MARSH

THE CAPTIVE LANDSCAPE | MAY 2018

50 Years of Risk Financing Innovation

How organizations around the world use their captive insurers

SOLUTIONS...DEFINED, DESIGNED, AND DELIVERED.

MARSH & McLENNAN COMPANIES

THE CAPTIVE LANDSCAPE | MAY 2018

50 Years of Risk Financing Innovation

CONTENTS

Introduction

It's been 50 years since Marsh opened its first captive office in Bermuda. As we celebrate that milestone in 2018, Marsh Captive Solutions does so with one eye on the significant developments and trends of the past 50 years, and one eye looking ahead to captives' continued growth and strategic development. We're proud of the role we've played in the captive industry's amazing change as it has grown from about 100 captives in 1968 to nearly 6,650 today. And we're excited about the future.

The *2018 Captive Landscape* report marks the 11th year that Marsh has published an in-depth report on changes and trends in the industry.

Captive growth has not been a "numbers only" trend. Captives have spread geographically into dozens of countries, evolved into multiple forms, and financed a variety of risks. Most industries now have captives, as shown in *The Captive Landscape's* benchmark data, with notable year-over-year growth in the Asia-Pacific region and the largest captives becoming even bigger and more strategic.

Once the domain of large, multinational companies, captives today are an important risk financing tool for organizations of all sizes. That is evident in the steady growth through the years in small, midsize, large, and extra-large captives. Captives offer unrivaled flexibility in financing risks, which is one reason that more captive owners now use them to address emerging risks, including cyber liability, terrorism, and cyber terrorism.

As the world becomes more complex and less certain, organizations need risk management tools and advice that evolve with the times. We hope *The Captive Landscape* provides helpful insights and stimulates discussions in your organization. Your Marsh client service team is ready to talk about these and other risk topics with you in detail.

Ellen

Ellen Charnley, President
Marsh Captive Solutions

Captives today are an important risk financing tool for organizations of all sizes.

Change a Constant for 50+ Years of Captives

Legal changes, evolving business strategies drive decades of growth

The story of captive insurance is one of near-continuous expansion (see Figure 1). A response to tightening market conditions at their inception, captives have grown in popularity when coverage is scarce, expensive, or both — or when few solutions exist to finance emerging risks. Some key trends over the decades include:

1960s: About 100 captives were formed in the 1960s, the majority of which had single owners, or parents. Bermuda emerged as the pre-eminent offshore domicile for captives with the creation of the Bermuda Monetary Authority (BMA) in 1969.

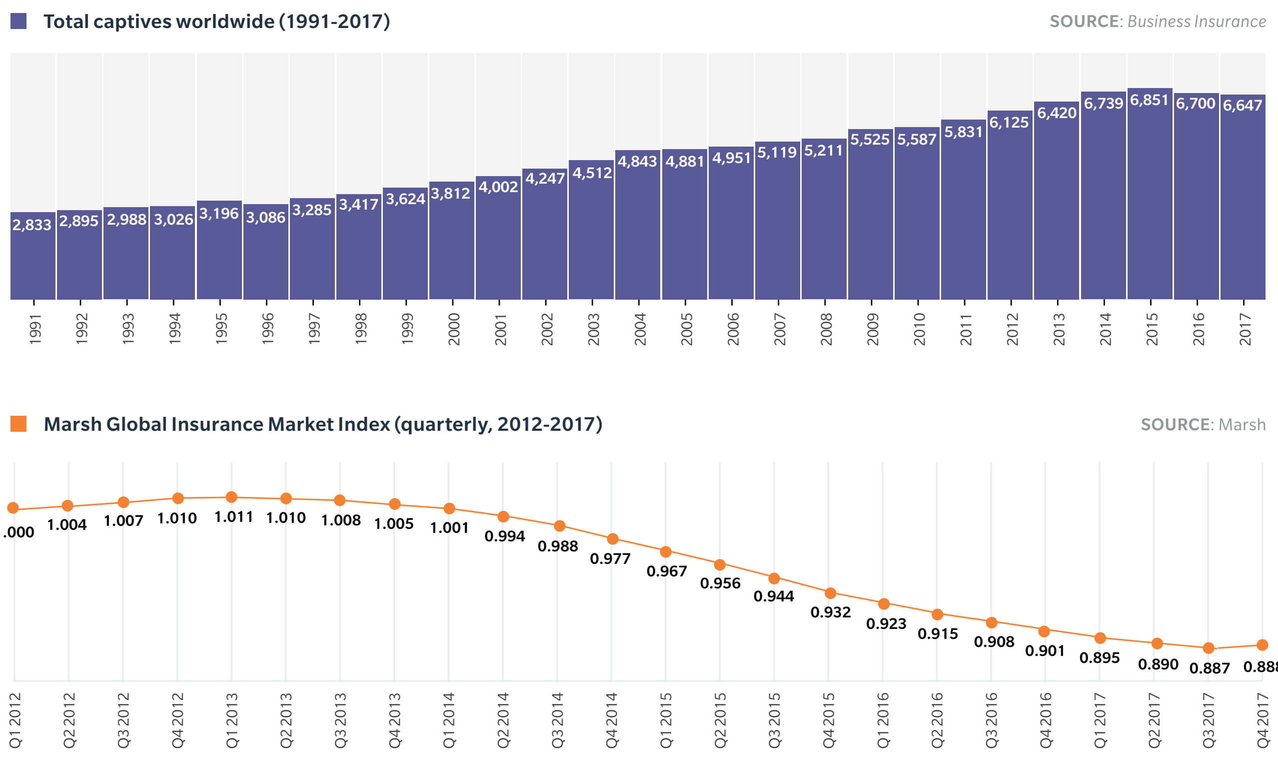
1970s: This was an era of large group captives, with many established for the oil, gas, and nuclear energy industries. Health care captives also surged during this decade, with the Cayman Islands attracting many of them.

1980s: By 1980[1], about 1,250 captives existed as a growth era for onshore captives began. In the US, the Risk Retention Act of 1981 permitted risk retention groups (RRGs) to write liability risks after receiving a license in a single state. Amendments in 1986 enhanced the appeal of RRGs. Vermont enacted a captive law in 1981 that has become a model for other domestic domiciles.

In the mid-1980s, a capacity crisis and hard market for property and liability insurance forced many organizations to consider self-insuring, which boosted the captive movement. In 1985 and 1986, respectively,

FIGURE 1

Number of captive insurers has generally increased under various market conditions.



[1] *Captive Insurance Company Directory*

ACE (now Chubb) and XL (now XL Catlin, which AXA has announced plans to acquire) formed in Bermuda as large group captives. In 1986, the Tax Reform Act removed some incentives for US owners to form offshore captives. The act changed the definition of "controlled foreign corporation" and required group captive owners to report their share of captive income and to discount loss reserves. The law also provided a tax exemption on underwriting income for "small captives," encouraging the formation of so-called 831(b) captives.

1990s: According to Swiss Re, by 1993 nearly half of the Fortune Global 1000 companies owned captives. In 1997, Guernsey enacted the first protected cell legislation, codifying the rent-a-captive concept. Similar laws followed in other domiciles, enabling growth of this innovative vehicle, known variously as protected cell companies (PCCs), segregated portfolio companies (SPCs), and incorporated cell companies (ICCs). In 1997, Marsh created the Green Island Reinsurance Treaty (GIRT), an innovative risk pooling program that enables captives to diversify their underwriting portfolios. The decade ended with more than 4,250 captives, with premiums topping US$21 billion.

2000s: A landmark decision in 2000 by the US Department of Labor allowed Columbia Energy to reinsure employee benefits in a captive and opened the door for other employers to include US benefit risks in their captives. Although the number of employers that have gained Labor Department approval is relatively small, interest in funding benefits through captives is growing, both in the US and internationally.

The September 11, 2001, terrorist attacks led to the Terrorism Risk Insurance Act (TRIA), which created a federal terrorism reinsurance mechanism in the US that captives can access as licensed insurance companies. The resulting hard market after 9/11 encouraged further growth of captives, as did the terrorism backstop. Terrorism and cyber terrorism have since grown as lines of coverage for captives. Reduced reinsurance capacity followed the most active period of Atlantic hurricanes on record — 2004 and 2005 — and spurred additional captive growth.

