

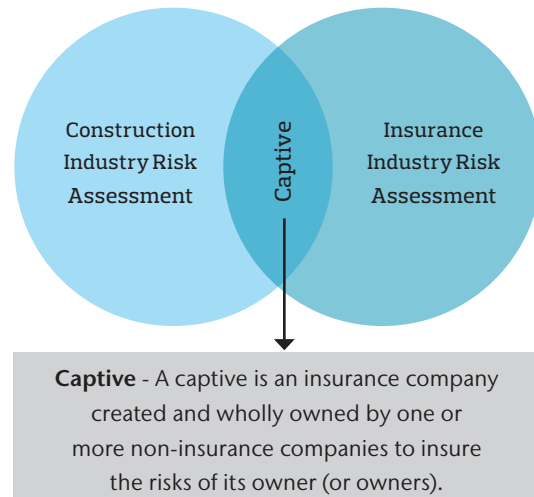
The Many Strategic Roles of a Construction Captive

Estimating the frequency and impact of risk is perhaps the most important skillset any company can develop. As a design firm or contractor in the construction industry you rely on your employees to identify risks, but your employees' true value is measured by their ability to predict, quantify, and provide solutions that allow your firm to best manage its risks so as to create and maintain a competitive advantage in the marketplace. Employees that have this skillset are often the highest paid employees at any company.

Insurance companies also value this skillset. It is the essence of their business. When they are successful at pricing risk above the aggregate losses they pay out under their insurance policies they turn an underwriting profit (a valued result in the insurance sector which also relies heavily on profit delivered through investment of the premium they hold at any given time).

So, who is better at estimating the frequency and severity of risk within the construction sector? Is it the key stakeholders of the construction industry that eat, sleep and breath the construction economy and its myriad risks every day? Or is it the insurance sector with its army of actuaries, data scientists, and risk engineers that pour over heaps of loss and exposure data in order to decide what is the right coverage and right pricing to put forward? Who is best positioned to deliver a risk financing solution that turns a profit and still satisfies the key stakeholders of the construction industry?

Ultimately both sides have tremendous skills in assessing and treating risks associated with the construction sector. In a perfect world you want to bring the varied perspectives and common skillsets of both together in order to create a model that provides the best results for all stakeholders. This middle ground does exist and for some it comes in an ideal form known as a captive.



In the coming months, through a seven-part white paper series, we will explore some of the top strategic uses for a captive to illustrate how a construction company can partner with insurance company risk advisory and capital in order to improve productivity, profitability and project outcome certainty.

The following are the seven areas we will focus on to evidence the value a captive can bring to the operations of a company immersed in the construction industry:

1. The Captive and Enterprise Intelligence – Once established a captive becomes a vehicle to create a consistent and systematic framework for capturing data. This data can be combined with other datasets, developed and harnessed to help your company make better decisions. Technology is playing a much bigger role in transforming data from its raw form into a vehicle to augment decision making in order to ensure the best decisions are made.
2. The Captive and Business Development – Every project has several stakeholders with different perceptions of risk. A captive can allow the construction stakeholder to create a risk

finance solution that will treat a risk perceived by others as serious and thus create an opportunity for that construction stakeholder to differentiate itself from its competition – thus becoming a key business development tool.

3. **The Captive and Cost Efficiency** – A construction stakeholder's ability to manage risk can often be much better than the insurance industry's perception of that construction stakeholder's ability to manage risk. The captive provides that construction stakeholder an efficient and professional vehicle to allow the contractor to bet on their ability to manage risk better than the insurance sector. How many times have you questioned the insurance industry's pricing of a risk because you know that your company has the risk controls in place to best prevent or mitigate that particular risk? Well, the captive becomes a vehicle to allow you to show the insurance industry that their perception of risk may not be in line with reality.
4. **The Captive and Hard Markets** – As you know the insurance sector is an amalgam of many policies. Several of these policies have nothing to do with your business or even the construction industry as a whole. Yet, when the sum of these policies unrelated to your business suffer massive losses, a firm's underwriting policy may change, resulting in higher premiums and/or reduced coverage. A captive becomes a very important strategic tool in a hard market, allowing you more control over insurance price shocks caused by losses suffered by insurers that may be unrelated to your industry.
5. **The Captive and Technology** – There is a massive wave of risk-impacting technology coming to the construction marketplace. Insurers are very slow to realize the impact of these technologies on their loss ratios. A captive becomes a key strategic tool to provide that credit for risk-impacting technology and thereby accelerate the adoption of this technology within the construction industry. This accelerated adoption has the knock-on benefit of improving productivity within your operation making its adoption a win on many fronts.
6. **The Captive and Contingencies** – Construction stakeholders carry contingencies within their bids. The contingencies are often an aggregation of many risks and the science behind arriving at such contingencies is by no means exact. A captive can become a tool to more efficiently and consistently price contingency.
7. **The Captive and the Project** – The construction industry is quite unique in that every project is a separate and distinct risk (often ring-fenced financially). This fact presents some very powerful opportunities for the construction industry to gain financial efficiency via a captive.

The world is globalizing, construction is vertically and horizontally integrating, risks are getting more complicated, and solutions to treat risk are becoming more plentiful (and likely more impactful). Gone are the days where a captive was a vehicle to gain tax efficiency. Today a captive is likely going to be a necessary tool for the world's most sophisticated global design firms and contractors. Join us in the coming months as we explore in more detail the many strategic roles a captive can play for your organization.

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