OLD MUTUAL ALTERNATIVE RISK TRANSFER

CELL CAPTIVE TRAINING COMPARISON OF VARIOUS **INSURANCE STRUCTURES**

	CONVENTIONAL INSURANCE	PROFIT SHARING	CELL CAPTIVE
Structure	Insurance policy where client pays a guaranteed premium for cover. No profits or losses are shared.	Insurance policy where client pays a premium for cover with profit share through a premium refund.	Cell is established via a participation agreement. An insurance policy is issued where client pays a premium for cover. Profits are received through dividends.
Risk transfer	100% of risk transferred to the insurer. Thus loss is limited to the premium paid.	100% of risk transferred to the insurer. Thus loss is limited to the premium paid.	Retain risk unless entered into an reinsurance arrangement. Thus loss may not always be limited to the premium.
Direct reinsurance access	No	No	Yes
Form of profit	N/A	Reduction in future premiums or lump sum payment.	Preference dividend payment.
When profit paid	N/A	Ranges from the end of the year of assessment to six months after the year end.	End of the financial year of the cell.
Risk management	No motivation for client to employ risk management processes.	Client is motivated to improve risk management processes.	Client is motivated to improve risk management processes.
Investment income	Client does not share in any investment income generated.	Typically client does not share in any investment income generated.	Investment income forms part of the profits paid to the client.
Management time requirement	Once purchased, no further management time is required (apart from annual review decisions).	Once purchased, no further management time is required (apart from annual review decisions).	Management time is required in monitoring the financial and operational aspects of the arrangement.
Capitalisation	N/A	N/A	Clients can either capitalise the cell themselves or rent the capital at a fee.
Set-up costs	N/A	N/A	Set-up costs, depends on complexity of transaction.
Cost of profit sharing	N/A	Depending on the % of profit share required, could be in excess of 5% of conventional insurance premium.	• Set-up costs, depends on complexity; • Annual costs, nominal or a percentage of premium; • Capital adequacy costs, if rents capital.
Barriers to exit	None	None	A minimum of three years may apply.
Commitment	Short-term	Medium-term	Long-term

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