captive insurance times

Domicile Guidebook 2017

A guide to traversing the captive terrain

captiveinsurancetimes

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Captives assemble

Mark Dugdale
Group Editor

The Domicile Guidebook was originally envisioned as a newbie's guide to the major captive jurisdictions around the world. It would provide them with basic information, such as licensing requirements, in a succinct, digestible format. The information, we believed, would be useful as a first point of research.

We believe that the realised Domicile Guidebook is all of this and more, but I want to discuss the process behind putting it together, which I think will help you to understand the captive business a little better, particularly if you are considering its solutions to your insurance needs for the first time.

During our work on the guidebook, it became apparent that this was easier said than done. Information sources are scarce, because particular jurisdictions do not market themselves as captive domiciles, and captive insurance is in a constant state of flux—domiciles are reforming their rules and regulations all the time, often without telling anyone about it.

Luckily for us, captive insurance is full of professionals who want to make the business as transparent as possible. The capital requirements of a particular domicile aren't trade secrets that must be hoarded, but minimum standards that must be shared, to better inform applicants before they embark on lengthy and costly due diligence processes, while making regulators aware of the competition so that they can better raise their game.

There are too many to name here (we have a dedicated acknowledgements page overleaf for that), but dozens of insurance departments and regulators, associations and service providers answered our simple Q&A to form the basis for the majority of domicile profiles in these pages.

Where no respondent was forthcoming, our in-house team, led by reporter Becky Butcher, conducted

interviews and sought out information from third-party sources, to build the best possible picture of certain domiciles and guarantee their inclusion in the guidebook. In these pages, we feature research and insight into more than 50 captive domiciles, which is something that has not been achieved before.

Of course, we would have preferred to include them all. The most obvious omissions are from the Middle East, but our research bore little in the way of useful information that we felt confident in putting to our readers.

That's not to say that the domiciles not featured here, of which there are very few, shouldn't be considered for formations or redomestications, but rather that they are encouraged to be a little louder in their conversations with businesses seeking captive insurance solutions.

As you flick through these pages, you'll notice many trends, some which should be elaborated on. Capital is an interesting one, because you will see that minimum requirements differ across domiciles and regions.

Some are set lower than the norm to attract insurers, while others are set higher to discourage applications from unsavoury applicants.

Similarly, some domiciles show a predilection toward a certain business, such as the Cayman Islands with healthcare, while others define themselves entirely by their expertise in a particular area of insurance, like Luxembourg and its reputation as a reinsurance giant.

Much more can be gleaned from these pages, and these trends help to form an idea in your mind as to how your captive will be treated by the powers that be in each jurisdiction.

Finally, I'd like to say thank you once again to everyone who helped us put the Domicile Guidebook together. We strived to ensure that everyone who provided us with information is mentioned in the acknowledgements, but if your name is missing, please accept my apologies.

Also, a project as massive as this will never be without its errors or inaccuracies, but we have endeavoured to ensure that they remain as few as possible. Feel free to contact me if you have any queries or questions.

I hope you enjoy the Domicile Guidebook and find it useful. There is also a glossary, which was kindly compiled and provided by Capstone Associated Services Ltd.

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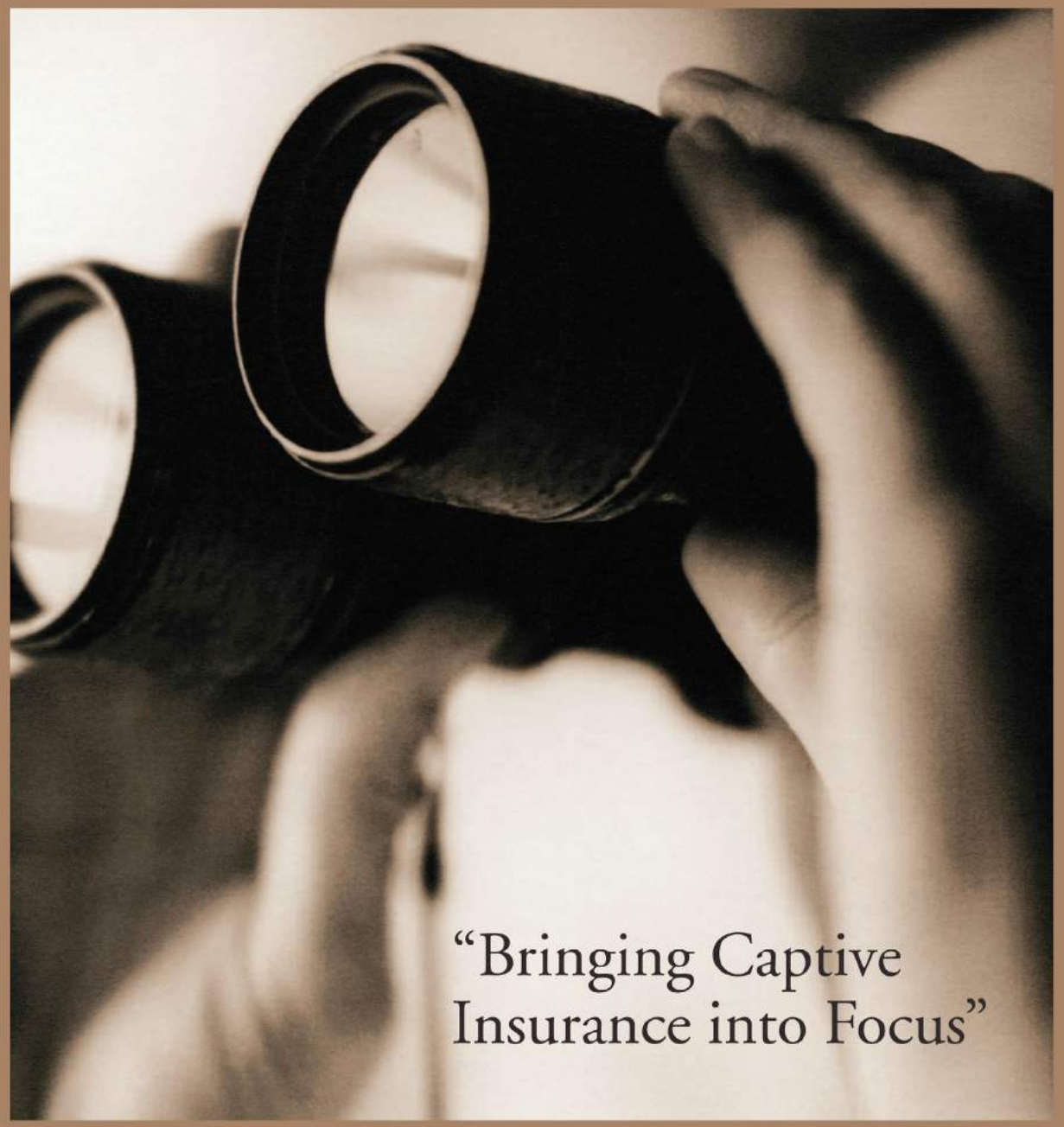

