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Employee Benefits and Captive Insurance – An Isle of Man view

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What Is A Captive Insurance Company?

For the uninitiated it is worth briefly describing what a captive insurance company is. Essentially, a captive is an insurance company formed by a non-insurance company to insure the risks of its parent.

The Use of Captives in Employee Benefit Provision

As companies have expanded globally, there is an increasing awareness among HR Directors of the disparity between different subsidiaries in terms of both benefit provision and the cost of that provision. This can create issues, and lead to variances in cover provided for people doing the same role in different countries or divisions of the same group. Sometimes this is due to cover not being available, and sometimes due to cost reasons. In addition, an illness claim may be covered in one country, but an employee in another country may have that illness excluded.

Having the whole company's programme managed within a captive insurance company can also be a great source of Management information. For example, medical claims, personal accident and life insurance claims can be monitored across the group as a whole which means that it is easier to view trends and areas of under / over performance.

While still relatively new in concept, Employee Benefit Captives are becoming common in the USA, and this trend is starting to happen in UK and Europe. One of the major reasons for the slow growth to-date is perceived to be the disconnect which exists in some organisations i.e. employee benefits have traditionally been dealt with by human resources departments whereas conventional insurance coverage is handled by the insurance/risk department. However, we are now seeing a gradual move away from this as there is a greater focus on reducing the cost of employee benefits programmes and for centralising the capture of data.

The most typical employee benefits to be considered for captive participation are group life, medical expenses, permanent disablement and less frequently, personal accident. Such exposures are in many ways ideal for self-insurance / captive involvement and some of the benefits are detailed below:

- In a large group the cost tends to be very stable, albeit consideration will need to be given to accumulation risks

- Employee benefits spend in some organisations is growing, particularly where there is a large developing workforce that has not previously enjoyed company-sponsored benefit plans. Captive utilisation for these risks may produce cost savings on benefit delivery
- There is the opportunity to provide bespoke coverage to meet the needs of the organisation and its workforce. This could include cover for pre-existing medical conditions or increased policy (benefit) limits
- The involvement of a captive insurance company can, in some instances, provide a degree of flexibility in terms of handling claims, particularly contentious ones. As well as ensuring the welfare of its employees this can also assist in preserving the reputation of a company.

Isle of Man

The Isle of Man has been a leading jurisdiction for Captive Insurance Companies for a number of years, and is home to the insurance subsidiaries of many household names, both UK and worldwide. All Captive Insurance Managers are regulated by the Insurance and Pensions Authority. As well as being a centre of excellence for Captive Insurance, the Isle of Man is also a major international life insurance centre. Annually, around £8 billion of premiums are placed with Isle of Man Insurers.

Conclusion

Placement of employee benefits risk in a captive can reduce the volatility of a captive's financial results, reduce a company's long-term benefit costs, increase a company's flexibility in determining how much risk to assume for their own "account" and will provide a centralised function for collection and management of their employee benefits data.



To learn more about Captive Insurance on the Isle of Man please contact

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