



**Captive insurance and the private client -  
A novel application for tried and tested methodology**

Captive insurance is traditionally thought of as the preserve of the listed multinational corporate. However, advances in regulation, the development of new captive models<sup>1</sup> and the availability of willing and capable service providers have all played a part in driving down cost and opened up opportunities for others to design, fund and operate their own personalised insurance programmes.

Just as captives are becoming a mainstream tool for mid-tier corporates, their applications and potential benefits are beginning to be recognised in the private client space. A HNWI might establish a captive to underwrite risks particular to them and their family. For an UHNWI with business interests, assets and family members across the globe, a captive could be operated alongside or from within a Family Office and underwrite risks associated with the family, its various operating businesses and indeed the Family Office itself.



First and foremost, a captive offers a prudent and highly efficient means of insuring retained (or 'self-insured') risks, including risks which are:-

- 1) under-insured or not insured at all,
- 2) identified or unidentified and/or
- 3) difficult, too expensive or simply impossible to insure in a conventional way.

A captive can provide insurance coverage of a type unavailable in the conventional market, broad in both scope and form, capable of operating on a stand-alone basis or as a backstop for other insurance policies (thereby plugging gaps created by exclusion clauses, retentions or limits).

The insured (the principal and/or nominated family members) now has recourse to professional support in both the management of retained risks and the mitigation of associated financial losses, as and when these occur. Losses themselves allow for the formal identification and analysis of points of weakness across the insured's 'balance sheet' and directly incentivise good risk management behaviours across the family.

Further, as a market participant in its own right, the captive can help drive down the owner's overall insurance costs and/or temper the effects of market pricing volatility by:-

- 1) affording the owner the means to fund or alternatively increase the levels of any retentions attached to conventional insurance policies,
- 2) providing a springboard from which to access the reinsurance market (thereby bypassing the conventional insurance market) and/or
- 3) itself reinsuring risks passed to it by conventional insurers or reinsurers.

Such underwriting profit and investment income as the captive generates can be repaid to its owner or reinvested over time with a view to further reducing dependency on the commercial markets.

Suitably employed, a captive is a dynamic instrument, capable of giving proper form, discipline and substance to private contingency planning arrangements and providing genuine long term comfort and protection. Each is a business in its own right and by their nature each business will develop over time. Indeed, many captives start out insuring retained risks and then proceed to underwriting third party risks on a fully commercial basis.

A captive might readily be incorporated into the owner-insured's wider estate planning arrangements and in certain circumstances may provide ancillary planning benefits.

All this said, establishing and operating a captive is not without its challenges.



Depending on the nature and extent of the risks it is to assume and the solvency regime to which it is subject, a captive will need to be adequately capitalised and that capital could be eroded by claims. Even if the captive is passing off 100% of its risk into the reinsurance market, the captive remains exposed (in this case, to the risk of a reinsurer being unable to satisfy a claim).

In addition, there are operational costs associated with the establishment and operation of a captive insurance business and as active insurance businesses they command a commitment in terms of management time and effort.

As long as these challenges are appreciated and accepted, we think the benefits on offer to be substantial.

The private client industry in general has long borrowed from the corporate and commercial world when structuring the affairs of HNWI's and UHNWI's; indeed, the prevailing view is to consider the family as an institution in its own right. In our view, the captive insurance company is another such application that deserves consideration in just the same way. In principle, this solution works regardless of the residence and/or domicile of the owner insured.

I have often attended private client conferences where exchanges on risk management have been placed purely in the context of asset allocation. Worthy though they are, in my view these exchanges do not do justice to the subject matter.

Even those clients who consider themselves to be well insured appear to welcome a broader exchange on these issues. There is a qualitative difference between the purchase of insurance as a necessary (sometime mandatory) commodity and the implementation of a strategic, personalised insurance programme.

Guernsey is Europe's leading captive domicile and is home to a specialist insurance sector providing a market-leading range of alternative risk transfer solutions. Guernsey's Financial Services Commission (the 'GFSC') has a robust yet pragmatic regulatory approach and a willingness to support innovation, as does the Guernsey government. Crucially, local insurers are not subject to the EU's Solvency II Directive - Guernsey applies its own risk-based solvency regime, last updated in 2015. The island remains ideally placed to meet the needs of an international client base.

Adjure Global is always happy to provide information to and assist potential applicants and their professional advisers in their assessment of the suitability of the solution. Upon receipt of an application, Adjure Global will in any event conduct a feasibility review to ensure the application is well founded. Assuming that it is and the applicant wishes to proceed we guide them through the set-up process, which will include a submission to the GFSC for regulatory approvals. Thereafter, Adjure Global provides ongoing management and administration support to the Guernsey insurer established to give effect to the owner-insured's insurance programme.

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<sup>i</sup> such as the cellular captive, a common application of the protected cell or incorporated cell company concept