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Alabama

Alabama is best characterised by its experienced regulators and stable, progressive captive environment.

Benefits of domiciling in Alabama include the ability to obtain a 60-day provisional licence. There is a cap on premium taxes of USD 100,000, and no premium tax on dormant captives. Premium tax is also prorated in the first year of the captive's operation and credits for exam fees are allowed to offset premium tax.

Captives may form as any entity allowed under law in Alabama, including series limited liability companies, mutuals and not-for-profits. Initial capital may be in a wide array of assets, including cash, cash equivalents, bonds, stocks and letters of credit.

The capital requirements for Alabama captives are as follows, but they can also be determined by the insurance commissioner with the support of an actuarial study:

- Pure and protected cell: USD 250,000
- Risk retention groups and industrial insured: USD 500,000
- Reciprocals: USD 1 million

The State of Alabama boasts its own trade association, the Alabama Captive Association, which is led by president Norman Chandler.

More information on captive insurance in Alabama can be found at www.aldoi.gov/companies/captives.aspx and www.alcaptives.org.

Anguilla

Anguilla's Insurance Act covers the licensing and regulation of companies undertaking domestic insurance, offshore and captive insurance, and of insurance intermediaries.

In order to underwrite domestic insurance risks in Anguilla, a company needs to apply for a Class A insurer's licence, which allows the licensee to carry on any type of insurance approved by the Anguilla Financial Services Commission. Foreign companies wishing to undertake domestic insurance need to register as a foreign company under the appropriate section of Anguilla's Companies Act and they must either set up a local office or appoint a licensed insurance agent or broker.

Offshore and captive insurance fall under Class B. These licences are divided as follows:

- Unrestricted permits a foreign insurer to carry on any foreign insurance business, including long-term foreign insurance business
- General permits a foreign insurer to carry on general foreign business, but not long-term foreign insurance business
- Association permits a foreign insurer to carry on general foreign insurance business and long-term foreign insurance business, with two or more owners of the insurer, and their affiliates, and to carry on no more than 50 percent of its foreign insurance business (based on net premiums written) with persons who are not owners of the insurer or their affiliates
- Group permits a foreign insurer to carry on any foreign insurance business, including long-term foreign insurance business, with a single owner of that insurer and its affiliates, and employees of the owner or its affiliates
- Single permits a foreign insurer or a trust to carry on any foreign insurance business, including long-term foreign insurance business, with the sole owner of the insurer, if a company or with the beneficial owners of the insurer, if a trust

Anguilla's Insurance Act sets out the licensing regime, which calls for a detailed application and business plan. The act also details minimum capital requirements and general requirements as well as annual returns to be submitted by licensed insurers. Every insurer, other than an approved external insurer undertaking domestic business or an insurer, which maintains permanently in Anguilla its principal office and staff, is required to appoint an insurance manager.

More information on captive insurance in Anguilla can be found at www.fsc.org.ai.

THE IDEAL JURISDICTION FOR YOUR CAPTIVE

Advising clients on where they should domicile their captive insurance companies is a crucial question and one that should not be taken lightly.

Many in the captive insurance industry, have found out why Anguilla has become a major force as a captive insurance domicile. Anguilla has earned the trust of risk managers all over the globe as a result of strong regulation, experienced regulators and service providers as well as a business friendly environment.

Anguilla has developed the character of a legitimate captive domicile where compliance counts. Strict adherence to anti-money laundering policies and careful screening of applicants is at the forefront of Anguilla's requirements. Anguilla expects and demands that its captive owners be individuals of good reputation and moral character.

