



Basics of Alternative Risk Financing and Captive Insurance Strategies

Questions to Ask Prior to Selecting Risk Financing Strategy

- What is your risk appetite?
- How diverse is your Company's operations?
- How strong is your Company's Financial Statements (Cash Flow)?
- What are the State Insurance Laws?

What is Captive Insurance?

- A subsidiary formed to insure the risks of its parent and affiliates.
- A captive is sometimes owned by and insures more than one parent.

Why Form a Captive?

- Allows the Parent company to maintain control of their insurance program during hard and soft market cycles
 - Greater control of risk management program
 - Greater access to reinsurance markets
 - More flexibility with insurance coverages
 - Investment income opportunities
 - Stability of the price cycle

Which Type of Captive Should I Form?

- What types of coverage does my client require?
- Is my client able to purchase insurance in the commercial market?
- How many states does my client operate in?
- What are the State Insurance Laws?

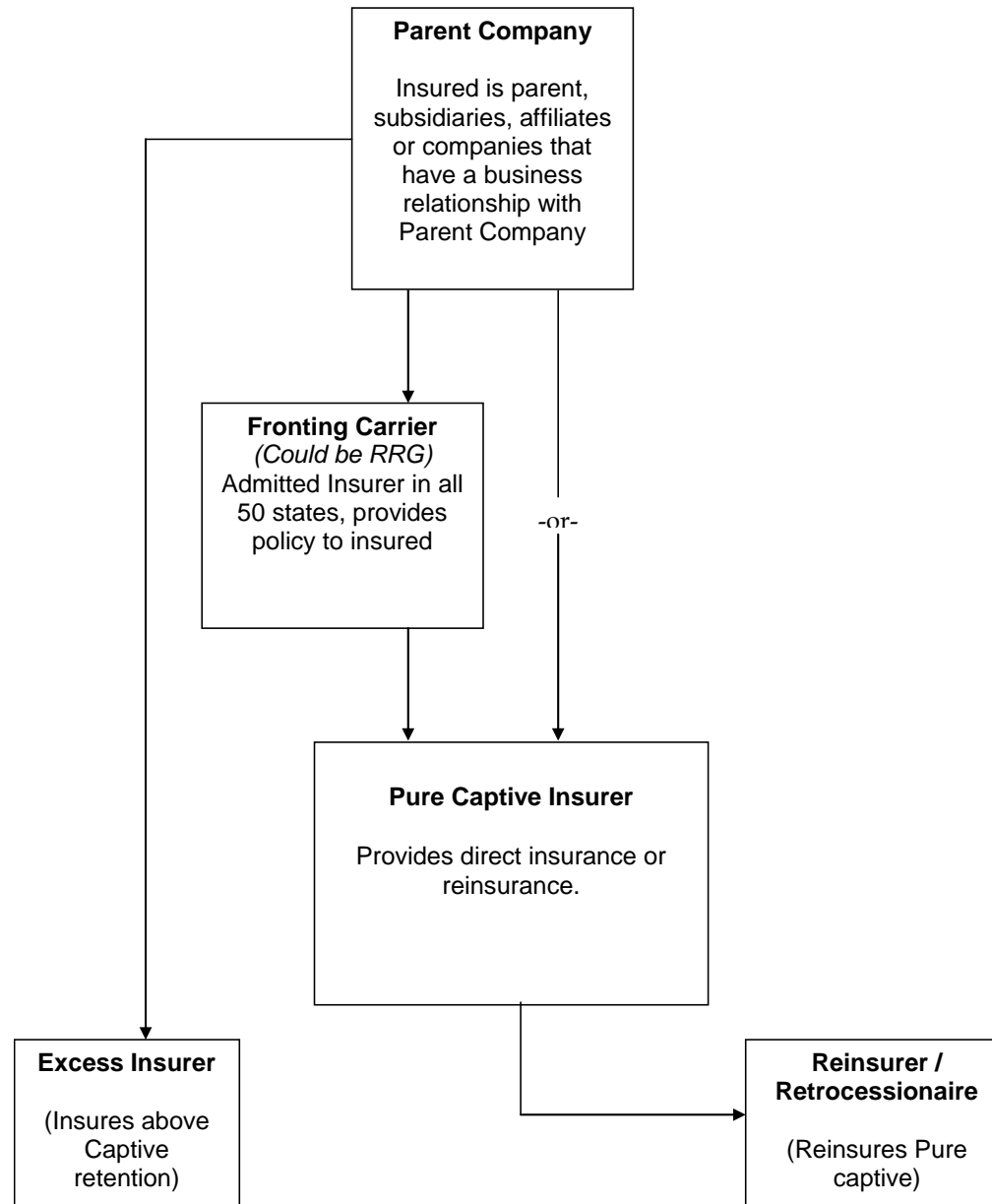
Captive Insurance Structures

- Pure captives
- Group captives - association, risk retention groups
- Rent-A-Captives / Leased capital facilities
- Protected Cell Captives

Captive Structures

- Pure Captive
 - Insures the risk of its Parent, affiliates, or companies that have a working relationship with the Parent Company
 - Provides insurance or reinsurance for all lines of insurance
 - Licensed in State of Domicile and non-admitted in all other states

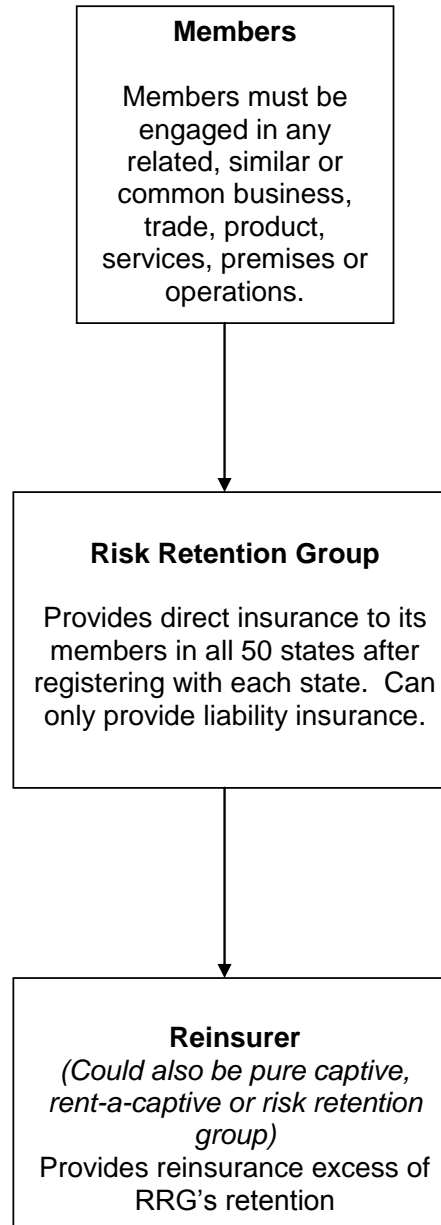
Pure Captive Structure



Captive Structures

- Risk Retention Group
 - Insures the risk of its members
 - Provides insurance or reinsurance for liability lines of insurance only
 - Licensed in State of Domicile and registers in all other states
 - Able to provide direct coverage in every state registered