In 2009, Marsh Captive Solutions formed protected cell companies in Washington, DC, and the Isle of Man, known as Mangrove Insurance Solutions PCC, to provide risk-financing options to small and midsize businesses.

2010s: The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 included the Non-Admitted and Reinsurance Reform Act (NRRA). The NRRA, which took effect in 2011, simplified the payment of state-imposed premium taxes on self-procured insurance. In 2015, Congress passed the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), which allowed licensed insurance companies, such as captives, to continue to access TRIA benefits. In 2017, the tax exemption limit on small captives increased to US$2.2 million from US$1.2 million. In 2016, the European Union implemented the long-anticipated Solvency II regime, which applied to EU-based captives. Mergers and acquisitions among corporations owning captives have resulted in consolidation of captive entities, and acceleration of M&A is forecast to continue. By the beginning of 2018, there were 6,647 captives globally[2] — nearly double the tally of just 20 years prior.

Also in 2017, Marsh Captive Solutions partnered with Guy Carpenter & Company to launch Cerulean Re SAC Ltd. Cerulean Re, a Bermuda-registered segregated account company, helps captive and commercial insurers and reinsurers to access collateralized reinsurance and catastrophe bonds. In 2018, Marsh Captive Solutions expanded the Mangrove PCC facility into Europe, creating a third facility in Malta.

[2] *Business Insurance, Marsh Global Insurance Market Index*

50 YEARS OF MARSH CAPTIVE HIGHLIGHTS

1968 First Marsh captive office established in Bermuda.

1975 Opened Guernsey office, bringing European presence.

1976 Caribbean presence expanded with opening of Cayman office.

1980 Formed First Island Reinsurance, Marsh's first pooling solution.

1986 Formed first domestic captive with the opening of Vermont office.

Captives Bring Flexibility in Key Areas

From accessing capital to supporting business units, captives offer diverse benefits

Captives today come in a variety of structures, including single-parent entities, group captives, and special-purpose vehicles. Due in part to the proliferation of formats, captives are a viable alternative for most organizations. And while captive size varies, they share a common advantage: When placed at the core of a risk management program, captives offer remarkable flexibility in accessing capital, accelerating business objectives, supporting business units, and protecting human capital.

Captives at the Core

In the context of a risk management program, placing a captive at the center facilitates four key value drivers (see Figure 2), each of which brings specific advantages:

- Accelerate business objectives: Captives help an organization derive financial certainty for its operations, reduce its cost of risk, and mitigate cash flow volatility.
- Support business units: Captive use adds value to organizations in new ways, including:
  - Creating a profit center within risk management while providing better control over product, pricing, and customer service.
  - Offering opportunities for programs such as extended warranties.
  - Balancing varying risk appetites of corporate and business units through deductible buy-downs, reducing cash flow volatility.
- Protect human capital: A captive can support cost-effective funding of employee benefits, finance safety programs, and provide incentives for meeting organizational goals.
- Access to capital: Captives are uniquely able to provide organizations with access to risk transfer capacity outside of traditional commercial markets, including:
  - Access to reinsurance, which may provide broader coverage at lower cost or capacity that doesn't exist in commercial insurers.
  - Insurance-linked securities (ILS), which provide access to alternative capital for catastrophic-type risks, such as Cerulean Re, the Marsh-sponsored cell facility in Bermuda.
  - Government terrorism backstops, which exist in many countries.

1987

EU presence established with opening of Luxembourg office.

1988

Our first micro-captive formed.

1989

Dublin office established, incorporating the first direct writing captive in the EU.

1990

Marsh Captive Solutions Actuarial Group established.

1994

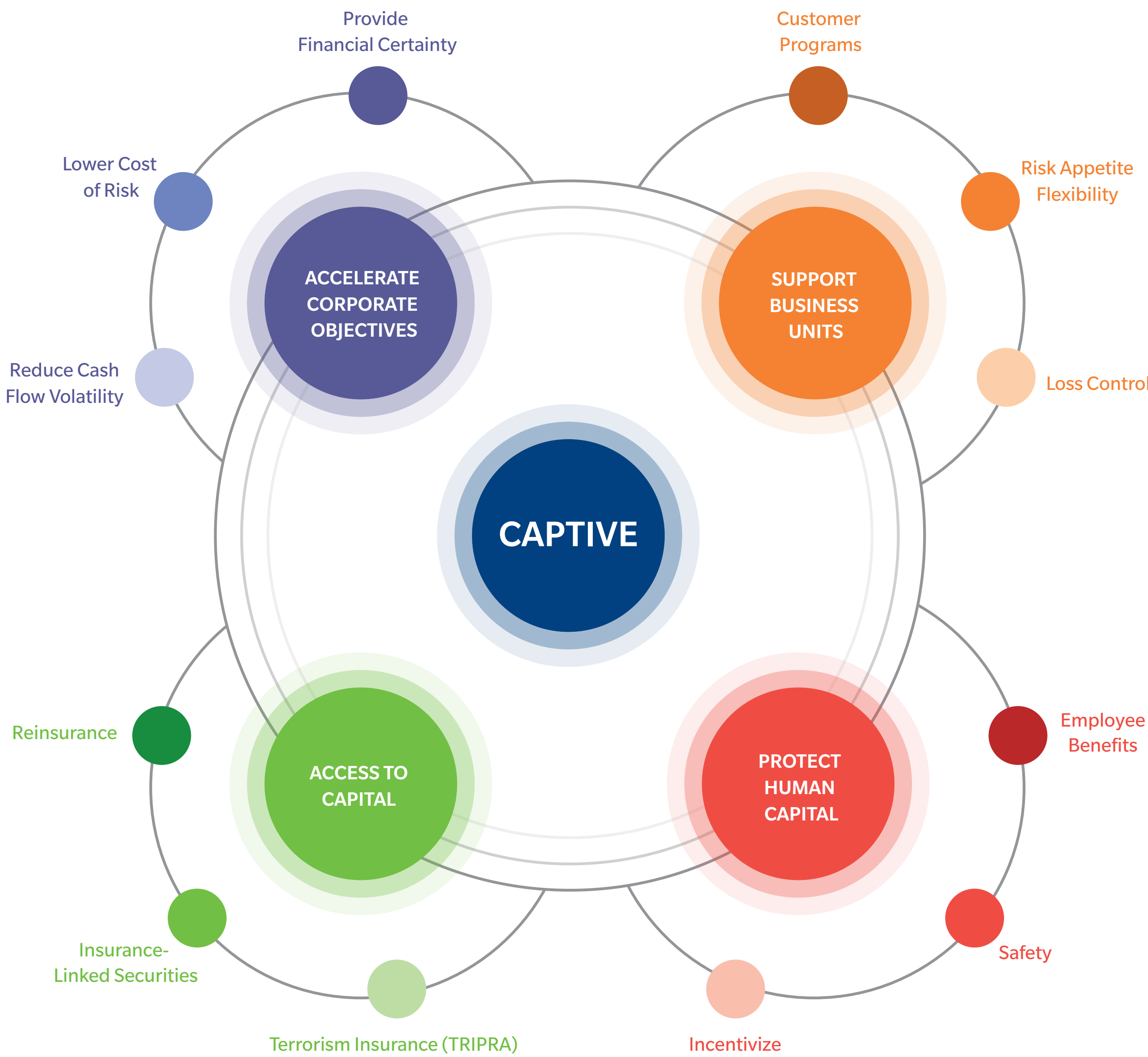
Launched Global Captive Management System, proprietary insurance company technology system.

1996

- First employee benefits captive established.
- Marsh involved in the first ILS CAT bond transaction, which took place in the Cayman Islands.
- Named manager of George Town Re Ltd., the first ILS CAT bond.

FIGURE
2

Placing captives at the core of a risk management program facilitates four key value drivers.

