

I GET SOME OF MY BEST IDEAS WHEN I AM ON HOLIDAY



captive insurance - your business' silver bullet?

The boiling frog metaphor is well known: put a live frog in boiling water and the frog immediately jumps out; put the frog in cool water that is gently heated and it will be boiled alive.

IGNORANCE IS NOT BLISS

Most risk affecting business¹ is insurable by insurance companies. However, not all business risk can be insured. Many business insurance brokers, on whom we depend for advice don't go beyond conventional insurance. Some payouts are even restricted or excluded by insurance policies. This does not mean insurance policies are a bad deal. Rather, like any contractual arrangement, terms and conditions apply. Do we, the business owner unknowingly behave like the simmering frog when it comes to adequately insuring risk for our business? Are the gaps in our current risk financing unknown to us or insufficiently pressing for us to take action? Is the water not hot enough?

¹: financial, assets, revenue, liabilities, personnel

TIMING IS EVERYTHING

The time to be educated as to an insurance policy's shortcomings or solve an uninsured event is well before the loss occurs. A business needs a "virtual reality" boiling water experience to survive in the real world. Good options

taken early can transform a traditional insurance purchase into an outstanding value added risk solution for your business.

ALTERNATIVE INSURANCE OPTIONS

There is a thriving alternative insurance market available to solve uninsurable risks; restricted payouts; insurance policy exclusions; or cover which insurance companies charge a higher premium for, reject, or are too slow to respond to. All can be incorporated into one coherent insurance arrangement that is cost effective and tax efficient.

"Most people spend more time & energy going around problems than in trying to solve them"

Smart and successful business owners who emulate Henry Ford's attitude analyse where their insurance starts and stops and seek to fill in the gaps. However even smart and successful business owners have difficulty knowing where to go to find a solution.

WHAT IS CAPTIVE INSURANCE?

Most of us understand the idea of do it yourself (DIY). Captive insurance could loosely be described as insurance's answer to the DIY concept. That concept has become an integral part of the global

insurance market with estimated annual premium of US\$65 billion flowing into captive insurance.

A captive insurance company is effectively an "in house" insurance provider. A business, having identified a risk, provides for that risk by paying regular cash instalments (premiums) to an entity over which it has control (as opposed to a traditional insurance company). A captive may insure all of a risk itself or it may pass some of that risk on to other entities via the reinsurance market.

The attraction of captive insurance is simple. One gets all the benefit of insurance coverage while gaining accumulated premiums. If the risk materialises, the business entity's risk is covered. If the anticipated risk does not materialise, accumulated premium becomes retained profit. For this reason, companies with captive insurance programmes have a direct economic incentive to reduce their risk. This has additional benefits. One gains a deeper appreciation of the factors driving the risks to which one's business is subject. And, it follows, one pays less for insurance coverage. The traditional insurance principle of "the many paying for the few" makes no sense when you are unlikely to be one of the few. Captive insurance provides the logical alternative.

HOW CAN I START A CAPTIVE?

The ideal vehicle for accessing the benefits of captive insurance is an important decision which will inevitably vary from business to business according to a number of individual criteria. Captive entity options include:

- * Incorporated insurance companies.
- * Protected and Incorporated cell companies.
- * Rent-a-captive facilities.

The above options should demonstrate that your business need not be a large multinational with premium in the millions of dollars to benefit from captive insurance. A number of "turn-key" options exist which cater to the small to medium size enterprise with premium in the thousands of dollars.

WHAT IS A PROTECTED CELL?

A Protected Cell Company is a single legal entity containing a number of individual cells. The assets and liabilities of each cell are segregated from those of other cells within the company. This enables multiple cell users to operate different businesses through the same legal entity, whilst legally isolating the assets and risks attached to each business from other cell users. Should one cell run into difficulty, substantive law operates to prevent the assets of other cells from having to fund any shortfall. The result is all the benefits of a separate legal entity at a greatly reduced cost of compliance.

ORBIT – YOUR GATEWAY TO A CAPTIVE PLANET

Orbit International Insurance PCC Limited in conjunction with Riskman International, has combined to offer a "protected cell option" tailored to the risks, structure and dynamics of your business. Orbit is a protected cell company whose purpose is to offer business owners access to their own insurance company on a rental basis. Just as you may rent an office building rather than purchase the building, you can similarly rent a captive cell instead of incorporating your own insurance company. Orbit enables your business to benefit from Vanuatu's regulatory platform. Unlike Australia and New Zealand which offer no specialist captive legislation, Vanuatu has been at the forefront of legislative reforms which blend commercial opportunity with internationally endorsed safeguards and exacting "know your customer" requirements. Recently, Vanuatu has strengthened its governance of the insurance market by moving its regulatory authority to the Reserve Bank.

Our friend the frog may get a life after all.

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With over 40 years risk management and insurance experience, Riskman has a proven track record of placing insurance and reinsurance in international markets and offering tailored risk and captive insurance management services.