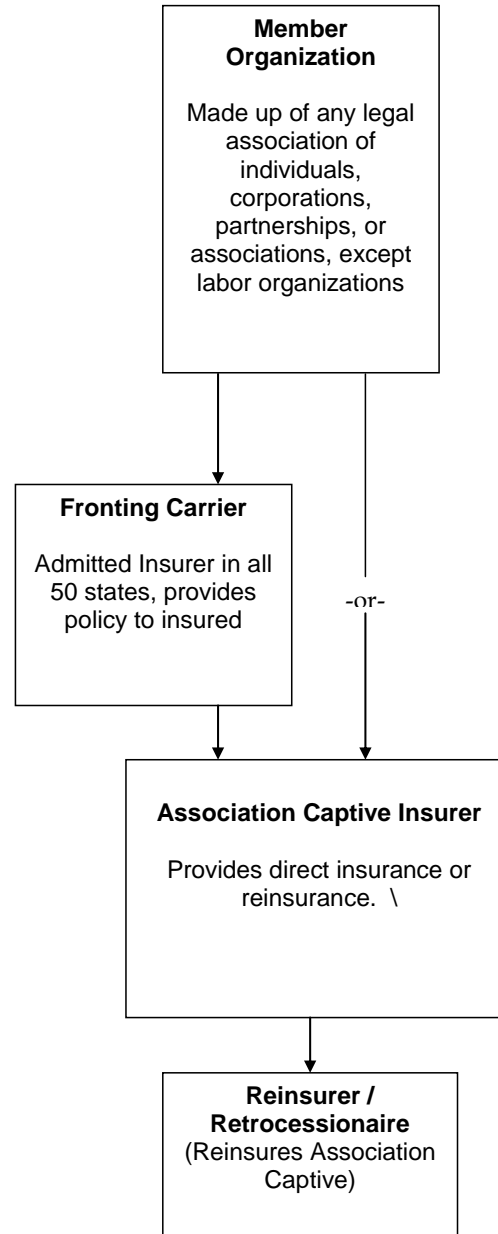
Risk Retention Captive Structure



Captive Structures

- Association Captive
 - Insures the risk of its members
 - Provides insurance or reinsurance for all lines of insurance
 - Licensed in State of Domicile and non-admitted in all other states