Anguilla is welcoming and wants to provide a positive experience to new business; however, it is not shy to turn applicants down when their business does not meet Anguilla's standards.

Anguilla has a strong group of highly educated regulators and other industry providers who care about the future of the industry and are always willing to return a phone call.

Why use Anguilla? It's simple. Approachable, experienced regulators and providers committed to excellence and integrity makes the choice easy.

Please contact us for further information. This will, we are sure, aid in your search for the best offshore jurisdiction to match your particular requirements. We hope that you'll agree that it'll be ANGUILLA.

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Arizona

Arizona is a well-established captive domicile that provides a highly competitive operating cost environment for captives. While there is a licence application fee and a flat annual renewal fee, there is no Arizona insurance premium tax and no routine financial examination (except for risk retention groups, or RRGs). There is also potential for waivers of audits and/or actuarial opinions for small captive insurers meeting certain criteria.

Arizona has licensed the following types of captives: pure, pure reinsurer, industry group, association, agency, protected cell, and RRG. Arizona can also license branch captives of alien captive insurers. Pure captives may be formed as stock companies, non-profit corporations, or limited liability companies. Other forms, for example, reciprocals for group captives, may be available as well.

Arizona captives are subject to statutory minimum capital standards that vary by type ranging from USD 125,000 for pure reinsurers to USD 500,000 for groups, agencies and protected cell insurers. Actual capital requirements may be greater than the statutory minimum.

Each captive is required to maintain a place of business, statutory agent, and books and records, as well as hold at least one board meeting, in the state, and meet other typical legal requirements.

More information on captive insurance in Arizona can be found at www.insurance.az.gov.

Good places to start are the links to the Captive Division Facts and Statistics and the two Reference Guides, one for RRGs and one for other captive types.

Arkansas

The State of Arkansas is a relative newcomer to captive insurance.

The Arkansas Insurance Department licensed the state's first domestic special purpose captive insurance company in 2016. Diamond Risk Insurance, a subsidiary of Little Rock-based Baptist Health, was an example of how the state is open for new business, according to Arkansas insurance commissioner Allen Kerr, particularly for the workers' compensation liability for which Diamond Risk Insurance was created.

In general, Arkansas caters for pure, association, sponsored, branch and industrial insured captives, as well as producer reinsurance captives. Some of their minimum capital and surplus requirements are:

- Producer reinsurance: USD 100,000 of capital and USD 100,000 of surplus
- Association: USD 400,000 of capital and USD 350,000 of surplus
- Industrial insured: USD 200,000 of capital and USD 300,000 of surplus
- Sponsored: USD 500,000 of capital and USD 500,000 of surplus

Arkansas has proposed legislation that would introduce an incorporated protected cell structure, which would be established as a corporation or other legal entity separate from a sponsored captive or producer reinsurance captive.

As is the case in other US states, Arkansas also wants to introduce dormant status for captives that have ceased to transact and has no remaining liabilities.

More information on captive insurance in Arkansas can be found at www.insurance.arkansas.gov.

Barbados

Barbados has a long history of political and economic stability. With an excellent education system and sound infrastructure, it offers an attractive environment for international financial services, including the establishment of captive insurance companies. It has a sound business environment, favourable tax structuring facilitated through an expanding double taxation treaty network, and ranks among the top domiciles worldwide. Longstanding tax treaties have been established with Canada and the US.

It also has existing treaties with Mexico, Panama and Venezuela, as well as ongoing discussions for similar treaties with other countries, including Brazil, Colombia, Chile and Costa Rica. The recognition of Barbados within Latin America as a captive jurisdiction continues to increase as new products are introduced, particularly incorporated cell structures.

There are two main types of captive insurance companies in Barbados: exempt insurance companies and qualifying insurance companies.

Exempt insurance companies (EICs) are licensed under the Exempt Insurance Act and are exempted from taxation for the first 15 years of its existence. There are several tax planning advantages as an EIC, including a limit of 8 percent on taxable income up to a maximum of USD 125,000 and at 0 percent on all other taxable income in excess of that. There is no withholding tax on dividends, interest and certain other returns, and conditional exemption from tax on the transfer of all or any of the assets and securities of a licensee, management company or holding company to any person.

Qualifying insurance companies (QICs) are licensed under the Insurance Act and pay corporate taxes at an effective rate of 1.75 percent. Registration as a QIC provides tax planning advantages that include a rebate of income tax in respect of foreign currency earnings relating to premiums from foreign insurance, which can reduce the effective tax rate to 1.75 percent. There is no withholding tax on dividends, interest and certain other returns, and exemption from property transfer tax in certain circumstances.

These two types of captives may also be structured as segregated cell companies, incorporated cell companies or separate account companies.

The annual requirements for EICs and QICs include:

- Licence must be renewed annually by 31 December
- Annual fee of USD 10,000
- Annual general meetings of shareholders required within 18 months of incorporation, and thereafter within 15 months of the previous annual general meeting

More information on captive insurance in Barbados can be found at www.fsc.gov.bb.

Bermuda

Bermuda's captive insurance market contains about 800 companies, generating more than USD 55 billion in annual gross written premiums.

The jurisdiction's commercial insurance and reinsurance companies allow captive owners and operators to access open-market underwriting capacity not found in other domiciles.

