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*“Наукові здобутки молоді –  
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у XXI столітті”*

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## 55. Financial strategies using captive insurance companies

**Zakhar Bibluy**

*National University of Food Technologies*

**Introduction:** Many organisations manage income from a number of different funding and finance sources - from donations, grants, contracts and income generated from trading.

A financial strategy enables your organisation to assess your financial needs and the sources of support required to meet your objectives and fulfil the organisational mission, also planning for continued growth to enable stability. Strategic financial management refers to study of finance with a long term view considering the strategic goals of the enterprise. Financial management is nowadays increasingly referred to as "Strategic Financial Management" so as to give it an increased frame of reference.

**Resources and methods:** The objective of the Financial Management is the maximization of shareholders wealth. To satisfy this objective a company requires a "long term course of action" and this is where strategy fits in. In the corporate context, formulating a financial strategy is the purview of top leadership, although department chiefs and accounting heads also pitch in. Adequate financial plans help a company walk before running, especially when it comes to setting the short-term operating framework necessary to achieve long-term results. A captive insurance company is a company formed to issue insurance covering risks of its owner or owners. Property and casualty captive (P&C) insurances products such as general liability, workers compensation, E&O, fire and environmental. By providing insurance protection to members of the complex, the captive is acting as an aggregator and manager of risks with the objective of minimizing the cost of its insurance programs. Stop loss/excess of loss reinsurance agreements entered into with external reinsurers protect the captives against catastrophic losses.

**Results:** Risks related to large group life, disability, medical, and other employee benefit programs have been transferred to the captive via fronting arrangements with the life insurance company acting as the direct issuer. The strategic objectives are for the captive to receive third party premium income, assume risk from a large insured group with predictable claims, and provide better employee benefit coverages to the employees of the company, (through ERISA requirements).

The life insurance industry has used Special Purpose Financial Captive (SPFC) regulations to assume reinsurance on capital intensive universal life and term life insurance business issued by life insurance company affiliates. The favorable financial regulations provided in onshore jurisdictions make the captive a desirable option to raise capital in the financial markets in the form of letters of credit or reserve financing arrangements. The ability of the captive to issue and account for surplus notes on the balance sheet as statutory equity provides additional financial flexibility.

Use of domestic captive reinsurance companies within the life insurance industry today are designed to achieve strategic financial and risk objectives. Two specific examples include reinsurance transactions between the captive insurance company and the direct writing company that cover Level Premium Term Life Insurance and Variable Annuity contracts providing death benefit and living benefit guarantees.

**Conclusion:** The life insurance industry achieves four strategic advantages by using on shore captive insurance companies:

1. The captive provides a central location to aggregate risk making it easier for the corporation to quantify and manage risk and match assets against liabilities.
2. The captive can provide access to the capital markets to obtain letters of credit, reserve financing, and derivatives to support life insurance and variable annuity reinsurance programs.
3. Onshore captive jurisdictions provide flexible regulatory and financial environments which allow the corporation to better manage capital needs.
4. Captives domiciled in onshore jurisdictions that are part of tax consolidated groups can share in benefits arising from tax sharing agreements.

The use of onshore and offshore captive insurance companies are designed to meet specific risk and financial objectives identified by the corporation. To understand the financial and business goals and objectives of the company, communication is needed between the Senior Management of the company, including CFO, the risk manager, the Business Unit heads, and the Treasurer. The next step in the strategic process would be to identify the reinsurance and capital markets solution that can meet the needs of the corporation.

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*Scientific supervisor: Inna Tryhub*