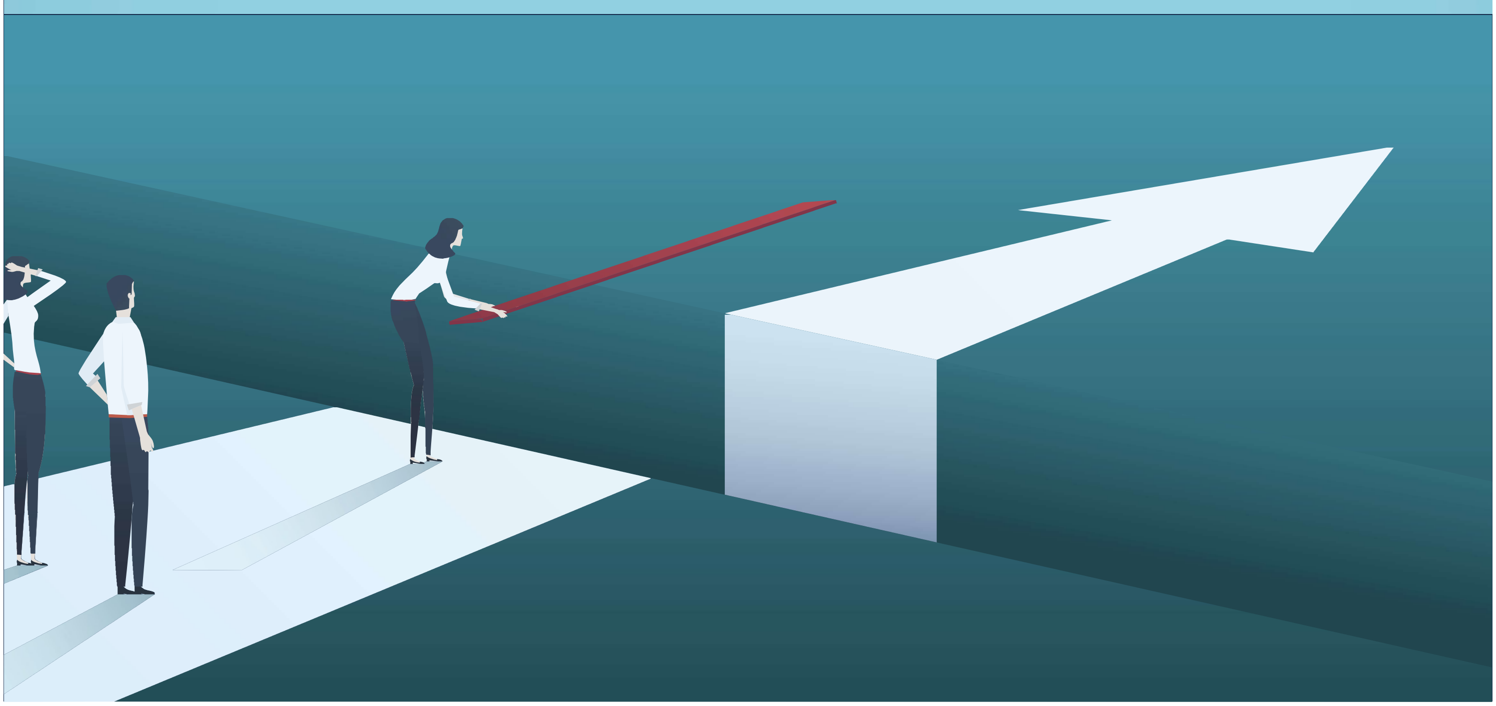
Bridging the gap

Yousif Capital Management's Dale McCann and Global Captive Management's Jessica Dontas explore how collaboration between captive and investment managers strengthens risk oversight and drives financial performance in modern captive structures



Can you elaborate on how effective collaboration between captive and investment managers manifests in practice?

Dale McCann: Open communication between the captive manager and investment manager is essential to ensure both parties understand each other's needs, constraints, and objectives. This combined approach between operations and investments helps the captive achieve its financial goals while managing risk effectively. Collaboration with the captive manager ensures the captive not only fulfils its insurance obligations but also maximises its investment potential for long-term success.

Jessica Dontas: As a captive manager, our focus is on the financial reporting and regulatory compliance of our clients, whereas an investment manager's primary focus is on optimising the captive's investment portfolio to support growth and provide coverage for potential future claims. While both captive and investment managers work towards a shared goal — the captive's longevity and financial success — an effective partnership between the two must include regular communication and ongoing monitoring of investment performance.

How does Yousif Capital Management approach creating an investment strategy for a new captive?

McCann: Because each captive is unique, at Yousif Capital Management (YCM), the investment strategy must be tailored to address its specific circumstances and objectives. Our approach to developing an investment strategy for a new captive insurance company is multi-faceted. It involves a thorough understanding of the captive's needs, an assessment of its risk tolerance, liquidity requirements, regulatory constraints, and the creation of a diversified and balanced portfolio aimed at meeting both short- and long-term investment goals. By aligning the investment strategy with the captive's operational needs and financial objectives, the investment manager plays a vital role in supporting the financial stability and success of the captive insurance programme.

How do you ensure alignment between the captive's operational goals and the investment strategy?

Dontas: When drafting the captive's investment policy statement (IPS), it is important to ensure the strategy is based on the captive's risk tolerance, underwriting risk, and the estimated payout pattern of expected losses. At Global Captive Management (GCM), we regularly review the IPS against the regulatory requirements of the captive. This, along with ongoing financial monitoring, ensures the strategy remains aligned with the captive's operational results.