Its enhanced commercial insurance regime reached full equivalence with Solvency II in 2016, following a multi-year effort by the Bermuda Monetary Authority (BMA), and public- and private-sector stakeholders.

While captive insurers do not directly fall under the enhanced regime, they benefit from being located in a jurisdiction with an equivalent, robust, and well-regulated market.

The BMA is the financial services regulator in Bermuda, supervising the island's financial services sector using a risk-based approach. This essentially means the framework applies the appropriate level of supervision and regulation depending on the nature, scale, and complexity of an insurer's business, as well as the relationship between the insurer and policyholders.

Bermuda's regulatory system categorises captives into five classes licensed as either Class 1, 2, 3, A or B insurers. Companies range from single-parent captive to multi-owners. The domicile also boasts a zero captive tax rate.

The capital requirements for each class are as follows:

- Class 1: 100 percent related business, minimum statutory capital and surplus, USD 120,000
- Class 2: Less than 20 percent unrelated business or a multi-owned insurer, USD 250,000
- Class 3: Between 20 and 50 percent unrelated business, USD 1 million

More information on captive insurance in Bermuda can be found at www.bma.bm and www.bda.bm.

British Columbia

British Columbia is the only Canadian jurisdiction with captive legislation in place, specifically the Insurance Captive Company Act (ICCA) and Regulation. British Columbia allows for pure, association and sophisticated captives, as defined in the ICCA.

Under the ICCA, an association captive insures the risks of the association's members, their affiliated entities, or its or their officers, directors, employees, agents or independent contractors. The association's membership may be corporations, societies, partnerships or individuals, and it must have been in existence for at least one year.

A sophisticated insured captive insures the risks of a group of "sophisticated insureds", which are insureds whose aggregate annual premiums total at least CAD 500,000 (USD 376,000) and can demonstrate to expertise in insurance matters. Captives in British Columbia can write property, casualty, liability, errors and omissions, life, health, sickness, and accident insurance.

Applications must be made to the Financial Institute Commission. Applications should bear in mind that Section 4 of the ICCA Regulation requires a captive to maintain minimum capital of CAD 300,000 (USD 226,000).

The initial non-refundable application fee is CAD 500 (USD 376) and the initial registration fee is CAD 2,500 (USD 1900). The annual registration renewal fee is also CAD 2,500. Premium taxes are set according to the province where the insured risk is located. Captives are also subject to provincial and federal income taxes.

More information on captive insurance in British Columbia can be found at www.fic.gov.bc.ca.

British Virgin Islands

The British Virgin Islands (BVI) offer a seamless approach for establishing captives given its long tenure at the forefront of corporate domiciliations and domiciliation of insurers, particularly captives.

BVI also has a cadre of professionals who understand and have expertise in assisting with the formation and operation of a captive.

BVI licenses the following categories of captives:

- Category C: Insurance business that does not fall under Category E
- Category D: Reinsurance business only
- Category E: Related party business only, or pure captives
- Category F: Captives that underwrite related party business at a maximum in order to qualify as an insurer under the laws of a foreign jurisdiction, such as captives that are formed to utilise Section 831(b) of the US Internal Revenue Code that have elected to be taxed as a US corporation under Section 953(d)
- Segregated portfolio company: A captive that is set up as a segregated portfolio company and has the ability to establish segregated portfolios that are independent of each other and underwrite insurance for the owners

The BVI Financial Services Commission also licenses all types of captives, including but not limited to, single parent or pure, group, agency, rent-a-captive and segregated portfolio captives provided they are legitimate businesses and meet the requirements of the relevant legislation.

Capital requirements in BVI have been set at USD 100,000 for property and casualty insurance business and USD 200,000 for life and health insurance business.

There is a minimum solvency margin requirement, which is based on the net written premium of the captive, with the lowest minimum being USD 100,000 if net written premiums are USD 500,000 or less. There is no corporate income tax in BVI.

More information on captive insurance in BVI can be found at www.bvifsc.vg.

Cayman Islands

With a total of 740 insurance licensees (as of 6 January 2017), the Cayman Islands is the second largest captive jurisdiction, and a major jurisdiction for healthcare captives. Cayman is also a strong jurisdiction for group captives and catastrophe bonds.

Thanks to its high standard of living, robust, yet flexible and competitive regulatory regime, infrastructure and high levels of expertise and experience in service areas such as insurance, legal and accounting, Cayman continues to be a domicile of choice for insurance business.

As the regulator of the financial industry, the Cayman Islands Monetary Authority (CIMA) actively strives to protect and enhance the reputation of Cayman while remaining responsive, practical and accessible to clients and stakeholders within the public and private sector. With most of the world's leading legal firms, audit companies, insurance managers and banks registered in Cayman, such clients can have the comfort in knowing that they have the access to various specialists with many years of experience.

CIMA provides four main classes of insurer licence for insurance and reinsurance companies, namely Class A for domestic insurers, B for international insurers to carry on insurance and/or reinsurance, C for fully collateralised international insurers such as catastrophe bonds and other insurance-linked securities, and D, which includes large open-market reinsurers.

The Class B licence is essentially for captives, and this is sub-divided into three categories, such as Class B(i), which includes insurers with at least 95 percent of the written net premiums originating from the insurer's related business. Class B(ii) is for insurers with more than 50 percent of the net premiums written originating from the insurer's related business, and Class B(iii) includes insurers with 50 percent or less of the written net premiums originating from the insurer's related business.

