April 29, 2014, 3:05 p.m. ET

Majority of US-Owned Captives Not Generating Tax Benefits: Marsh

NEW YORK--(BUSINESS WIRE)--April 29, 2014--

Marsh's annual captive benchmarking report, released today at the 2014 RIMS Conference, finds that only one-third of US captive owners treat their captives as insurance companies for US federal income tax purposes. The finding suggests that captives are being used more as a tool to generate operational and risk management value rather than for their tax efficiencies.

The report, The Evolution of Captives: 50 Years Later, is based on the activities of 1,148 captives under Marsh's management, including a vast array of all types of captives, risk retention groups, non-traditional captives, and life insurance company captives. It found that of the 664 captives benchmarked with a US parent, only 37% are deducting captive premiums on US federal income taxes.

Among the captives that are being treated as insurance companies for tax purposes, the number of new small captives -- or so-called 831(b) captives -- is trending upwards. These captives -- typically created by midsize companies writing less than $1.2 million in premium -- represent the most common new captive formations in the US over the last five years and have led to the significant growth of domiciles like Utah, Kentucky, Montana, and Delaware.

According to the report, a majority of small captives -- 68% -- are opting for the brother/sister approach -- where a captive owner is a holding company with several subsidiaries -- in order to qualify as insurance companies for tax purposes. Twenty-two percent are taking a hybrid approach (brother/sister and third party writings), and only 10% are achieving it with a third party risk approach. With the growing popularity of smaller pooling facilities, which is an approach to securing third-party risk, Marsh expects the pooling approach to grow significantly in the future.

"Marsh has always advocated that captives be viewed as a tool to help companies better deal with fluctuating market conditions, unstable regulatory environments, and global economic shifts, rather than just view them as a tax benefit," said Julie Boucher, Marsh's Americas Captive Leader. "We counsel our clients to explore innovative ways of using captives to manage risk."

For example, more real estate investment trusts (REITs) are forming captives today to access funding from the Federal Home Loan Bank (FHLB) system at favorable rates. Captive membership in the FHLB is a significant new opportunity for REITs and other types of real estate finance clients, and has been growing at a rapid rate since the summer of 2013, the report notes.

Other highlights from Marsh's report include:

- More captives are underwriting voluntary employee benefits, such as critical illness, ID theft, pet insurance, group home, group auto, and group umbrella.

- Thirty-four percent of the captives benchmarked enter into intercompany investments with their parent companies, of which 18% are securitized by the captives for added regulatory comfort. This trend is expected to grow in the near future as a result of increased regulatory flexibility.

-- Captive growth in US domiciles, including Utah, Vermont, Texas, Tennessee, Connecticut, and New Jersey, is expected to continue in the near term due to recently implemented captive legislation or resurrected captive laws, making these locations more attractive. With the Solvency II implementation set for January 2016, EU domiciles also are expected to experience growth in the short term.

-- Compared to 2012 when 16 captives re-domesticated from offshore to onshore jurisdictions, only 11 captives did so in 2013, demonstrating no large-scale trend.

-- Nearly 12% of Marsh's captives under management participate in a terrorism program, with a majority -- 71% -- accessing the Terrorism Risk Insurance Program Reauthorization Act in the US.

About Marsh

Marsh is a global leader in insurance broking and risk management. We help clients succeed by defining, designing, and delivering innovative industry-specific solutions that help them effectively manage risk. We have approximately 27,000 colleagues working together to serve clients in more than 100 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE:MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and human capital. With more than 54,000 employees worldwide and approximately $12 billion in annual revenue, Marsh & McLennan Companies is also the parent company of Guy Carpenter, a global leader in providing risk and reinsurance intermediary services; Mercer, a global leader in talent, health, retirement, and investment consulting; and Oliver Wyman, a global leader in management consulting. Follow Marsh on Twitter @Marsh_Inc.

Marsh's Captive Solutions Practice includes the Captive Advisory Group, Captive Management Services, and the Captive Solutions Actuarial Group. The Practice has more than 450 colleagues managing more than 1,240 captives globally, making Marsh the largest captive manager worldwide.

CONTACT: Marsh
Sally Roberts, +1 303-952-9453
sally.roberts@marsh.com
or
Lee Ann Farwell, +1 212-345-1125
leeann.farwell@marsh.com

SOURCE: Marsh