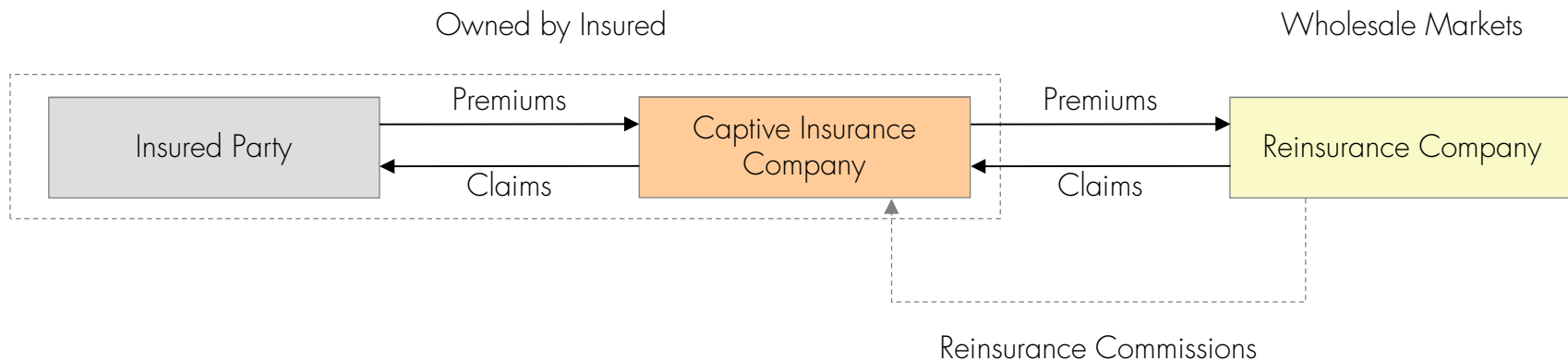


III. How does captive insurance differ from conventional Insurance

B. Captive Insurance Model

In the traditional captive insurance model, the insured party owns its own captive insurance company, which selectively retains certain risks within the group and transfers all other risks to the reinsurance market.

Model Overview



- Several alternatives to the above captive insurance model do exist and the ultimate structure will need be tailored to the specific needs of the insured party.
- Certain risks may continue to be transferred (in whole or in part) to the local market in parallel to the captive insurance structure. If partially transferred the captive would act as a insurer, taking a layer that would in effect become the deductible of the local insurer.

IV. The role of a captive is to bring a number of potential benefits to its owner

A. Potential Benefits of Captive Insurance

The benefits of captive insurance can be categorized as financial, risk management & claims control, coverage and others.

Potential Benefits of Captive Insurance

Financial	Risk Management & Claims Control	Coverage	Others
<ul style="list-style-type: none"> ▪ Reduction in insurance premiums paid to the market ▪ Direct access to reinsurance markets at wholesale rates ▪ Capturing investment income and underwriting profits 	<ul style="list-style-type: none"> ▪ Centralized risk management vehicle ▪ Improved claims payments efficiency and loss control ▪ Premiums calculated based on parent's claims history instead of average industry losses ▪ Harmonized covers ▪ Focuses management on risk mitigation as it is their own money at stake 	<ul style="list-style-type: none"> ▪ Ability to insure risks which are difficult or uneconomical to place in traditional insurance market ▪ Ability to customize coverage to meet parent's needs, e.g. deductible optimization ▪ Possibility of including wider group companies ▪ Direct access to specialist reinsurance companies who don't write retail business 	<ul style="list-style-type: none"> ▪ Portfolio efficiencies and scale advantages ▪ Pro-active management of future/growing insurance needs

V. The captive brings a number of potential benefits to its insurance partners

A. Potential Benefits of Captive Insurance

The benefits of captive insurance can be categorized as financial, risk management & claims control, coverage and others.

