

CAPTIVE INSURANCE COMPANIES

Why conduct a feasibility study?

A feasibility study is important because it answers the essential question; "What will my return on investment be by using a captive?" Prospective shareholders of the captive should have a clear understanding of what to expect when their capital is used to establish an insurance company.

Once the strategic purpose for a captive has been established the feasibility study is conducted to determine the pay back period and rate of return on capital deployed and to answer the key organizational and operational questions that will have an impact.

What is contained in a feasibility study?

The focus of the study will depend on the motivating factors for establishing the captive. In general the feasibility study is a financial and risk management analysis that will always contain the following:

- Assessment of potential risk to be insured
- Actuarial report including premium rates, rating methodology and loss pick
- Analysis of loss reserve requirements
- Fronting carrier options/availability
- Reinsurance options/availability
- Consulting regarding capitalization requirements
- Analysis of options for entity structure, formation and operation
- Expense projections for various operational structures
- Evaluation of appropriate domicile, both foreign and domestic
- Overview of relevant tax considerations
- Five year prospective financial statements
- Dividend and/or profit allocation system

The study later becomes, in essence, the business plan for the captive with actuarial support for the loss assumptions, a description of how reinsurance will function behind the captive and how much capital will be required to make the captive financially viable.

What does a feasibility study cost and how long does it take?

A feasibility study requires not just the retention, but coordination of actuaries, attorneys, public accountants, reinsurance intermediaries and captive managers. Depending on the scope of the project a study will range from \$20,000-\$50,000.

Once the client information request is fulfilled it typically takes 4-8 weeks to complete a feasibility study for a single parent captive. If there are multiple companies or investors involved additional time may be required to collect data or for all parties to provide input, review drafts and make appropriate modifications.

For More Information on Feasibility Studies you can visit www.takencaptive.com or contact our office.