



A New Method for Measuring Captive Performance

Strategic Captive Opportunity and Utilization Technique (“SCOUT”)



Captive Owner Needs

- Assess how successful the captive has been according to how the organization measures success
- Provide a risk management platform that drives business strategies and growth
- Significantly improve upon current benchmarking and ratio analysis
- Demonstrate / prove the value of the captive to the parent

Core Elements

- Provide key stakeholders with a framework to:
 - Evaluate, rank and prioritize current and potential business opportunities for the captive
 - Improve decision making via tracking of Key Performance Indicators
 - Provide framework for optimization and strategic planning of current and future risk management (programmatic) needs

Goals

- Make better, faster decisions
- Convey meaningful information with simplicity
- Illustrate current and future economic benefits
 - Make the qualitative, quantitative
- Deliver a formal process that is consistent and reusable
- Enable clear communications across business units, board members, and executives

Areas of Focus

- Affirm initial purpose of the captive
- Identify the captive's customers and product/service offerings
- Identify what has happened since inception
- Score the historical performance via quantitative and qualitative metrics
- Drive new opportunity evaluation and utilization

Components

- Documentation of best practices
- Customized Excel application that:
 - Captures underlying strategic and tactical considerations, via defined KPI metrics
 - Utilizes an interactive, graphical display for strategic monitoring and reporting of critical needs
 - Provides a mechanism for addressing forward looking strategic opportunities

Scorecard

- Database to capture underlying strategic and tactical considerations – for both existing and potential coverages – via defined Key Performance Indicators
 - Potential KPI's include:
 - Achieve Operational Excellence
 - Reduce Total Costs of Risk
 - Build Surplus / Maximize Risk Profile
 - Maximize Return on Invested Funds
 - Improve the Risk Management Function
 - Details / drill down

Scorecard Example

Captive Performance Evaluation						
Policy Year 2016						
	Goal / Objective	KPI Type	Goal Rank	KPI Evaluation	Perf Rank	Response
COVERAGE 1						
1) Operational Excellence						
A) Insurance Company Operations						
Underwriting Metrics						
Global Organization						
Net Premium	1,834,654			Ensure premium volume adequately covers loss costs and other underwriting expenses. The benchmark loss ratio range is generally 45% to 95%, depending on volatility of the risk and need to build surplus capital.	Quantitative	5
Losses	1,050,986					
Current Yr Loss Ratio	57.3%					
All Yrs Loss Ratio	60.5%					
Materiality	36.4%					
				The loss ratio is within the benchmark range. Premium covers losses and aligned services expenses and allows for continued increases to surplus capacity. The captive's performance exceeds established goals.		5
						Consider lowering premiums (minimally), increasing the level of coverage, adding additional coverages, and/or increasing the spend on claims management. Ensure premium reflects insurance market conditions and that the captive is not overcharging premium.
2) Reduce Total Costs of Risk						
A) Retention Management						
<i>Insurance Risk Transfer</i>						
B) Other Non-Loss Costs						
<i>Taxes</i>						
C) Loss Costs						
<i>Loss Rate Trends</i>						
<i>Claims Management Techniques to Control / Lower Claim Costs</i>						
<i>Loss Prevention and Control Techniques to Lower Claim Costs</i>						
3) Build Surplus						
A) Protect Business Assets / Stabilize Premiums_Losses						
B) Diversify Into Profitable Business						
4) Maximize Return on Invested Funds / Opportunity Cost / Risk Profile						
5) Improve the Risk Management Function						

Dashboard

- Captures significant data but focuses only on the most important information
 - Key information aggregation / roll-up
- Offers the ability to easily perform “what-if” analysis
- Looks attractive and inviting

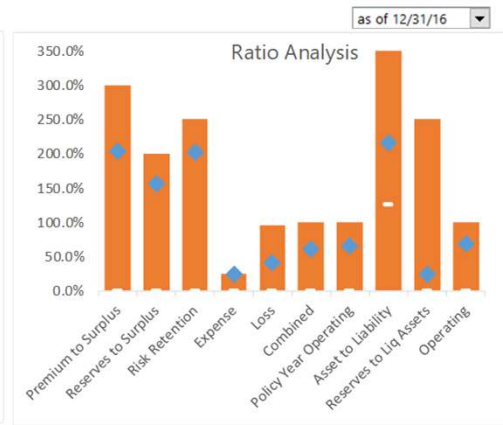
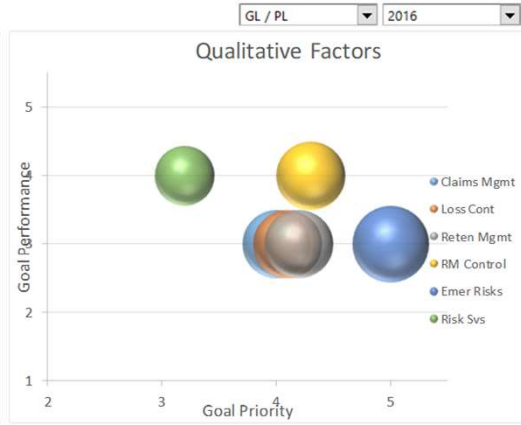
Dashboard

- Visualizes and tracks trends on captive operations to align activities with key goals
- Focuses on the most important information needed to achieve objectives
 - Step back from details in the Scorecard to see key trends and relationships
 - Monitor what is going on at a glance
- Identify when and where important program adjustments should be made

Dashboard Example

2016 Captive KPI Dashboard

Coverage Type	Underwriting Metrics				Loss Rate		Surplus Contribution			Opportunity (Cost) / Benefit		Tax Benefit	Retention Mgmt
	Premium	Losses	Loss Ratio	Trend	% Inc / (Dec)	Trend	Cur Year	Inc / Dec Prev Yr	Aggregate	2% Borrow Cost	10% WACC		
WC	2,110,502	1,406,844	67%		✘ 25.0%		✔ 803,658	✘ (205,629)	✔ 4,501,604	76,875	(325,441)		
GL / PL	2,112,547	996,544	47%		✘ 27.0%		✔ 1,161,003	✘ (519,409)	✔ 3,620,358	78,598	(124,886)		
Other													
Other													
Other													



New Business Use

- Increase visibility into what drives critical risks and opportunities for improvement / enhancement
- Provide a framework for key risk stakeholders to evaluate captive utilization
 - Program structure, capital, underlying cost(s), volatility, risk profile
- Capture the captive's ability to drive stability, reduce costs of risk, and improve control

Contacts

John J. Kelly, CPCU
Managing Partner

260 Madison Avenue, 8th Floor
New York, NY 10016
(o) 646-216-2181

John.Kelly@hanoverstonepartners.com

Evan R. Busman
Senior Advisor

870 Inman Village Pkwy, #432
Atlanta, GA 30307
(o) 770-557-2276

Evan.Busman@hanoverstonepartners.com

A New Method for Measuring Captive Performance

<http://www.rmmagazine.com/2017/08/01/a-new-method-for-measuring-captive-performance/>

www.HanoverStonePartners.com