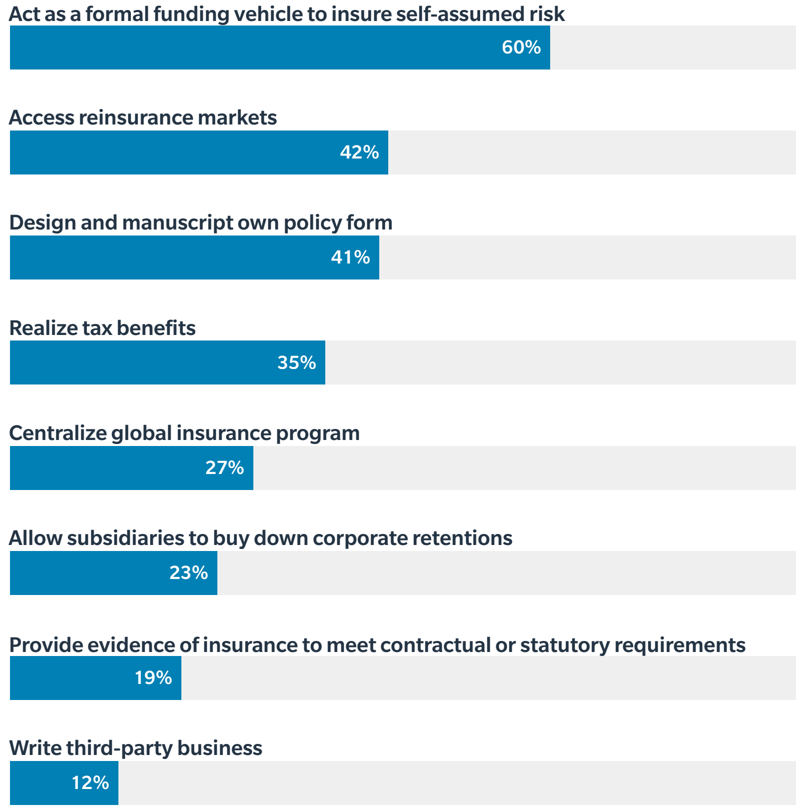


Owners See Value in Captives

According to a survey of Marsh-managed captive owners, reasons for forming a captive range from self-insuring risk to realizing tax benefits to writing third-party business (see Figure 3).

FIGURE 3

Captive owners cite a number of reasons for maintaining a captive.

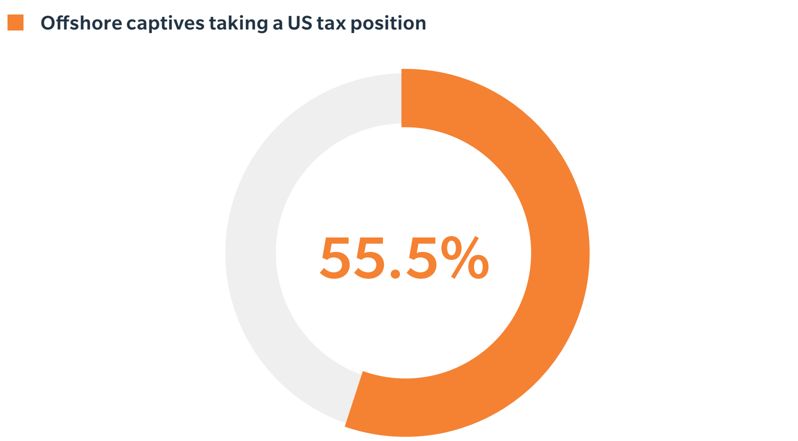


Tax Position

Although captives can bring tax efficiency, a minority of Marsh-managed captives view it as a key value driver. Among captive owners with offshore captives, slightly more than half elected to have their captives taxed as US companies (see Figure 4). Taking a US tax position, however, is not the same as realizing tax benefits from US or other authorities. Deriving tax benefits depends on a captive meeting certain criteria to qualify as an insurance entity.

FIGURE 4

Majority of offshore captive owners choose to be taxed as US companies.

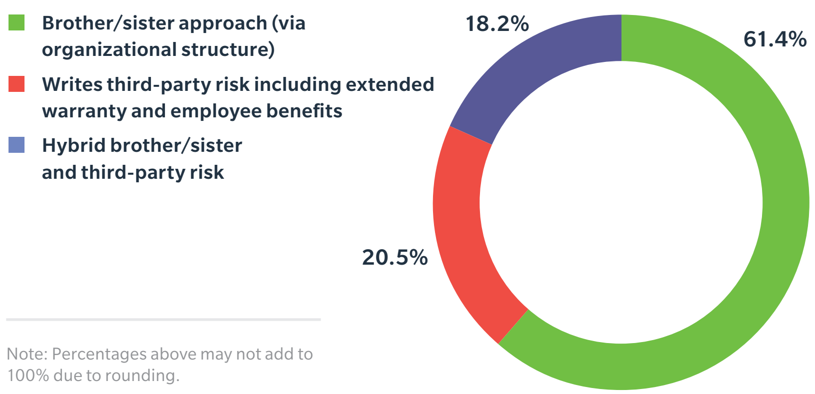


Achieving Insurance Company Status

US-owned captives that take a tax position generally use one of two approaches to qualify as insurance entities with risk diversification. One is the brother/sister approach, which distributes risk across subsidiary operations in a parent company's economic family. The other is underwriting unrelated third-party risks (see Figure 5).

FIGURE 5

Brother/sister approach most common risk diversification method.



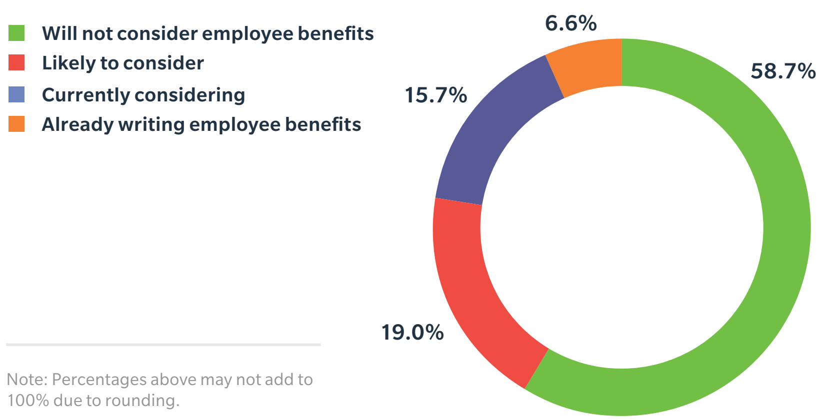
Note: Percentages above may not add to 100% due to rounding.

Funding Employee Benefits

Among Marsh-managed captives, interest remains steady for writing employee benefit coverages, such as group life, multinational pooling for health and disability, and voluntary benefits such as homeowners and auto (see Figure 6). We believe interest will continue to increase in this area as rising medical costs globally remain a significant expense for organizations.

FIGURE 6

Most captives yet to consider employee benefits.



Note: Percentages above may not add to 100% due to rounding.

