

Unlock with us the full **potential** of managing your own risks

What is a captive?

A captive is a (re)insurance company established and wholly-owned by a non-insurance company, acting as a direct insurance company or reinsurance company for the parent company and its subsidiaries. The main purpose of self-insurance is to reduce the company's total risk cost. Captives are often used as a component of a company's international insurance plan, but they can also cover local risks or be used in purely national structures.

Is a captive a legitimate insurance company?

A captive insurance company is a legally licensed insurance company or reinsurance company, but its scope is generally limited because it generally covers only the risks of the parent company and its subsidiaries.

What are the main advantages for creating a captive?

- Improve group risk profile through long-term risk management strategies
- Provides direct access to reinsurance markets and offer broader coverage to the group
- Build up reserves to increase risk-bearing capacity over time
- Reduce price volatility
- Reduce costs
- Improves cash flow

What kind of commitment is expected from a shareholder when running a captive?

- Invest risk capital based on solvency/risk retention requirements
- Be willing to incur installation costs and ongoing costs
- Provide long-term commitment and strategy as the required risk capital must remain in place until all liabilities
- Select qualified service providers and work with them to obtain their expertise and service infrastructure
- Understand that the captive may increase risk of loss depending on the selected reinsurance coverage
- Involve high-level management and require to pay full attention to management

What are the legal forms that captive may adopt?

The legal form commonly adopted by reinsurance companies in Luxembourg is a public limited liability company (Société Anonyme, or S.A.). Other legal forms could be used and a legal counsel should be involved.

What is the process of incorporating a captive?

The setup follows a legal process, which creates the company, and a regulatory process with the national commissioner which grants access to its business.

What are the major conditions for granting a captive?

Reinsurance undertakings could be authorized if they:

- Limit their object to the business of reinsurance and related operations
- Are effectively run by at least one reinsurance undertaking executive who is a natural person or by an authorized management company
- Ensure the daily management
- Present a business plan
- Show evidence that they are and will be in position to hold the eligible own funds necessary to cover Minimum Capital Requirement
- Show evidence that they are and will be in position to hold the eligible own funds necessary to cover Solvency Capital Requirement
- Show evidence that they will be in position to comply with the governance system

What are the major conditions for granting a captive?

In principle, the CAA would expect to find:

- The nature of the risks or commitments which the reinsurance proposes to cover
- The guiding principles as to reinsurance and to retrocession
- The type and composition of eligible own-funds and of the basic own-funds
- A three years financial plan
- A description of the administrative, accounting and IT infrastructure
- The information pertaining to the corporate governance system

Why Luxembourg ?

Luxembourg is Europe's leading captive domicile and is a diverse, multilingual and multicultural financial centre at the heart of the EU. It has a proven track record of economic, political and social stability. Luxembourg is a forward-looking country which has created a sound financial environment for reinsurance, including captives, over several decades.

Captive virtuous life-cycle



STONEFORT CAPTIVE MANAGEMENT

8C rue Collart
L-8414 Steinfort
Luxembourg

E-mail: contact@stonefort.com
Tel: (+352) 43 35 45 1
Fax: (+352) 26 68 69 1065

stonefortcaptivesolutions.com

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