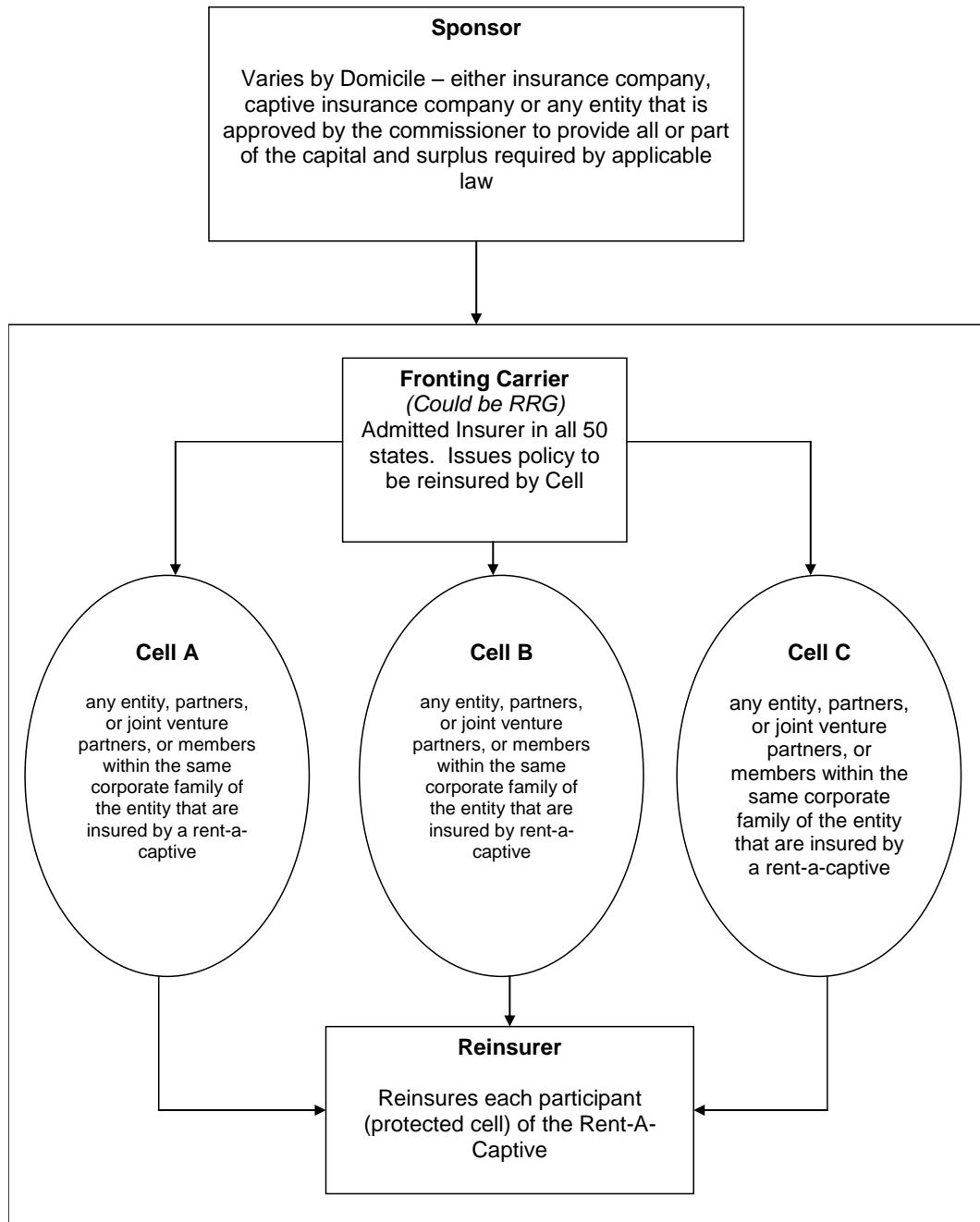
Association Captive Structure



Captive Structures

- Rent-A-Captive
 - Formed by a Sponsor
 - Some states allow an Agency to Sponsor
 - Some states allow only Insurance Company to Sponsor
 - Some states allow any organization to Sponsor
 - Provides insurance or reinsurance for all lines of insurance
 - Licensed in State of Domicile and non-admitted in all other states

Rent-A-Captive Structure



Review and Evaluation Issues

- Financial Implications
 - Funding Sources
 - Risk Retention / Transfer
- Operational Considerations
 - Servicing Requirements
 - Captive Management
- Regulatory Implications
 - Domestic and International

How to Establish a Captive

- Captive Consultant – Feasibility of Captive
- Actuary – Review of Loss History
- Domicile Legal Counsel – Assist with Domicile Law

Formation and Implementation Process

- Introductory Meeting with Regulator
- Application and Business Plan Filing
- Formation and Licensure
- Ongoing Monitoring

Introductory Meeting with Regulator

- Meeting with Domicile with Regulator
- Present and discuss captive plan
- Provide information about parent organization
- Receive “yes” or “no” from Regulator

Application and Business Plan Filing

- Captive Manager works with service providers and captive owner to prepare Application
- Includes
 - Domicile specific application
 - Business Plan
 - Pro-Forma Financials
 - Actuarial Report
 - Biographical affidavits – Service Providers, Officers and directors
 - Copies of Policies to be issued
 - Miscellaneous

Formation and Licensure

- Captive Manager works with legal counsel
- Legal counsel prepares
 - Articles of Incorporation
 - By-Laws
- Once application approved by Regulator, Insurance Department issues Certificate of Good Standing
- Legal counsel files with Business registration department for business name