1997 Formed Green Island Reinsurance Treaty, casualty reinsurance pooling arrangement.

2000 Launched first European CAT bond/SPRV, Atlas Reinsurance PLC, based in Dublin office.

2002 Marsh Captive Solutions Advisory Group established.

2003 First-ever motor liability captive established.

2008 Developed the first-in-market global captive benchmarking report, now known as *The Captive Landscape* report.

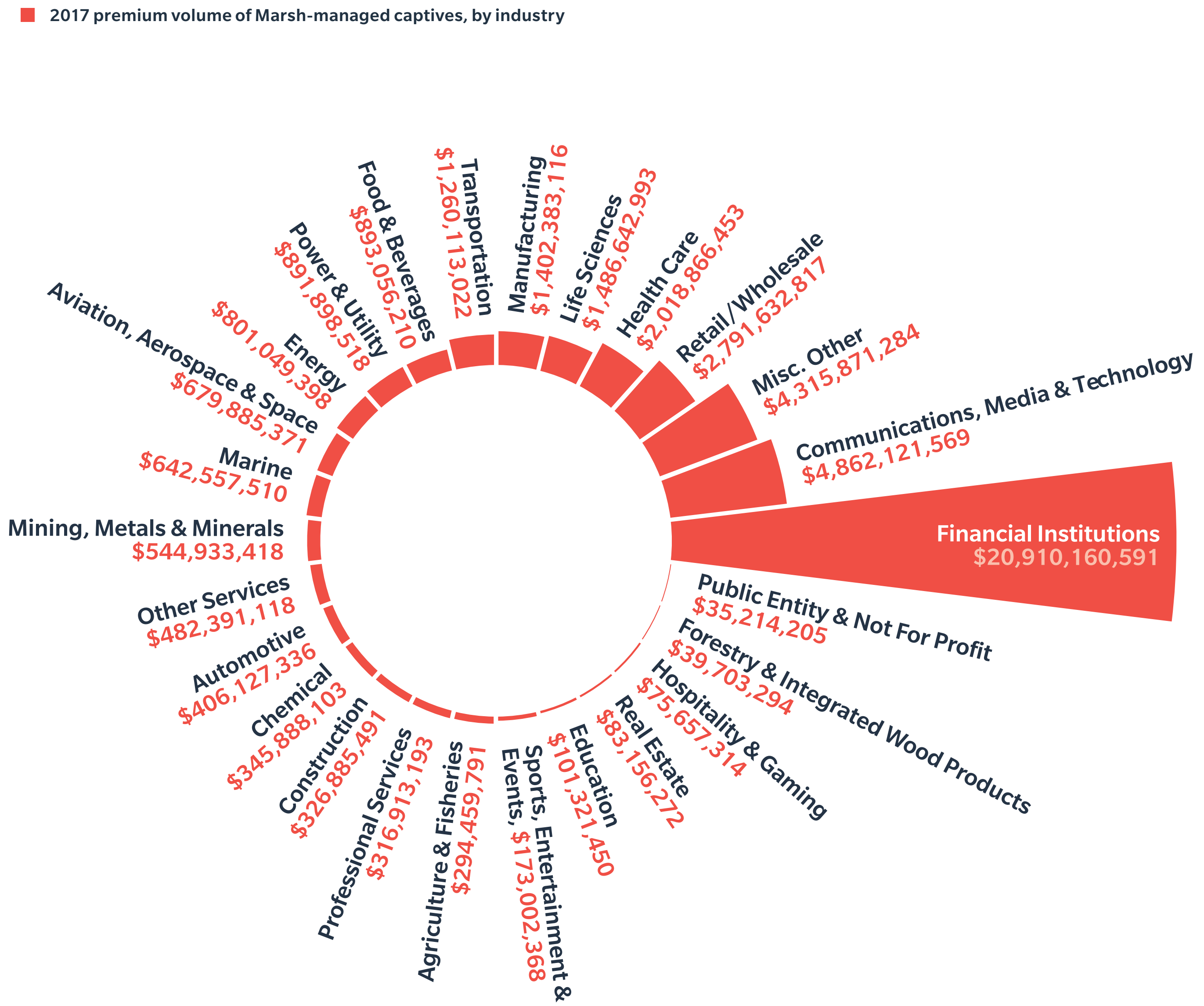
2009 Formed Mangrove Insurance Solutions PCC Ltd in the Isle of Man and Mangrove Insurance Solutions PCC in Washington, DC.

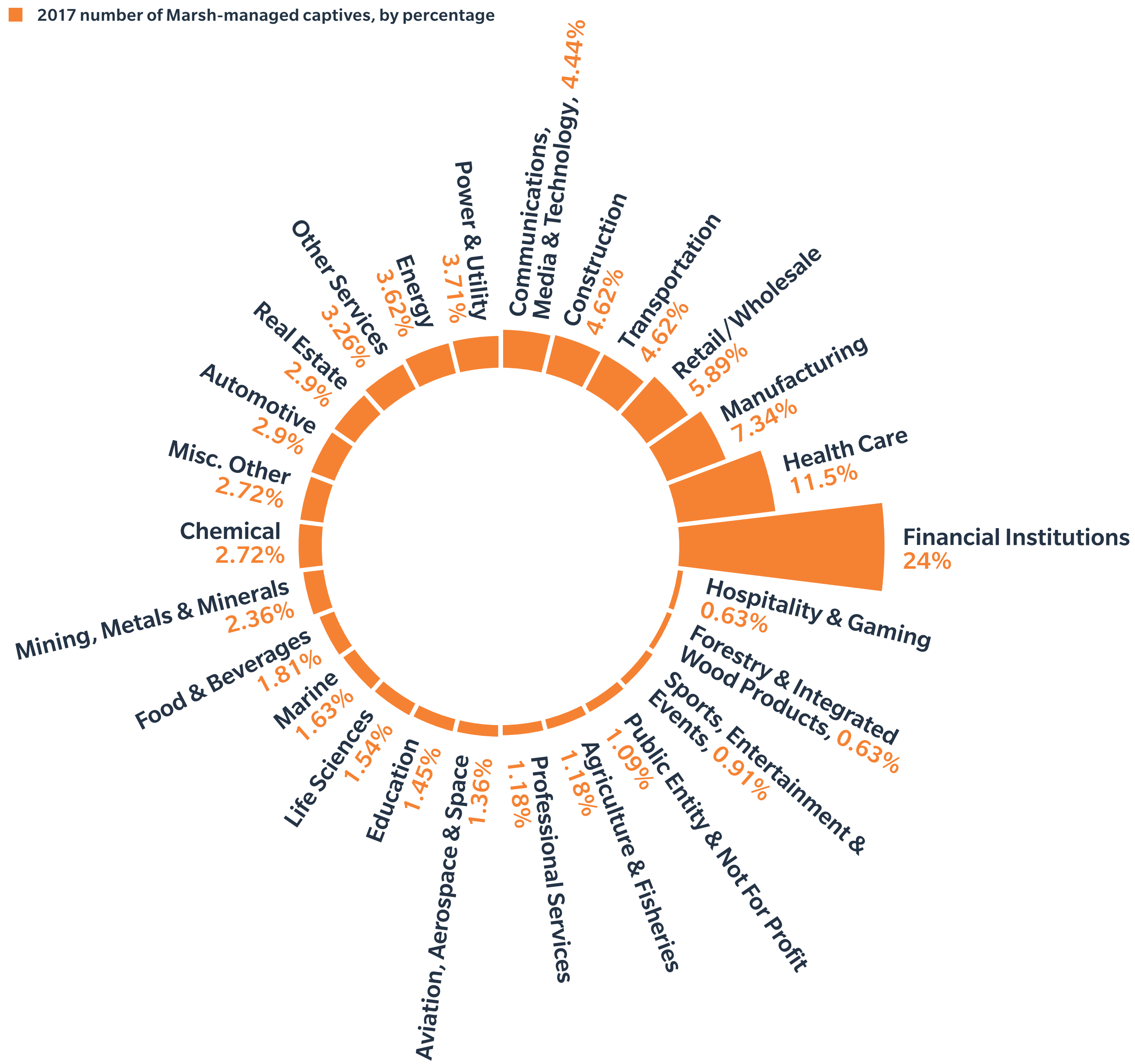
Captives by Industry

Financial institutions continue to lead the way in both number of captives and premium volume (see Figure 7). However, the increasing complexity of risk, emerging risks, and an uptick in mergers and acquisitions have led other industries to adopt or expand the use of captives.

FIGURE 7

Captive use continues to expand across industries.



