

# Captive Basics and Trends for the Casualty Actuaries- Fronting Carrier Perspective

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## Objectives

- Discuss why a captive would utilize a fronting carrier
- Identify considerations used to evaluate a captive fronting opportunity
- Provide overview of role of the actuary from front's perspective



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## Considerations in Selecting Front

- Need for "Policy Issuance" Carrier
  - Regulatory need for licensed paper
  - Financial Strength Requirements
- Type of Captive
  - Single Parent
  - Group/Association Captive
- Lines of Business



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### Role of Fronting Carrier

- Provide high quality paper to meet regulatory, banking vendor requirements
- Assume full risk of claims payment if captive becomes financially unable to
- Collect and pay associated premium taxes, assessments and premiums
- Collect and pay captive premiums and other service provider fees



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### Role of Fronting Carrier

- Provide expertise as respects coverage and compliance issues
- Provide access for excess risk transfer
  - Retained by fronting carrier
  - Access to other reinsurers
- Coordinate with and support other captive service providers



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### Considerations In Evaluating Fronting Opportunity

- Insured's exposure
- Lines of business
- Long term viability of parent and captive
  - Credit risk implications
- New versus established captive



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### Considerations In Evaluating Fronting Opportunity

- Risk assumption and tolerance
  - Captive’s perspective
  - Insurer’s perspective
- Other business written in captive
- Other service providers being utilized
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### Role of Actuary

- Actuarial loss evaluation is critical to fronting carrier
  - Set “reasonable” expectation of captive assumed loss obligations
  - Test if captive and front evaluating exposure similarly



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### Role of Actuary

- Used to evaluate financial strength of captive
  - Lines of coverage (short tail vs long tail)
  - Parental risk versus third party risk
  - Captive financial analysis
    - Loss reserves on balance sheet in line with analysis?
    - Adequate capital to pay anticipated claims
    - Philosophy of capital management



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## Role of Actuary

- Help set adequate collateral for reinsurance exposure
  - Security for credit risk if captive becomes insolvent
  - Schedule F considerations




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## Role of Actuary

- Communication between captive and insurer regarding actuarial viewpoints critical
  - Disconnect can lead to disagreements/breakdown in relationships
  - Long tail coverages may be viewed differently
  - Need clear agreement on how collateral will be calculated
  - Memorialized in reinsurance relationship




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## How to Maintain a Stable and Successful Fronting Relationship

- Up front due diligence by all parties
- Confirm carrier's commitment
- Review carrier's underwriting and administration expertise
- Avoid unnecessary friction
- Get key agreements in writing ASAP
  - Administration agreements
  - Reinsurance agreements
- Regularly review program results with all parties




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