- Parent Organization capitalizes captive (LOC or Cash)
- Legal counsel files approved Articles and By-laws along with license fee and any other docs with Insurance Commissioner
- Insurance Department issues Certificate of Authority

Ongoing Monitoring

- Compliance with Approved Business Plan
- Compliance with Domicile rules and regulations
- Compliance with Domicile Investment laws
- Federal Income Tax
- Annual Filings
 - Audit (GAAP or SAP)
 - Actuarial
 - Domicile specific forms
- Examinations
- Annual Meeting Requirement

Where to find information on Captive Insurance

- Captive.Com - www.captive.com
- National Risk Retention Association – www.nrra-usa.org
- Captive Insurance Companies Association – www.cicaworld.com
- Captive Insurance Company Reports – www.irmi.com
- Risk Retention Reporter – www.rrr.com

Where to find information on Captive Insurance Domiciles – U.S.

- Arizona Captive Insurance Association – www.azcia.org
- Arizona Department of Insurance – www.id.state.az.us/captives.html
- District of Columbia Department of Insurance- <http://disr.washingtondc.gov/disr/site/default.asp>
- Captive Insurance Council of the District of Columbia – www.dccaptives.org
- Hawaii Captive Insurance Council – www.hawaiicaptives.com
- Hawaii Insurance Division – www.hawaii.gov/dcca/areas/ins

Where to find information on Captive Insurance Domiciles – U.S.

- Montana State Auditor –
<http://sao.mt.gov/captives/index.asp>
- Nevada Department of Insurance –
<http://doi.state.nv.us>
- Nevada Captive Insurance Association –
www.nvcaptive.com
- South Carolina Department of Insurance –
www.doi.state.sc.us
- South Carolina Captive Insurance Association –
www.sccia.org
- Vermont Department of Insurance –
www.vermontcaptive.com
- Vermont Captive Insurance Association –
www.vcia.com