

The Captive as a Business Development Tool

(Number 2 of 8 in our series on Strategic Uses of Captives)

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Introduction

Historically, the construction sector hasn't been an industry that focused on business development. Much of the construction industry of the past operated on a model that involved responding to requests for proposals (RFPs) and trying to provide a price that would win the job based solely on having the lowest price in comparison to competitors. Such a model involves very little in the way of true business development, where a deeper understanding of the client's need or business goals are examined. The truth is a significant portion of the world's current construction market place still utilizes a "low cost producer" model.

That said, things appear to be changing when it comes to the growth of true business development within the construction economy. More construction contractors have created a role that oversees business development. That business development leader often has fairly sizeable teams that focus on generating business opportunities by offering clients economically demonstrable value beyond just supplying them a low construction price for their project. Much of the value being offered by progressive construction players involves working with owners through more collaborative procurement models and focusing on outcomes beyond just low construction price (i.e., value for money, total cost of ownership/asset management, productivity of the asset once constructed, sustainability, resilience). These business development strategies require the designer or contractor to develop a trusted and reliable relationship with their clients. That trust is often developed through strong knowledge of the client's industry/sector and insights as to how the designer and contractor can help that client achieve success within that industry/sector. To deliver a solution that builds such trust, the construction sector company needs to harness its collective knowledge to maximize the number of insights it can bring to prospective clients. To achieve this, a captive insurance vehicle could become an ideal repository of not only insights but potential solutions to solve the many risk issues faced by the construction sector's various clients.

The construction sector appears to be increasingly focused on building more trusted relationships with their clients. This trust is built on the provision of insightful advice and impactful solutions that help the client achieve the desired outcomes from the asset being built for them. In some cases, this advice goes well beyond just the construction phase and collaborates with the project owner's operations staff to provide value well beyond a low construction price. Why is it some owners are seeking such advice from the construction community? Well, the construction community houses within it a vast amount of experience related to the ideal strategies of design and construction that lead to the development of an asset that operates as per the desires of its owner. Essentially, the construction sector has seen, and been the victim of, many risks that have manifested on their projects, both during construction phase and into the asset's operations phase. Those construction companies that have systematically captured the various risks faced by their organization historically will be in the best position to articulate these insights and thus build trust with their project owner customers. One of the most powerful repositories of risk insight within a construction company could be its captive insurance vehicle.

The benefits of a captive to generate outputs that grow business opportunities are many and the following are but a few examples:

1. **Insight Generation** – As referenced in the first article of this series a captive can be utilized as a repository of not only data related to the risks taken on via the captive, but potentially all data related to risks within the organization. Companies that start centralizing and effectively structuring their risk data will be in a much better position to dialogue with their customers around ideal ways to avoid or manage key risks that could be faced in the development of their clients' assets. Further, if the captive and its data-capture protocols go beyond construction risks into the operational asset risks (defect risks), then the construction company can offer very valuable insights into key operational risks the asset owner might face into operations.
2. **Risk Pricing** – If the captive captures all the necessary component parts of risk, like root cause of loss and frequency and severity data, then the captive could provide technical pricing for risks faced by an organization. Such technical risk rates could be utilized in negotiations with project owners to arrive at ideal risk transfer pricing for the projects being taking on by the organization.
3. **Risk Allocation Discussions** – Similar to the above point, the data captured within the captive could be utilized to have more quantitatively driven discussions around contractual risk allocation. Captive data may be able to show that certain risks might be more appropriately allocated back to the project owner, or other stakeholders to the project. The data will allow the owner to make a value for money decision on risk allocation and ensure the risk is allocated to the party best able to manage it.
4. **Risk Finance Solutions** – The captive vehicle can create a myriad of risk finance solutions by combining your company's ability to retain risk with the insurance market's capital. Risks that would otherwise be borne by the balance sheets on the project (either yours, the project owners, or other stakeholders) could be financed by the captive and insurance company capacity. There are several risks which are traditionally difficult to place, or even uninsurable, that could become insurable if the right data is captured and risk is shared with insurance partners (we will discuss these risk finance solutions in more detail in future articles in this series). Such risk finance solutions could further deepen relationships with project owners making you an even more trusted partner.

These are but a few examples of how a captive could be used to grow more trusted relationships with project owners. Such strategies should be fed into business development teams, so they can initiate deeper dialogue with their prospective clients. These prospective clients want to know they are choosing a knowledgeable, experienced, insightful and solution driven organization to help them develop, and even operate, their assets. The captive could potentially be an ideal vehicle to deliver such confidence to prospective clients.

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