There are two-tier capital and solvency requirements for all licensed insurers in Cayman. Specifically for captive Class B insurers, they are for 'general' and 'life' business, respectively: (i) USD 100,000 and USD 200,000; (ii) USD 150,000 and USD 300,000; and (iii) USD 200,000 and USD 400,000.

More information on captive insurance in the Cayman Islands can be found at www.cima.ky.

Connecticut

Since the passage of its captive law in 2008, Connecticut has distinguished itself as a leading domicile and as a centre for innovation in captive formation and thinking. Connecticut has also established a reputation as a place where the commitment of regulators to support and foster the growth of captives is second to none.

Whether it be through state-of-the-art captive law, its robust base of experienced service providers, or its already-established history as the centre of the property and casualty industry in the US, Connecticut has become synonymous with innovative, creative, and business-friendly solutions to the self-insurance of risk across all business sectors.

Connecticut caters for all kinds of captives, including pure, association, industrial insured, sponsored and special purpose financial, as well as sponsored licensed as a special purpose financial captive and risk retention groups.

The minimum capital requirements for these structures are:

- Pure and special purpose financial: USD 250,000
- Association, industrial insured, sponsored and sponsored licensed as a special purpose financial: USD 500,000
- Risk retention group: USD 1 million

Newly licensed captives receive a non-refundable tax credit of USD 7,500 for the captive's first taxable year in Connecticut. Premium taxes are subject to a maximum of USD 200,000 and minimum of USD 7,500 per year.

Direct premium taxes are levied as follows: 0.38 percent on first USD 20 million; 0.285 percent on next USD 20 million; 0.19 percent on next USD 20 million; and 0.072 percent, thereafter. Assumed premiums are taxed at the lower rates of 0.214, 0.143, 0.048 and 0.024 percent, respectively.

More information on captive insurance in Connecticut can be found at www.ct.gov.

Cook Islands

The Cook Islands financial services industry has been in existence for more than 30 years. It has been driven by reputable professional service providers with a wealth of knowledge and experience and expertise in the laws of the Cook Islands, and the administration of entities and products created pursuant to those laws.

The Cook Islands has always shown itself to be flexible, innovative and understanding in meeting the needs of international businesses. The enactment of the Captive Insurance Act in 2013 is an example of that.

The Captive Insurance Act of 2013 provides for the licensing, regulation and supervision of captive insurance business conducted outside of the Cook Islands by international companies incorporated under the International Companies Act of 1981/82, and certain captive insurance business conducted within the Cook Islands by companies incorporated under the Companies Act 1970/71.

Captive insurance business in the Cook Islands means the business of a company insuring interests in its holding company or in companies that it is affiliated or associated with, or is organised within a group or agency relationship.

The prescribed minimum share capital and surplus requirement for a licensed captive insurance company (LCIC) is NZD 100,000 (USD 71,500). Only assets prescribed in the Captive Insurance Regulations of 2013 will be admissible when determining the value of a LCIC's assets and its surplus.

The LCIC's annual accounts must be audited and filed with the Financial Supervisory Commission. A LCIC must establish and maintain a clearly defined risk management strategy commensurate with the size, nature and complexity of the LCIC's business.

Cook Islands tax will only be charged on income sourced by the LCIC in the Cook Islands.

The LCIC is required to pay a government fee of NZD 1,100 (USD 790) upon making its application for a captive insurance licence, with an annual fee of NZD 3,100 (USD 2,217) also being payable.

More information on captive insurance in the Cook Islands can be found at www.fsc.gov.ck.

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Delaware

One of the Delaware's most important attributes is its regulator's highly experienced and qualified staff. The captive bureau's level of staff experience and expertise ranks as one of the highest among global captive regulators. Delaware's captive bureau employees financial analysts who hold an array of qualifications, including the AFE, CFE, ACO, CPA and MCM designations, as well as masters in accounting and financial management and in business administration.

Delaware law allows the licensing of agency, association, branch, industrial insured, pure, series, special purpose, special purpose financial, sponsored, and cell captives, as well as risk retention groups.

