



Media release

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Marsh report: innovation in captives is critical

Captive owners scrutinise capital, collateral requirements; deploy surplus to address intercompany credit, investment needs

London, 15 June 2010 – As organisations worldwide contend with challenging market conditions, those with captive insurance companies are examining a full range of opportunities to put surplus capital to work within their businesses.

A new report from Marsh, *Single Parent Captive Benchmarking: Capital and Collateral*, examines how owners of captive insurance companies are tapping into surplus funds while continuing to comply with local regulations governing the capitalisation of their captives. The report focuses on activities in the past 12 months of more than 750 organisations that own captive insurance companies.

Regardless of geography, intercompany transactions continue to be the most common use of captive investment assets, as captive owners seek efficient methods of returning excess funds to the parent company.

According to Marsh, related party investments such as intercompany loans, the purchase of parent company commercial paper, or accounts receivable factoring are the most common use of funds, regardless of where a captive is located.

Intercompany transactions are used by 60% of captive owners in the European Union, compared to 70% in the US. Captives in the EU and offshore favoured cash as their second most common investment, while US captives favoured bonds as their second choice.

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“Intercompany transactions have become increasingly popular with captive owners in the current economic environment,” commented Jonathan Groves, Head of Marsh’s Captive Consulting Practice for Europe, the Middle East and Africa. “For most companies, intercompany loans represent a low-maintenance, low-cost and liquid investment strategy where suitable market interest rates can be earned. As a result, many parent companies can get a much better return by reinvesting this capital in their own operations than from pursuing outside investment strategies.”

Marsh’s report also finds that captives tend to be capitalised in excess of the statutory minimums, regardless of where they are domiciled. In meeting these requirements, offshore captives tend to have higher premium-to-capital ratios than those domiciled onshore in the US or the European Union.

Among captives, letters of credit (LOCs) remain the most common method of providing collateral to fronting insurance companies, representing more than half of all collateral instruments, followed jointly by trusts and escrow accounts. Typically secured with cash and certain allowable investments from the captive, an LOC is provided by banks for a fee and guarantees the ability of the captive to meet its obligations to the insurer.

Property insurance was the most popular form of coverage provided by captives, followed by general liability, workers’ compensation or employers’ liability, professional indemnity, and auto liability.

Meanwhile, casualty coverages accounted for nearly 70% of the insurance policies for which the captives provide collateral. Of those, almost 45% are for workers’ compensation/employers’ liability and auto liability. Property insurance, written by almost 35% of the captives, is less likely to have any collateral requirements.

However, Marsh’s study found that 36% of the captives examined are mono-line. This indicates that the captive has been formed to serve a particular need and little attention has been given to the additional advantages the captive could deliver in the longer-term.

The report, Single Parent Captive Benchmarking: Capital and Collateral, is available free of charge by registering at:

<http://global.marsh.com/news/articles/Captivebenchmarkreport.php>

About Marsh

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