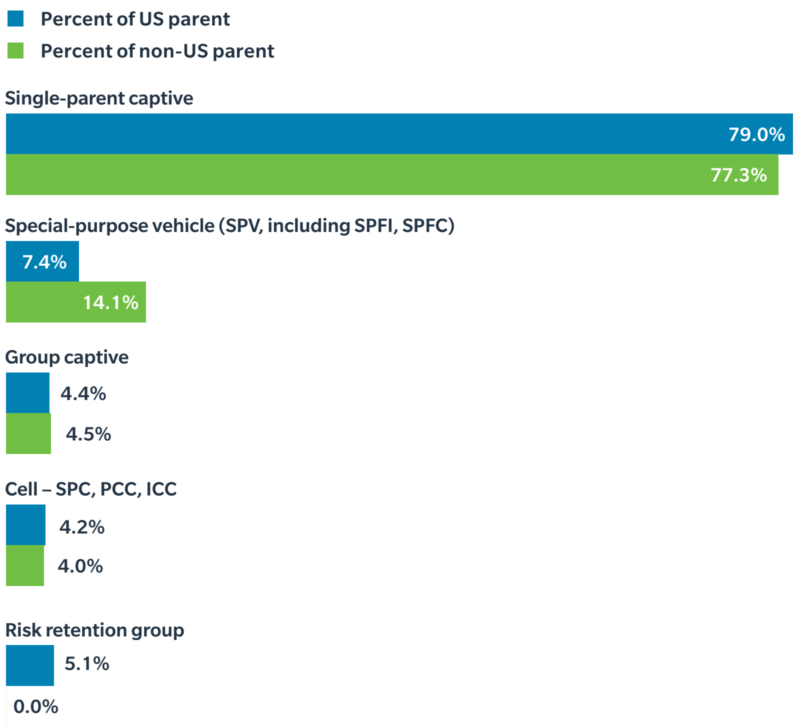

2017 number of Marsh-managed captives, by percentage
Financial Institutions 24%
Health Care 11.5%
Manufacturing 7.34%
Retail/Wholesale 5.89%
Transportation 4.62%
Construction 4.62%
Communications, Media & Technology, 4.44%
Power & Utility 3.71%
Energy 3.62%
Other Services 3.26%
Real Estate 2.9%
Automotive 2.9%
Misc. Other 2.72%
Chemical 2.72%
Mining, Metals & Minerals 2.36%
Food & Beverages 1.81%
Marine 1.63%
Life Sciences 1.54%
Education 1.45%
Aviation, Aerospace & Space 1.36%
Professional Services 1.18%
Agriculture & Fisheries 1.18%
Public Entity & Not For Profit 1.09%
Sports, Entertainment & Events, 0.91%
Forestry & Integrated Wood Products, 0.63%
Hospitality & Gaming 0.63%

Captive Structures

Single-parent, or pure, captives continue to be the primary structure of captive vehicles (see Figure 8). However, captive parents have a variety of structure options, offering flexibility in financing risks.

FIGURE 8

Single-parent structure remains most popular.



2011

First-ever pensions captive established.

2015

Launch of RightPath Reinsurance SPC, LTD., our medical/RX stop-loss captive.

2016

- Launched the Marsh Solvency Tool for Analytics for completing the Solvency Capital Requirement calculation for Solvency II.
- Named manager of the first Solvency II CAT bond, established in Ireland.

2017

- Launched Cerulean Re SAC Ltd, a Bermuda-registered SPI, through GC Securities and Marsh Captive Solutions.
- First woman named President of Marsh Captive Solutions.

2018

- Formed Mangrove Insurance Europe PCC Ltd in Malta.

FLEXIBLE CAPTIVE STRUCTURES

SINGLE-PARENT CAPTIVE

A wholly owned structure controlled by one company and formed to insure or reinsure the risk of the parent and/or unrelated parties of their choosing.

SPECIAL-PURPOSE VEHICLE

A subsidiary company with an asset/liability structure and legal status designed to make its obligations secure even if the parent company goes bankrupt. These are generally used to house asset-backed securitizations, protect organizations from financial risk, or manage capital and surplus.

CELL CAPTIVE

A captive formed by a third-party sponsor that "rents" cells to outside companies. The liabilities and assets of each cell are separate from other cells, and each cell owner is usually required to capitalize that particular cell.

GROUP CAPTIVE

Owned and controlled by multiple companies to insure or reinsure the risk of the group.

RISK RETENTION GROUP (RRG)

A structure that requires owners to be insureds of the RRG and that may write only liability coverage on a direct basis to its participants. It can operate in all 50 US states on an admitted basis, yet requires a license only in its state of domicile.

Captives Offer Access to Capital

Owners seek options for coverage of terrorism, other high-severity risks

Among other benefits, captive owners gain flexible options to finance emerging and high-severity risks, such as cyber liability, terrorism, and cyber terrorism. From 2012 through 2017, Marsh-managed captives showed cumulative growth of:

- 333% accessing international terrorism pools.
- 240% writing cyber liability.
- 83% in coverage under the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA).

Terrorism Coverage

US-domiciled captives are obligated to offer terrorism insurance under TRIPRA, which is activated only for certified acts of terrorism as defined by the Treasury Department and the Department of Homeland Security. Many organizations are examining their captives to see if they can take advantage of TRIPRA.

In December 2016, the US Treasury Department ruled that subject insurers that write cyber policies are included under TRIPRA, and eligible for reimbursement for losses by the federal government. Coupled with the growing awareness of cyber threats, this has caused many businesses to reconsider their approach to managing cyber risk — including cyber terrorism — and to explore the benefits of using captives to underwrite it. Businesses often conclude that using a captive to write cyber terrorism risk is a cost-effective and relatively simple means to reduce net retained risk, especially for companies that already own captives.

Because terrorists' methods evolve, it is difficult to accurately forecast liability risk arising from terrorist acts. Captives help owners protect their balance sheets from such uncertainty. In 2017, Marsh-managed captives writing conventional TRIPRA coverage increased 17% from 2016. Captives writing non-TRIPRA terrorism coverage increased more than 60%.

Other Means of Capital Access

Another advantage offered by captives is access to alternative risk capital, such as insurance-linked securities (ILS). An increasing number of captives use ILS to access reinsurance — especially where current markets have limited capacity for the type and level of risk involved — and as a way of diversifying their reinsurance towers.

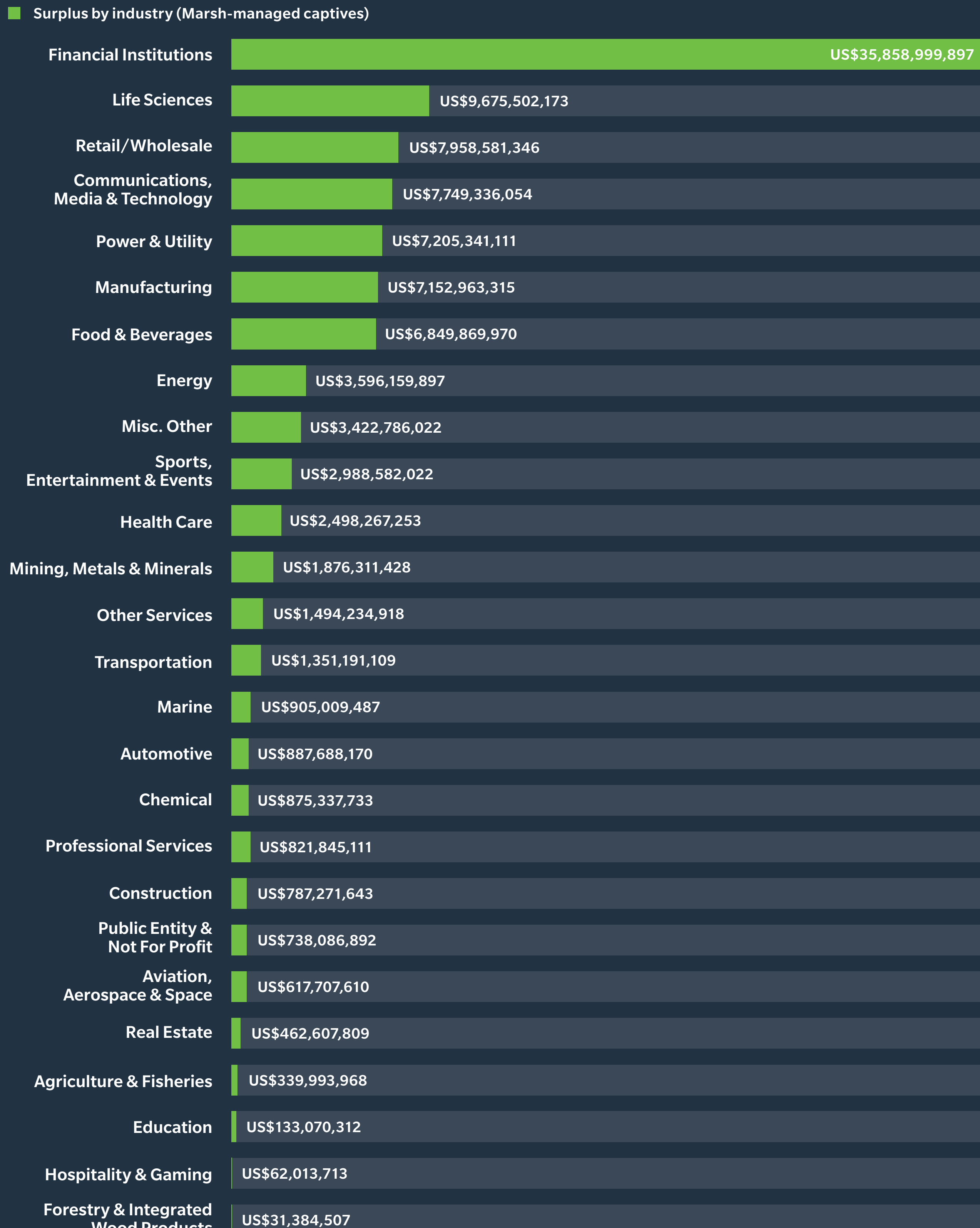
Special-purpose vehicles (SPVs) also provide access to capital, and now constitute more than 8% of Marsh-managed captives, with premiums of US$11.9 billion. Global domiciles with the largest percentages of SPVs are: Vermont, Dublin, Bermuda, South Carolina, and Delaware. Marsh formed Cerulean Re SAC Ltd. in Bermuda to support access to collateralized reinsurance and catastrophe bonds for clients of Marsh & McLennan Companies.

