

CELL CAPTIVES IN SA

WHAT IS A CELL CAPTIVE?

A cell captive is a legal method of enabling a non-insurance entity to share in the insurance license of an insurance company. It is regulated by means of a cell captive insurance license that allows for the fundamental differences between cell captive insurance and conventional insurance in its requirements. The cell captive provides a cell owner with the ability to legally act as an insurer by on-selling an insurance product to a specific client base without incurring the expenses and burdens associated with the establishment and management of an insurance company.

REASONS WHY CELL CAPTIVES ARE FORMED

Cell captives are formed for a number of reasons, some of which include:

- The ability to on-sell insurance products
- Increased awareness of risk management
- Lower expenses compared to traditional risk transfer/insurance companies
- Credit for good claims experience
- Insuring the uninsurable
- Direct access to the reinsurance market

Cell captives may also be used by companies to retain their own risks. It provides direct access to professional reinsurance markets without necessitating the use of traditional insurers, thereby reducing the costs in the supply chain.

Retailers and other affinity groups have come to realise the advantages of on-selling insurance products to their client base. “This has resulted in a significant increase in cell captives, a concept that enables non-insurers to sell insurance packages tailored to their clients’ needs,” says Neil Ashcroft, marketing director at Centriq.

Before embarking on the strategy of selling insurance to clients however, Ashcroft advises cell captive owners to ensure that the correct insurance partner is engaged. “It is of utmost importance that the insurance partner has experienced insurance professionals to meet the regulatory requirements imposed by the Financial Services Board. In addition, the insurance partner needs to have the underwriting and actuarial specialists necessary to understand and price the risk appropriately,” notes Ashcroft. He adds that insurance partners also need to have the ability to determine the appropriate level of risk to be retained and how much of the risk needs to be reinsured. “This will ensure that the cell owner’s insurance strategy is sustainable as the amount of risk it retains is directly related to its capacity to weather any storms,” he says. Finally, the cell captive insurer must have the necessary experience, administration expertise and systems to be able to administer and report on the cell captive’s activities, as well as being specifically authorised to carry on cell captive business. “To further improve the chances of success, it is important that the non-insurance company insists on a true partnership with the cell captive insurance provider by aligning the respective interests,” says Ashcroft. Simply put, the cell captive provider or insurance

partner should take a share of the risks written within the cell in order to prompt accurate assessment and underwriting.

Ashcroft believes that the demand for cell captives will continue to be used in the on-selling of insurance products in the future.