CAPTIVES IN LATAM:
A LOOK AT THE CURRENT AND FUTURE LANDSCAPE

CAPTIVE CONSULTING | CAPTIVE MANAGEMENT

Although Latin American risk managers have known about captive insurance for almost 20 years, the concept remains a mystery for many. From a risk management perspective, a captive is a great tool for companies to finance and transfer their risks more efficiently or improve self-insurance programs currently used by a large number of Latin American companies. While interest in the concept has grown in recent years, captives continue to have challenges in Latin American countries.

CHALLENGES REMAIN

Compared to companies in the United States or Europe, many Latin American companies don't have sufficient size and volume of premiums for a captive to generate meaningful benefits for their parent companies, which limits the range of potential companies who would establish a captive. However, Latin American companies that currently have a captive insurance scheme manage to provide abundant volume of premium savings for their parent companies, generating very representative benefits and spreading the word quickly among potential organizations willing to explore this alternative risk transfer solution.

The last few months, in particular have been more difficult due to scandals related to the Panama Papers and the blacklist created by the European Union. This challenging news continues to impact Latin American regulators, companies and local insurance companies. In spite of that, captives have overcome this situation, proving themselves to be an excellent risk-management tool for the government regulators, clients and especially among local insurance companies.

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JLT provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference – using insight, intelligence and imagination to provide expert advice and robust – often unique – solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

JLT Insurance Management forms part of the Jardine Lloyd Thompson Group of companies, one of the world's leading providers of insurance, reinsurance and employee benefits related advice, brokerage and associated services. We have offices in 40 countries and territories with some 10,000 employees. Supported by the JLT International Network, we service clients in 135 countries.

Because non-admitted insurance is not allowed or not practical in most of Latin America, it is necessary for a local insurance company to be involved, and in some cases a local reinsurer, to issue policies that subsequently retrocede the risk to the captives. Local restrictions on premium tax, reinsurance tax and withholding tax also create additional complexities for the captive insurance model. However, from a positive perspective, these aspects make it a "bullet proof" model, reaffirming it as a non-tax-related scheme.

Another issue affecting captive insurance is the mechanisms implemented by local governments to protect themselves from base erosion and profit shifting, which in some cases indirectly affect captive insurance structures.

GROWTH STILL EXPECTED

Despite these challenges, a significant number of companies have shown interest in exploring captive insurance by conducting feasibility studies to learn more about how it might benefit them. Captive insurance can help them optimize their risk and insurance programs, including deductible buy-back programs. Companies are also exploring captives as a way to self-insure a portion of the Workmen's compensation programs and introduce new risk trends such as Cyber and Privacy/Security risk. In addition, traditional lines such as Property Damage and Business Interruption are still the most common ones written among Latin American captives.

Considering the normal business cycle of captives, we expect renewed interest in the creation of captive insurance companies by the end of 2018 and the beginning of 2019, maintaining the steady growth of previous years.

JLT Insurance Management expects leaders and risk managers from Latin American companies to continue to evaluate alternatives for transferring their corporate risks. Captives will continue to play an important role in their current risk management strategy, as brokers, insurance professionals and risk management advisors continue to educate local insurance companies in an effort to increase support of this alternative risk transfer concept.

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