Following new ILS legislation and regulation by the UK government in 2017, NCM Re became the first ILS vehicle approved and launched in the UK. Marsh Captive Solutions was appointed as the insurance manager and NCM Re completed the first UK ILS transaction, worth US$72 million, in January 2018. This opens up another market for ILS and should aid the process to increase the risk types being transferred to alternative capital markets.

In addition to the above means of accessing capital, captives can help their parents through buildup of surplus (see Figure 9). In 2017, Marsh-managed captives had shareholder surplus totaling more than US$106.3 billion. These funds enable captive parents to develop creative risk financing options.

FIGURE 9

Captive surplus assists in risk finance solutions.



Size Trends

Captive formations in recent years have been highest among small and midsize captives (see Figure 10). However, we have recently seen organizations with large and extra-large captives grow their captive programs as they explore how to use current captive facilities to address new, complex, and emerging risks including cyber, employee benefits, multinational pooling, and medical stop-loss. The recent growth in large and extra-large captives may be attributable in part to consolidation of programs due to increased M&A activity in several industries, including financial institutions; communications, media, and technology; and health care.

FIGURE 10

Small and midsize captives now most prevalent.

Note: Percentages in a given year may not add to 100% due to rounding.

Parent Company Regions

North America and Europe continue to be home to most of the world's captives, although strong growth is occurring in regions such as Asia-Pacific (see Figures 11 and 12).

FIGURE 11

North America and Europe home to most captives.

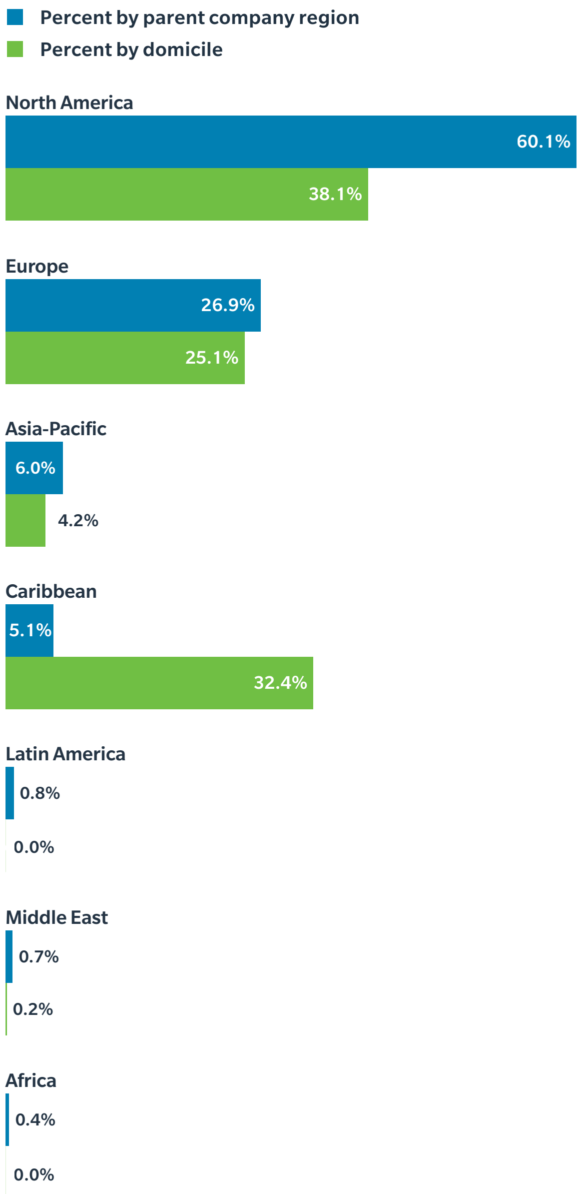
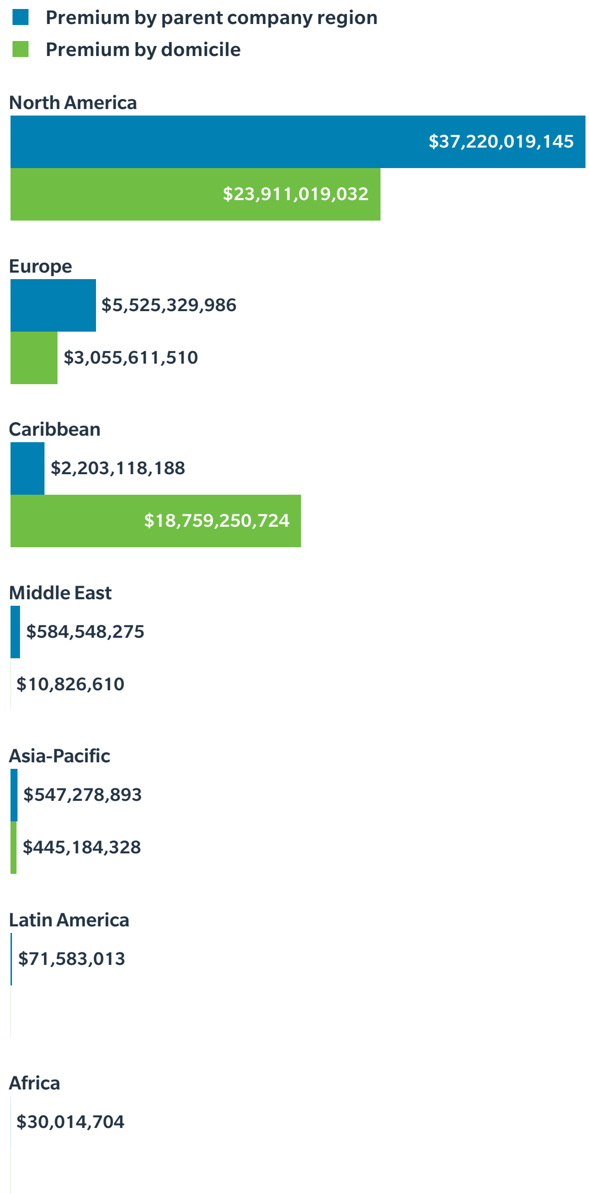
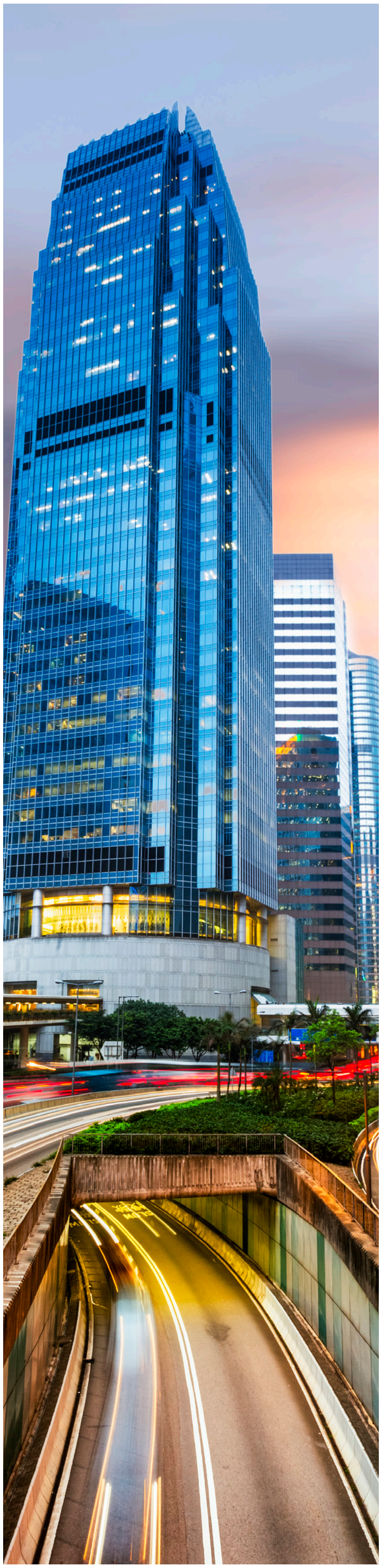


FIGURE 12

North America holds most captive premium.