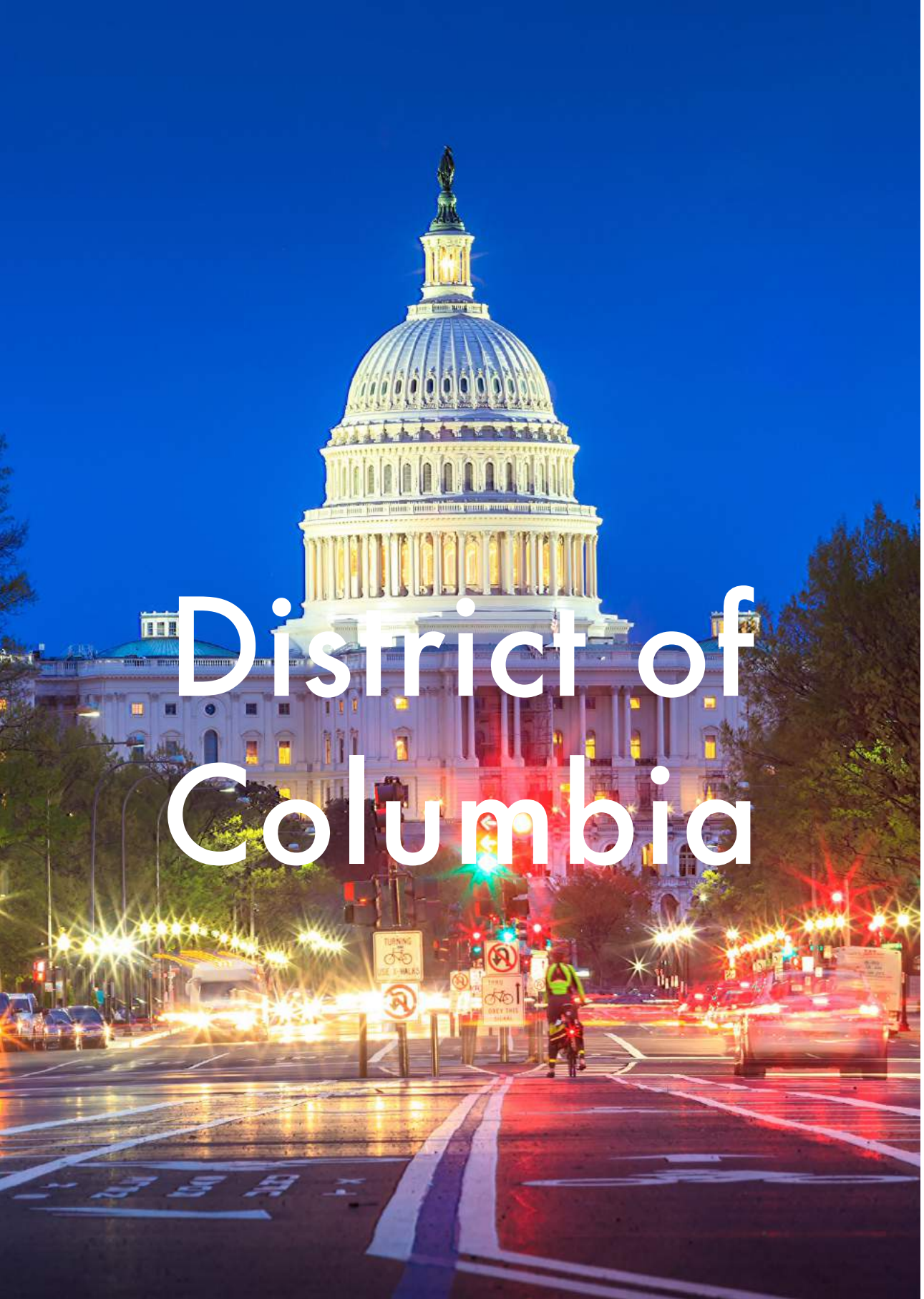
The minimum capital requirements for these captives are:

- Agency, branch, pure, and special purpose captive insurers: USD 250,000
- Industrial insured and sponsored captives: USD 500,000
- Association captives: USD 750,000
- Risk retention groups: USD 1 million
- Series captive insurers: An amount specified by the insurance commissioner

The captive insurance premium tax for direct premium is 0.001 percent to a maximum of USD 200,000 and for assumed premium, the rate is 0.004 percent to a maximum tax of USD 110,000.

Except for series captive insurers that pay a minimum annual premium tax of USD 3,500, all other captive insurers pay a minimum annual premium tax of USD 5,000.

More information on captive insurance in Delaware can be found at www.captive.delaware.gov.



District of Columbia

The District of Columbia has a progressive captive insurance and corporations code that meets the needs of captive owners. The district also has a very knowledgeable dedicated staff of financial examiners and analysts who are well-versed in the regulation of captives, including risk retention groups.

Lastly, the cost of doing business, especially financial examinations, compares favourably with other captive domiciles.

The district caters for all types of captives, including agency, association, branch, cell, pure, rental and risk retention groups.

The minimum capital and surplus for pure captives has been set at USD 250,000, while the minimum capital and surplus for most other captives is USD 400,000. There is no minimum capital for cell captives. Their minimums are established by the insurance commissioner based on the cell's business plan.

The legal requirements in the District of Columbia are straightforward.

All captives must have a manager, lawyer and experienced service providers. The district does not require a local director, but the captive's board must meet in the District of Columbia at least once per year, although, again, no permanent presence in required.

Instead, a representative of the captive present in the District of Columbia can facilitate the meeting via phone or web conference. Captives in the District of Columbia are examined on a five-year cycle, which can be extended upon request after the first examination.

More information on captive insurance in the District of Columbia can be found at www.disb.dc.gov.

Florida

New legislation was signed into law in April 2012 that augmented Florida's provisions for captive insurers by further specifying criteria for the formation, incorporation, coverage, capital and surplus, reporting, licensure and reinsurance. Florida has a unique selling point in that its capital requirements are relatively low.

There are four main types of captive companies available in Florida:

- Pure: A company that insures risks of its parent, affiliated companies, controlled unaffiliated businesses, or a combination thereof
- Industrial insured: A captive insurance company that provides insurance only to the industrial insureds that are its stockholders or members, or to the stockholders, and affiliates thereof, of its parent corporation
- Special purpose: a captive that does not meet the definition of any other type of captive insurance company and may insure only the risk of its parent
- Reinsurance captive: A reinsurance company that must be a stock corporation that is wholly owned by a qualifying reinsurance parent company and may not directly insure risks

Florida's general requirements are based on the type of captive insurance or reinsurance company. The variations in requirements range across incorporation, unimpaired capital and unimpaired surplus.

