Alternative to Risk Transfers
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## Why Do Companies seek Alternative Risk Transfer Options?

Companies seek ART options for a variety of reasons, but most often, to improve the cost of and/or control over their overall corporate risk.

### Insurance & Risk Management
- Coverage for difficult to insure risks - provide coverages either not available in the traditional market or considered too expensive
- Evidence insurance coverage requirements
- Flexibility in program design - Ability to set “own” terms and conditions
- Reduce the reliance on traditional insurance markets - allow for greater certainty in costs and flexibility through varying market cycles
- Access to the commercial reinsurance market
- Promote loss control through effective risk management

### Financial
- Reduce total costs of risk
- Underwriting profit
- Investment earnings and cash flow
- Balance sheet protection
- Tax planning opportunities

### Strategic
- Integration with long term client strategy
  - Parent company strategies
  - Joint ventures and new geographic territories
  - Capture Insurance related (life/non-life) profits
**Traditional ART Designs - Captives**

- **Single Parent Captive**: An insurance or reinsurance company formed primarily to insure its owner (parent company) and its affiliated companies.

- **Rent-A-Captive**: A client “rents” a portion or segregated “cell” within a sponsored captive facility. Clients without a captive can experience many of the benefits of a captive through participation without having to go the lengths of creating their own single parent captive.

- **Association or Group Captive**: An insurance company which is formed and owned by an industry, trade or service group, or a group of companies strictly for the benefit of its members to meet a shared insurance need.
What Is a Captive Insurance Company?

A captive is…

- An insurance or reinsurance company formed primarily to insure its owner(s) and affiliated companies
- A regulated entity within the domicile in which it operates

A captive typically…

- Has no employees so all of the usual “insurance company” functions are outsourced to third parties
- Provides coverages that the owner wishes to retain or that are unavailable in the traditional market
- Is formed to gain control over the client’s long-term cost of risk
What Is a “Front” and Why Is One Needed?

What is fronting?

A form of reinsurance or indemnification whereby an insurer (the “fronting company”) issues an insurance policy to an insured and then transfers this risk in whole or in part to a captive or the insured. The underwriting risk resides with the insured, but the fronting company assumes credit, operational and regulatory risk.

When would a company use this option?

This arrangement is typically put in place when a company wants to retain all or a portion of the underwriting risk to meet regulatory requirements or when a policy is required for other business reasons.

What is the cost?

The fronting insurance company charges a fee to assume the credit, operational and regulatory risk inherent in the issuance of a policy, but this fee is typically less than the premium that would normally be charged because the fronting company is not intending to retain any underwriting risk.
Captive Example:  
Fronting for Uninsurable & Expensive Coverage

<table>
<thead>
<tr>
<th>GLOBAL FRONTING – CAPTIVE</th>
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<td><strong>Industry</strong></td>
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| **Coverage(s) and Limits**| • $100 million EMF cover for defense costs only  
• $75 million Patent Infringement  
• $50 million Employment Practices |
| **Retention**             | $1 million deductible per occurrence |
| **Potential Benefits**     | • Enables client to fund for uninsurable EMF exposure and for coverage found to be too expensive through a guaranteed cost solution  
• Ability to issue a policy to meet contractual requirements |
Captives: Non-Traditional and Emerging Uses

- Employee benefits
- Cyber risk
- Product recall
- Manage cash flow: prepare for unforeseen financing for losses
- Litigation or investigation expenses
- Proof of insurance to support marketing and sales initiatives
- M&A coverage gaps
AIG Multinational Global Fronting Business

AIG Multinational, as part of its overall client-service capabilities, has a Global Fronting team creating and delivering “fronted” programs & solutions for clients.

Synergy - Global Fronting clients

- are often AIG’s largest and high profile multinational clients
- typically have expansive relationship across product lines/distribution and client engagement with significant premium & fee income

Value - Differentiate by providing comprehensive solutions

- Go-to market for addressing client’s strategic/complex risks
- Industry leader with 50+ years of experience
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