

IMPLEMENTING ERM



CAPTIVE FEASIBILITY

- Could forming a captive lower my cost of risk?
- Would a captive provide us with increased capacity and flexibility of coverage?
- Would formalizing risk retention via a captive structure have a beneficial impact on the risk culture within the company and help get claims under control?

OVERVIEW

When insurance markets are hard and coverage is difficult to find, risk managers looking for alternatives to control costs often turn to captives. But a captive is a long-term proposition, a tool for managing risk and the cost of risk throughout the insurance cycle — during hard and soft markets. It provides an array of benefits beyond the reduction and stabilization of costs.

Captives can increase capacity and provide direct access to the reinsurance markets, enable you to exert control over underwriting terms and conditions, impose formalized risk management conditions on your business units, increase access to innovative risk transfer solutions and even help generate an underwriting profit.

THE TOWERS PERRIN APPROACH

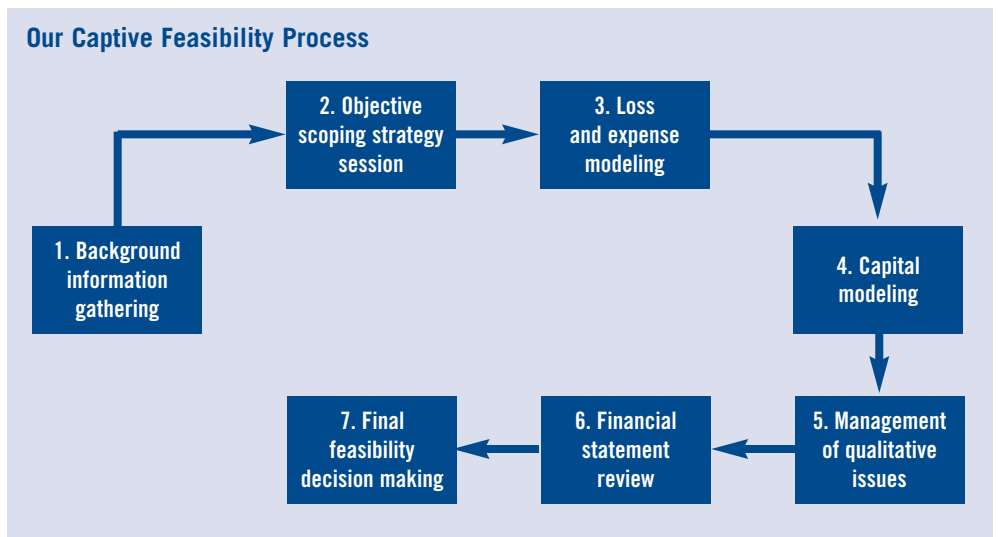
For companies that are assessing the captive option for the first time, our rigorous quantitative and qualitative approach helps determine whether a captive is appropriate for the organization’s financial and strategic needs. A feasibility assessment will determine candidate coverages for the captive in the short and longer term; define the operational parameters for the captive — whether it should be fronted or direct, where it should be domiciled,

and its retention levels; and project potential financial results for the captive, including sensitivity analyses, to determine the economic viability of the captive.

A feasibility study will include the following steps:

- Collect and review relevant background information.
- Hold a strategy session with management to review information, confirm objectives/goals and discuss probable financial implications of captive formation.
- Develop claim projections.

- Estimate operational expenses associated with the captive and determine the captive premium.
- Advise on appropriate capital levels or margin for risk to support the written exposure.
- Describe qualitative factors that need to be considered relative to the formation of a captive, including domicile, structure and governance, management and support.
- Prepare pro forma financial statements presenting the balance sheets and income statements for a captive over a multiyear period on an “expected case” basis and under alternative scenarios.



Once we have determined whether a captive is an appropriate solution for you and identified its most efficient operational parameters, we can work with you to implement the captive plan. We'll also work as part of your ongoing captive team to ensure the continuing efficiency of your captive's risk financing operations.

A RECORD OF SUCCESS

Towers Perrin is recognized as an industry leader in the area of captive structuring and advice. We have worked with hundreds of clients worldwide to:

- Determine the feasibility of a captive for improved risk management and control
- Investigate the appropriate domicile and structure of a captive
- Advise on the management and governance structure for a captive
- Reduce the long-term cost of risk.

ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations improve their performance through innovative human capital and risk and financial services solutions.

Towers Perrin's Enterprise Risk Management practice offers clients the ability to understand the full spectrum of risks faced by their organization and to create additional value by actively managing their key risks.

To contact Towers Perrin or learn more about how we can assist your organization, please visit www.towersperrin.com/rfs/captives.