Interested parties should review Chapter 628 of Part V the Florida statutes to see what is required for each type of captive insurer.

In addition to the specific requirements of each type of captive insurer, all captive insurers must be approved through an application process and must comply with the annual reporting requirements.

More information on captive insurance in Florida can be found at www.floir.com.

Georgia

The Georgia Insurance Department continues to make strides in maintaining a healthy regulatory environment for captive companies that want to call Georgia home.

New legislation is being proposed that will offer businesses and captive managers a more efficient method of forming and domiciling a captive in Georgia.

The department's captive division continues to make it a priority to strengthen relationships within the industry and to provide a superior level of customer service to captives in order to help them succeed.

The types of captive structures available in Georgia and their minimum capital requirements are:

- Pure and agency: USD 250,000
- Association and industrial insured: USD 500,000
- Risk retention group: USD 500,000

Georgia's premium tax has been set at a rate of 0.4 percent on the first USD 20 million and 0.3 percent on each dollar thereafter.

The state also collects on assumed reinsurance premium at a rate of 0.225 percent on the first USD 20 million, 0.15 percent on the next USD 20 million, 0.05 percent on the next USD 20 million, and 0.025 percent of each dollar thereafter.

No reinsurance tax applies to premiums for risks or portions of risks subject to taxation on a direct basis under Georgia's captive statute. Captives pay a maximum tax of USD 100,000 per year and two or more captives under common ownership and control are taxed as though they are a single captive.

More information on captive insurance in Georgia can be found at www.oci.ga.gov/insurers/captives.aspx.

Gibraltar

Having been a financial services centre for more than 30 years, Gibraltar has highly developed legal and accounting professions, and an established and successful insurance sector.

Gibraltar licenses captive insurers, protected cell companies, reinsurers, insurance managers, intermediaries, managing general agents, life insurers, general insurers, liability insurers, casualty insurers and motor insurers.

Under EU laws, insurers and intermediaries based in Gibraltar can provide insurance in other EU member states using their Gibraltar licences and without having to apply for a separate licence in other territories.

Gibraltar also has a flexible tax regime, with a low tax rate of 10 percent across the board, which came into effect in July 2010.

As a British overseas territory, however, Gibraltar is caught up in the UK's exit from the EU. In theory, once the UK leaves the EU in 2019, Gibraltar will lose its EU membership.

As a result, the domicile is currently working on a post-Brexit arrangement that will make it competitive in the insurance sphere.

For captives located in Gibraltar, Brexit will have no impact on a captive's activities if it has a UK owner with only UK risks. However, the captive may need to redomicile or seek an EU licence to continue writing EU risks directly, at least until a trade deal is established between the UK and the EU.

If the captive is located in Malta or Luxembourg, for example, then it may need to obtain a licence to continue to write UK risks, in the absence of a trade deal.

Guernsey

Guernsey is well known for innovation in offshore insurance. The island pioneered the cell company concept by introducing the protected cell company and, more recently, introduced insurance-linked securities and pension longevity structures.

The island's captive insurance expertise is well regarded, with both the China Captive Alliance and the government of Kashgar—the dedicated centre for China's growing captive insurance sector—signing memorandums of understanding with Guernsey during 2016.

Guernsey's close proximity to the UK and mainland Europe, being in the same timezone as the UK, and not being a member of the EU, put the domicile at an advantage. Being outside the EU means Guernsey has maintained a solvency regime that is fully compliant with the International Association of Insurance Supervisors, rather than being required to implement directives such as Solvency II.

Importantly, Guernsey has always possessed the size and momentum of business to enable the employment of a large number of professionals within the captive management insurance sphere. This means that Guernsey has retained the highest quality of individuals at every firm on the island, from insurance managers, to accountants, company secretaries, actuaries and lawyers.

In Guernsey, captives are defined as a life or general insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities or associations, the purpose of which is to provide insurance or reinsurance cover for risks (other than commercial insurance risks) of the entity or entities to which it belongs, or for entities connected to those entities.

Captives may be structured as companies, protected cell companies or incorporated cell companies and their respective cells.

Licensing and regulatory requirements are set under the Insurance Business (Bailiwick of Guernsey) Law of 2002. The Guernsey Financial Services Commission assesses licence applications and business plans based on applicants' ability to meet minimum statutory licensing criteria, including fitness and propriety of applicant, integrity and governance.

Captives are designated as a Category 5 insurer under the Insurance Business (Solvency) Rules of 2015 and are subject to a standardised risk-based solvency requirement calibrated such that there is a 90 percent confidence level that there is sufficient capital to meet obligations over the next 12 months.

More information on captive insurance in Guernsey can be found at www.weareguernsey.com.

Hawaii

Experience, reliability and accessibility best describe Hawaii as one of the world's premier domiciles for captive insurance and alternative risk financing. With 30 years of experience, Hawaii is a key domicile of the Pacific region and highly respected worldwide.

Its partnership approach with captive owners and the industry offers a stable and prudent environment for captive organisers, ensuring continued success of Hawaii captive programmes in this rapidly changing area.