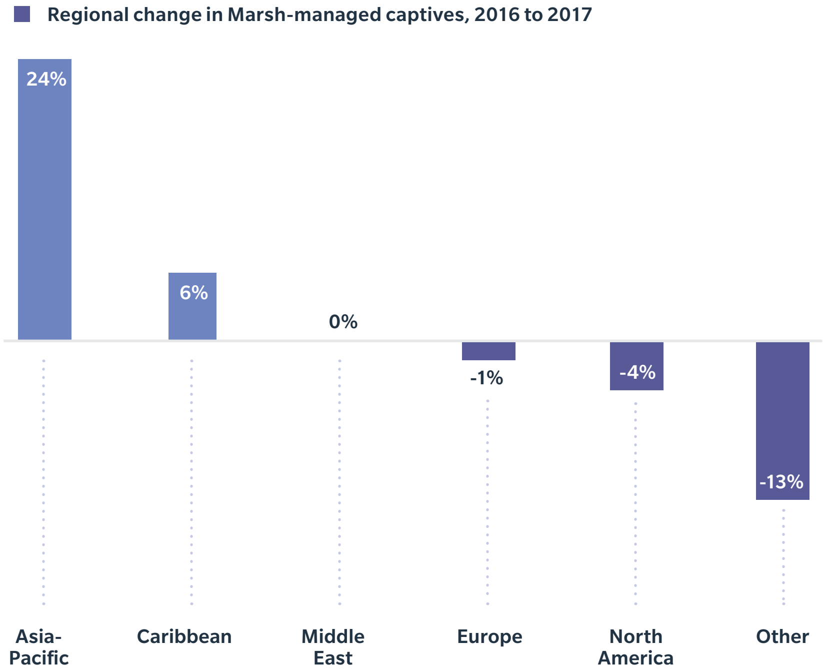
Regional Growth of Captives

From 2012 through 2017, regional growth in captives by parents was flat to slightly lower. The Asia-Pacific region, however, has shown consistent year-over-year growth, including a 24% increase in 2017 in the number of Marsh-managed captives, driven by parents based in Japan, China, Hong Kong, and Singapore (see Figure 13). Consolidation due to merger and acquisition activity is partially behind the reductions and flat growth in the number of captives in North America and Europe.

Parent Company Regions

FIGURE 13

Asia-Pacific region shows consistent captive growth.



Captives' Future Will Track with Global Risks

Tax reform, climate resilience, and innovation among the coming challenges and opportunities

What does the future hold for captives? Trends that may alter captive owners' strategies include tax reform, climate change, and emerging technologies.

Tax law changes: It is not yet clear what the impact on captives will be from the US Tax Cuts and Jobs Act, which will reduce the corporate tax rate from 35% to 21% and impose a premium tax on reinsurance ceded to foreign reinsurers. On the one hand, the tax reform law may encourage organizations to pursue captives as profit centers by insuring unrelated business. On the other, the premium tax on US insurers that use foreign reinsurers may cause captive owners to reconsider their reinsurance strategies if they use offshore markets.

Climate resilience: Climate change is causing greater volatility in global environmental conditions. Rising sea surface temperatures have been cited by some as strengthening tropical storms and hurricanes. Shifts in seasonal snowmelt and rainfall are contributing to severe flooding. Changing weather patterns are leading to periods of excessive rainfall in some areas and prolonged drought in others. Captives can improve organizations' climate change resilience through solutions including:

- Access to coverage.
- Funding for catastrophic losses.
- Coverage for wind, flood, and business interruption.
- Catastrophe bond options.
- Insurance-linked securities (ILS).

Disruptive technologies: Emerging technologies such as artificial intelligence, Internet of Things, and blockchain are bringing disruptive innovation to insurance, financial services, and most other industries. Blockchain's distributed-ledger technology helps make information more transparent and easier to disseminate, with fewer errors. Blockchain also facilitates digital signatures and "smart" contracts, which can execute automatically once programmed parameters are met. In the context of commercial insurance and captives, blockchain offers the potential for faster claim payments, support for parametric insurance, and improved policyholder experience through smoother processes.

US and international captive domiciles are promoting the use of blockchain technology: Arizona and Vermont enacted specific blockchain legislation in 2017, and Malta has announced plans to establish a digital innovation authority to verify and certify transactions using blockchain. Arizona law now recognizes the validity and enforceability of blockchain in electronic signatures and smart contracts. Vermont law allows the application of blockchain to insurance and digital banking. Observers expect these laws may accelerate innovation for captives and other insurance entities. Vermont is the largest US captive domicile and world's third largest, while Arizona is the tenth largest US domicile.

REGULATION WATCH – BEPS UPDATE

In recent years, the Organisation for Economic Co-operation and Development (OECD) proposed changes to international tax law to tackle aggressive tax planning. These changes, known as the base erosion and profit shifting (BEPS) recommendations or principles, are designed to tackle aggressive tax planning strategies that exploit gaps and mismatches in tax rules in order to reduce a company's tax burden.

The BEPS recommendations cover many areas, including captives. Since the release of the BEPS principles there has been greater scrutiny of captives from tax authorities worldwide. To ensure that the OECD fully understands the commercial rationale as to why so many multinational companies use captives, Marsh has engaged with risk management associations, such as The Federation of European Risk Management Associations (FERMA), to help educate the OECD and to assist with the creation of guidelines for national tax authorities with respect to captive arrangements.

The goal of this initiative is to ensure a more proportionate and consistent implementation of BEPS for captives. Captive owners should be ready to demonstrate their compliance with the BEPS principles of transparency and economic substance or face potential reputational damage and financial penalties.

IN FOCUS

Captives Help to Accelerate Corporate Objectives

Lower volatility, increased financial certainty among benefits sought

Many midsize and large organizations use captives as tools to efficiently self-insure risks that are difficult or costly to transfer to commercial insurers. Retaining risks in a captive requires a robust risk management program and a well-developed strategy. Advantages include reduced cash flow volatility, lower cost of risk, and increased financial certainty.

Captives can accelerate corporate objectives in several ways, including:

- Potential buildup of underwriting income on a tax-deferred basis.
- Pre-loss funding in a regulated entity that helps to stabilize annual expenses in the event of unexpected large losses.
- Offset future insurance costs by reducing long-term dependency on commercial markets.
- Investment in safety and loss control programs, further reducing cost of risk.

Smaller organizations in various industries also use captives. Under the US Tax Code, small captives can qualify for a tax exemption on underwriting profit up to US$2.3 million. This makes the small captive concept especially attractive for small public companies and larger private organizations. To qualify for such treatment, small captives must operate as any other captive insurer does — complying with applicable solvency regulations, assuming risk, and setting premiums using actuarial and underwriting standards.

To offer small and midsize businesses options in risk financing and access to the advantages of captive insurance at lower operating costs, on average, Marsh Captive Solutions established Mangrove Insurance Solutions PCC, a series of protected cell companies with locations in Washington, DC; the Isle of Man; and Malta.

