

**PUERTO RICO**  
**FINANCIAL SERVICES**  
**FORUM**



# **CAPTIVE INSURANCE**

## **The Right Way and The Wrong Way**



## **CAPTIVES: THE BENEFITS ARE REAL**

- **7000 / \$200 billion / 25%**
- **Proven complement to traditional commercial insurance**
- **Logical extension of ERM programs**
- **Underwriting performance exceeds that of commercial casualty peers**
- **5-year run: \$6.5 billion retained from the commercial market (AM Best)**



# LATAM: THE GREAT AWAKENING

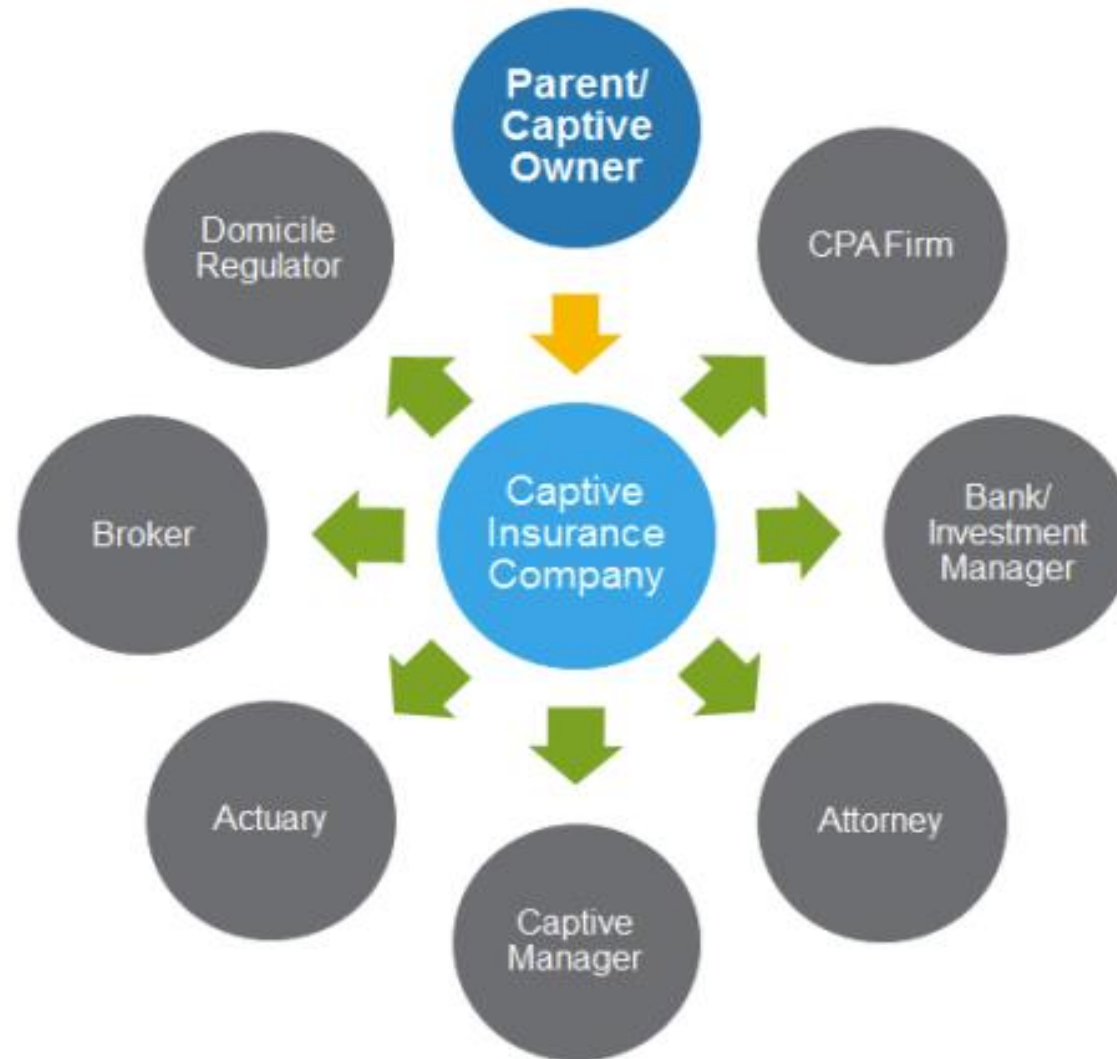
- **Small-to-mid-size corporations are now more in play**
- **Seeking comprehensive risk management solutions**
- **Expansion beyond traditional P&C lines**
- **Greater regulatory engagement and willingness to listen**
- **Reallocation of resources to the captive industry**



# PUERTO RICO: SUCCESS STORIES

- **Company A**
  - Argentina - Casualty insurer utilizing a Puerto Rico captive to hold reserves in US dollars
  - Avoiding consequences of inflation and currency devaluations
- **Company B**
  - Puerto Rico - Distribution company utilizing a Puerto Rico captive to fund earthquake and wind deductibles, business income-waiting periods, and uninsured retentions.

# CAPTIVE ECO-SYSTEM: IT'S A PROCESS



# **BUILDING A CAPTIVE: DOING IT THE RIGHT WAY**

- **Management Buy-In**
- **Feasibility Studies**
- **Domicile Selection**
- **Captive Managers**
- **Registration / Certification**
- **Operational Accounts**
- **Governance**

# VENDOR SELECTION: INVESTMENT MANAGERS and the CAPTIVE LIFE CYCLE

## DE NOVO (YEARS 0-3)

**Goal:** Collateral protection; support short-term cash and liquidity needs

**Objectives:** Continuous alignment with fronting/collateral requirements; sufficient liquidity; yield/income with minimal principal risk

**Risk:** Extremely low tolerance

**Solutions:**

- Cash management
- Short-term bonds

LIQUIDITY

## DEVELOPMENT (YEARS 3-5)

**Goal:** Income generation with relatively stable principal

**Objectives:** Alignment with reserve development, liability structures, regulatory constraints

**Risk:** Conservative to moderately aggressive

**Solutions:**

- Cash Management
- Core fixed income
- Tactical allocations to equities

RESERVES

## MATURITY (YEARS 5-10+)

**Goal:** Income generation; maximize total return

**Objectives:** Income generation via reserves; maximize total return on surplus

**Risk:** Moderately aggressive to aggressive surplus strategies

**Solutions:**

- Cash Management
- Core fixed income
- Strategic allocation to equities
- Multi Asset Income

SURPLUS





# VENDOR SELECTION: INVESTMENT MANAGER CRITERIA

- Demonstrated **knowledge** of the captive space
- Full **engagement** with the industry at large
- Ability to manage the **eco-system**
- Depth of investment and risk management **resources**
- Deliver solutions across the **life cycle** of the captive
- Offer highly **customized** solutions
- Generate consistent **performance** across market cycles
- Effectively **integrate** with senior management
- **Cost-effective** programs



**THANK YOU**

**Enjoy the Cocktails!!!**

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