McCann: To align the investment strategy with the captive's overall objectives, the investment manager and captive manager must work collaboratively to ensure the strategy reflects the captive's financial needs, risk tolerance, and regulatory requirements. By establishing clear communication, developing a shared understanding of the captive's goals, creating a comprehensive investment policy, and continuously reviewing and adjusting the strategy, both teams can help ensure the long-term success and financial stability of the captive.

This partnership is key to balancing a new captive's operational needs with its investment goals. In addition to regular day-to-day dialogue, board meetings to assess investment performance and liquidity requirements are essential to achieving the captive's overall objectives.

What are the key risks YCM considers when managing assets for a captive, and how do you balance these risks with the desire for returns?

McCann: Our primary objective is to limit volatility and preserve capital, while aiming to generate consistent, long-term returns. The key risks we consider — and how we balance these with the pursuit of returns — include market risk, liquidity risk, interest rate risk, credit risk and inflation risk.

To manage these risks, our aim is to construct a portfolio that maximises returns within an acceptable risk threshold, ensuring the captive remains financially stable, is able to meet its obligations, and has the potential to grow over time.

Can you describe the process of balancing risk retention with financial growth in a new captive structure?

Dontas: During the start-up phase of a new captive structure, the programme's risk retention is often lower than that of a more established entity with a larger capital base. Central to any decision-making is the captive's risk management framework, which, among other areas, assesses the entity's investment risk exposure and identifies the types of financial assets suitable to support the timing and scale of losses and operational expenses.

We work closely with our clients to produce financial analyses and projections, supporting the IPS drafting process in collaboration with the investment manager. A joint effort between the captive's board of directors and its insurance and investment managers ensures an appropriate balance between conservatism and financial growth, while safeguarding liquidity and the preservation of the captive's minimum regulatory capital requirements.

What strategies do you use to ensure a captive's investment portfolio maintains enough liquidity to meet potential claims while still pursuing long-term growth?

McCann: The most effective strategy for managing investments within a new captive insurance company is a diversified, balanced portfolio comprising liquid assets for immediate claims needs and growth-oriented assets to support long-term financial stability. By combining liquid investments, short-duration bonds, high-quality corporate bonds, and equities with defensive characteristics, investment managers can maintain sufficient liquidity while also pursuing growth opportunities.

Dontas: As a new insurance programme is established, it is important to ensure sufficient liquidity is maintained to support the captive's claims and operational expenses. Cayman Islands licensed entities must also comply with the minimum and prescribed capital requirements of their licence classes at all times. This often includes a mandated cash balance to be maintained in a Cayman Islands banking institution. We work closely with client investment managers to establish an IPS that supports the captive's long-term objectives while meeting its short-term liquidity needs. During the start-up phase, forward-looking financial projections form the basis of these discussions, and we rely on the expertise of each captive's investment manager to assist with appropriate asset allocations that support growth in a managed and balanced way.

What factors does GCM consider when recommending an investment manager for a new captive?

Dontas: At GCM, our corporate service philosophy is built on forming transparent partnerships grounded in honesty, integrity, and open communication. When we recommend investment managers to new licence holders, we prioritise service providers whose approach to client service aligns closely with our own. One of the biggest barriers to entry for new captive structures establishing an investment strategy is the minimum required investment amount. Investment managers who are able to accept a lower starting portfolio value offer clients the opportunity to begin growing their asset base earlier — a valuable support to income growth during the initial years of formation.

> "A joint effort between the captive's board of directors and its insurance and investment managers ensures an appropriate balance between conservatism and financial growth"

Jessica Dontas
Vice president
Global Captive Management

How has YCM's role as an investment manager evolved as the captive industry has become more complex?

McCann: Our role within the captive insurance industry has evolved significantly over time, shaped by changes in the regulatory landscape, market dynamics, investment opportunities, and the increasing complexity across the captive segment. Investment managers are no longer solely responsible for selecting assets; they now play a critical role in aligning investment strategies with the broader financial objectives and risk management needs of a captive.

As captives have become more sophisticated in their investment approaches, our role as an investment manager has also expanded to encompass a deeper understanding of the various associated risks.

How does GCM see the role of technology in improving collaboration between captive and investment managers in today's rapidly changing financial environment?

Dontas: The role of technology has become increasingly important in streamlining reporting processes and enhancing data accuracy across the financial services industry. At GCM, one of our strategic initiatives over the next 24 months is to enhance client reporting through automation solutions. Access to real-time reporting and automated data processing enables both the captive and investment managers to focus on financial planning and analysis. This supports more informed investment discussions and tailored solutions that can evolve and adapt as the captive grows.

What final thoughts do you have on how the collaboration between captive and investment managers can continue to evolve and support the long-term success of captive structures?

McCann and Dontas: The relationship between captive managers and investment managers is a vital partnership that directly influences the success of new captive structures.

Through effective collaboration, clear communication and shared objectives, these professional partnerships lay the foundation for both short-term stability and long-term growth.

As the industry continues to evolve, this relationship will only become more important, requiring ongoing adaptation and innovation from both captive and investment management professionals. ■

"Open communication between the captive manager and investment manager is essential to ensure both parties understand each other's needs, constraints, and objectives"

Dale McCann
Director of sales and marketing
Yousif Capital Management