Captives Supply Business Unit Support

Organizations can use captives to support their business units through various programs. These can include loss control, accommodating different risk appetites, and offering insurance to customers and/or suppliers.

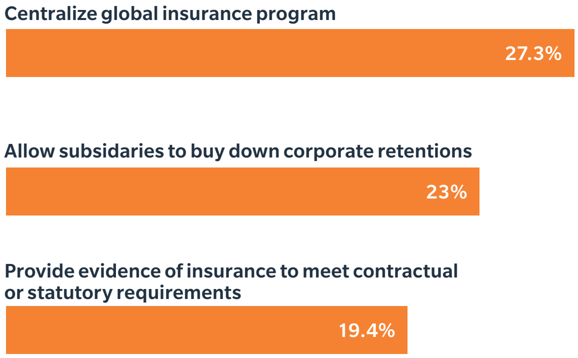
Indeed, clients responding to a survey of Marsh-managed captives cited three ways in which they see captives supporting their organization's business units (see Figure 14).

Insuring unrelated risks can provide different forms of support to business units, either directly or to business units' suppliers and customers. For example:

- Third-party insurance programs, such as extended warranties, can help business units to retain customers or strengthen relationships with suppliers.
- Where business units' risk appetites vary, or their risk transfer objectives differ, captives offer the flexibility to provide financial stability and reduce overall cost of risk. Business units may access a captive to buy down their corporate risk retention, for example.
- Loss control programs through a captive can improve business units' productivity and profitability.

FIGURE 14

Many captive owners look to centralize insurance programs.



“Captives provide a means to create health and wellbeing programs and collect data on employee populations to stem cost increases and improve health.”

IN FOCUS

More Captives Used to Protect Employees

Employee benefits, safety, and health issues coverage increased in 2017

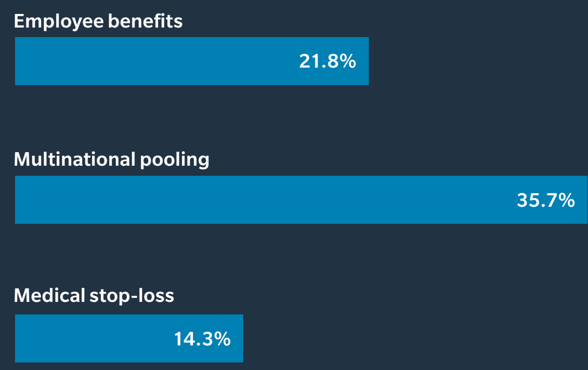
Human capital is typically an organization’s most valuable asset, and captives offer creative ways to protect it, including funding employee benefits, enhancing safety programs, and rewarding risk-reducing behaviors.

Over the past five years, the number of Marsh-managed captives insuring multinational pools for benefit risks increased 550%. It can take multinational organizations a relatively long time to consolidate benefit contracts in different countries for the purpose of insuring or reinsuring them through a captive. Generally, benefit programs are provided to local subsidiaries and groups of employees through multiple insurers or network contracts, some of which may be multiyear. Given the increasing interest in funding employee benefits in captives, however, we expect growth to continue (see Figure 15).

Voluntary benefits, including homeowners, automobile liability, and umbrella liability, also are experiencing steep growth in Marsh-managed captives.

As medical cost inflation rises worldwide, employers are seeking ways to gain control of benefit costs. Captives provide a means to create health and wellbeing programs and collect data on employee populations to stem cost increases and improve health.

FIGURE 15 Benefit coverages increased in Marsh-managed captives in 2017.



50 Years and Counting

Captives are flexible, evolving tools. Their availability in a variety of configurations helps drive opportunities for their parent organizations. Captive vehicles are an engine that organizations can harness to help drive corporate objectives, access capital, support business units, and protect human capital.

Captives are inherently flexible — they can grow and evolve with their parent's business. When placed at the core of a risk management strategy, captives provide financial certainty through solutions that can maximize value for their parents. The captive industry has changed substantially over the 50 years Marsh has been in the business, and while change is likely in the next 50 there is also a constant: Organizations will continue to use captives to achieve creative solutions to risk management and meet business challenges.

Recommendations

Already a captive owner? Innovate.

Seek competitive advantages through your captive by:

- Understanding how emerging risks play into your captive strategy.
- Using captives in new ways, including for employee benefits, terrorism, and cyber risks.
- Making captives the core of your risk management strategy.
- Driving growth opportunities with your captive.

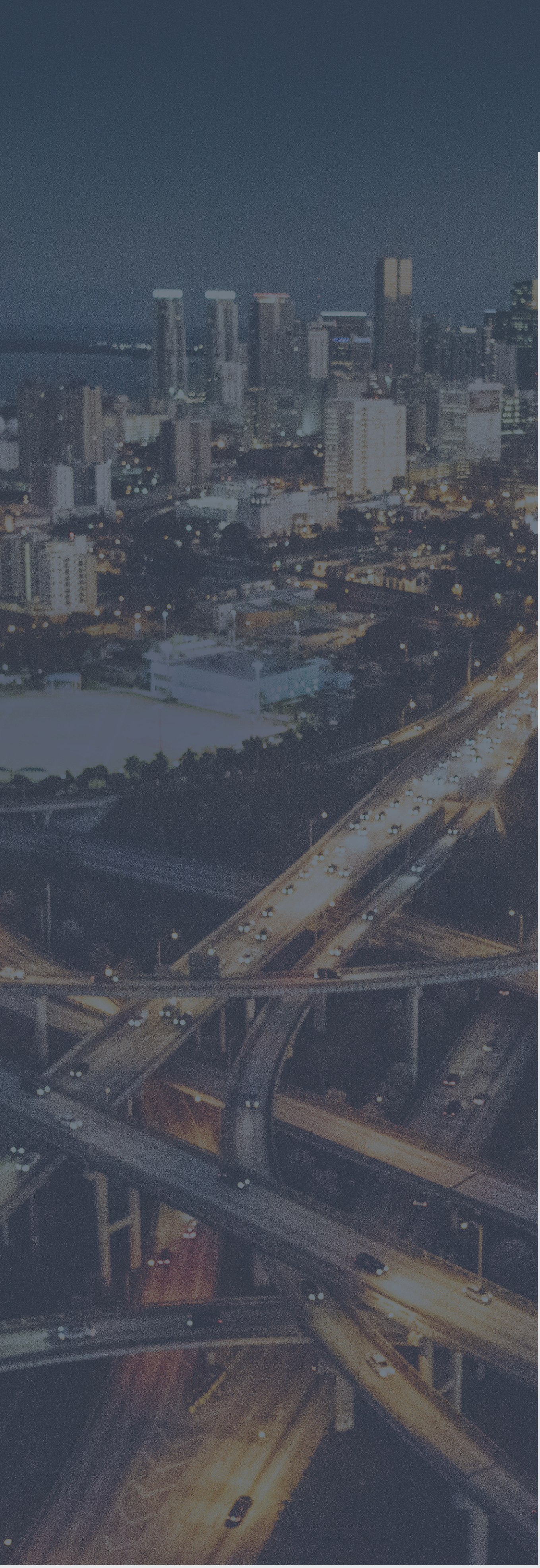
Considering a captive? Look at your core.

Discuss how captives can benefit your organization by strengthening the core of your risk management program by:

- Accelerating business objectives.
- Supporting business units.
- Protecting human capital.
- Accessing to capital.

For more information, contact marshcaptivesolutions@marsh.com.

Notes



ABOUT MARSH

A global leader in insurance broking and innovative risk management solutions, Marsh's 30,000 colleagues advise individual and commercial clients of all sizes in over 130 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With annual revenue over US$14 billion and nearly 65,000 colleagues worldwide, MMC helps clients navigate an increasingly dynamic and complex environment through four market-leading firms. In addition to Marsh, MMC is the parent company of Guy Carpenter, Mercer, and Oliver Wyman. Follow Marsh on Twitter @MarshGlobal; LinkedIn; Facebook; and YouTube, or subscribe to *BRINK*.

ABOUT THIS REPORT

Except as indicated, all data in this report is based on 1,100 Marsh-managed captives who agree to share their data on an anonymous and aggregated basis. Clients can opt out of the analysis.