Potential Benefits of Captive Insurance

Financial	Risk Management & Claims Control	Coverage	Others
<ul style="list-style-type: none"> ▪ Less Dollar Swapping ▪ Leading to a reduction in claims volume ▪ And a reduction in claims costs ▪ Improved profit margins on the account 	<ul style="list-style-type: none"> ▪ Centralized risk management vehicle makes getting data easier ▪ More focus on risk management and risk mitigation as it the insured has its own money at stake 	<ul style="list-style-type: none"> ▪ Reduction in the number of unprofitable risks that are accepted as these can be written by the captive 	<ul style="list-style-type: none"> ▪ Encourages the development of risk management skill by the insured allowing for more efficient and productive interactions.

VI. The outlook for captives in the Middle East

A. Ensurion's view

Whilst the uptake of captive insurance in the GCC has been slow so far, there is clearly a massive and largely untapped market.

In part the slow uptake has been due insurance buyers lack of understanding of the benefits of captives and the savings they can generate and a reluctance to be the first company to set a captive up.

It should be noted that companies such as Saudi Aramco, SABIC, Qatar Petroleum and Kuwait Petroleum have all had captives for more than 10 years and in Dubai Mubadala set up a captive in 2010.

VII. About Ensurion

A. Overview

Ensurion W.L.L. is an insurance management advisory firm based in Bahrain with specialist expertise advising regional corporations on the benefits and potential feasibility of captive insurance operations.

Ensurion's management team brings together a wealth of international and regional insurance and financial expertise.

Steven Convery is the General Manager of Ensurion and brings over 10 years' experience in the field of Captive Insurance, having previously served as the General Manager of Aon Insurance Managers (Malta) Limited and the Head of Underwriting for Marsh Management Services (Isle of Man) Limited.

He has over 20 years of relevant industry experience and is an Associate of the Chartered Insurance Institute (CII) in the United Kingdom and a Chartered Insurance Practitioner. In addition to being an Associate CIP of the Australian and New Zealand Institute of Insurance and Finance, he is also a Chartered Member of the Chartered Institute for Securities and Investment (MCSI) in London.

Bader Radhi is a Manager at Ensurion and has extensive experience in the areas of underwriting major risks and reinsurance placements from within the regional insurance industry and the international market. Prior to joining Ensurion, Mr. Radhi worked for Takaful International Company as a senior underwriter in the major accounts department.

Mr. Radhi is an Associate of the Chartered Insurance Institute (ACII) . In addition, he has a BSC in Finance from the New York Institute of Technology.



Captive Insurance Global Perspective

Hyperion Risk Solutions
Proprietary and Confidential
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Contents

- I. International Overview
- II. Business Opportunities in an evolving industry
- III. Open Discussion
- IV. About Hyperion



I. International Overview

- What are the captive trends happening globally?



II. Business Opportunities in an evolving industry

- How is the captive industry evolving to create profit centres through risk mitigation?



III. Open Discussion

- Working examples



IV. About Hyperion

A. Overview

Hyperion Insurance Management Limited is an independent insurance manager, providing a significant level of experience and expertise in forming and managing structures for a wide geographical spread of clients around the globe.

We specialize in the formation and management of captive (re)insurance companies to the whole spectrum of the market.

With operations and licenses in many of the world's premier captive domiciles, Hyperion has the ability to provide its clients with sophisticated risk management tools and structures to complement their business, wealth and estate planning needs.

Simon Owen has worked in the financial services sector for over 20 years, specializing in investment strategies and insurance/reinsurance solutions. Prior to founding Hyperion Risk Solutions Limited, Simon spent a number of years forming and managing captive insurance and reinsurance companies. He also worked in the Lloyd's insurance market for over a decade, latterly in the new business development division of a leading international reinsurance intermediary.

Simon is the Principal/CEO of Hyperion Risk Solutions and Hyperion Insurance Management group of companies. He currently serves as a board member of the British Chamber of Commerce in Panama, is a past Chairman of the BVI Association of Insurance Managers, and has served as a member of various other financial services committees. He is also an accredited member of the Society of Trust and Estate Practitioners and a regular speaker at international finance and insurance events.