Hawaii offers multiple captive structures, including pure, group, association, sponsored and risk retention groups.

The minimum required capital and surplus is determined by the insurance commissioner based on each captive programme. As a guide, the minimum statutory capitalisation requirements by class of captive licence are:

- Class 1: Single-owner; reinsurance only, USD 100,000
- Class 2: Single-owner; direct and reinsurance, USD 250,000
- Class 3: Multi-owner; association or risk retention captive, USD 500,000
- Class 4: Sponsored captive, USD 500,000
- Class 5: Reinsurance or excess insurance only, to be determined by the insurance commissioner

In Hawaii, tax is levied only on the captive's premiums. There is no minimum premium tax but it is limited to USD 200,000. There is no taxation of captive premiums if premiums were previously subjected to tax in a jurisdiction where the underlying risk is located, or on reinsurance premiums assumed by a captive. The premium tax rate has been set at 0.25 percent for the first USD 25 million, 0.15 percent for the next USD 25 million, and 0.05 percent for between USD 50 million and USD 250 million. No tax is levied on more than USD 250 million.

Captives in Hawaii are also subject to the following fees:

- Initial incorporation: USD 50
- Application: USD 1,000
- Annual business registration: USD 50
- Annual captive licence: Class 1 and 2, USD 300; Class 3, USD 500; and Class 4 and 5, USD 1,000

More information on captive insurance in Hawaii can be found at www.cca.hawaii.gov/ins/captive.

Hong Kong

Hong Kong first enacted legislation for captive insurance in 1997, with its first captive licensed in 1999.

Hong Kong is known for its commitment to encouraging the establishment of captive insurers in the territory with a view to promoting Hong Kong as a captive centre within the Asian region.

It also holds a reputation for being the financial, trading and business centre in Asia, providing a sound, and internationally respected, legal system and a resilient, resourceful and efficient workforce, and a sophisticated and friendly business environment.

Hong Kong keeps its regulatory legislation under regular review so it up to date with international standards.

The domicile is home to traditional types of captives insurance companies that carry general insurance business and sways away from more sophisticated types of captives such as rent-a-captives and protected cell captives.

The domicile boasts a simple tax regime with a corporate tax rate as low as 16.5 percent, while the maximum rate of personal income tax is only 15 percent.

Since 2014, there has been a 50 percent reduction in the corporate tax rate for the offshore insurance business of captives.

The minimum paid-up capital requirement for captives licensed in Hong Kong is HKD 2 million (USD 260,000), while the solvency requirements stand at 5 percent of the net premium income, 5 percent of the net claims outstanding, HKD 2 million, or whichever is greater.

More information on captive insurance in Hong Kong can be found at www.oci.gov.hk/about/index.html.

Illinois

The Illinois Department of Insurance has been working with businesses in Illinois to rewrite the captive insurance article of the Illinois Insurance Code and is helping to shepherd the changes through the Illinois General Assembly in 2017.

Introduced by senator John Mulroe on 9 February 2017, the amendments to the captive insurance article of the Illinois Insurance Code propose changes to provisions concerning definitions and prohibit captive insurance companies from issuing certain types of insurance.

They propose setting the minimum capital requirements at:

- Pure: USD 250,000
- Industrial insured: USD 500,000
- Association: USD 750,000

Under the amendments, captives would able to use multiple forms of capital and surplus, including US currency, letters of credit, Illinois state bonds and US bonds.

The amendments also make changes to the reports a captive must submit, and allow the annual report to be filed at a fiscal year's end, rather than on or prior to 1 March. They also propose allowing captive reinsurance pools in Illinois.

More information on captive insurance in Illinois can be found at www.insurance.illinois.gov.

Ireland

The process for setting up in Ireland, and interaction with the Central Bank of Ireland (CBI, Ireland's sole regulatory authority for financial services), initiates a strong relationship with the applicant from the outset.

The CBI has recognised the principle of proportionality within its risk-based framework for supervision via its Probability Risk and Impact System (PRISM). Firms with the lowest potential adverse impact are supervised reactively or through thematic assessments. Under PRISM, insurers and reinsurers ranked as 'low' or 'medium low', such as captives, are subject to less onerous requirements. For example, the CBI's governance code allows for fewer directors and less frequent board meetings.

There are more than 100 captives domiciled in Ireland. These are direct insurance companies as well as reinsurance companies. Regulated companies can avail of freedom of services and freedom of establishment to write cross-border business in the EU from an Irish base. The types of risks traditionally underwritten by captives in Ireland includes: accident, sickness, aircraft, property damage, business interruption, goods in transit, motor vehicle liability, credit, employers' liability and general liability.

Captive insurers and reinsurers also cover non-traditional risks such as: employee benefits, including US employee benefits through US-domiciled branches of Irish captives; product liability; miscellaneous financial loss; and workers' compensation retentions.

The CBI has prepared a set of templates available for captives that wish to apply for a direct or reinsurance licence. These are available at www.centralbank.ie.

Ireland applies Solvency II, which is the risk-based regulatory EU regime for the insurance, reinsurance and captive industry. Most captives have opted for Solvency II's standard formula under Pillar I to calculate their minimum regulatory capital but partial internal models once authorised are also used by captives.

Other than the requirements under Pillars II and III of Solvency II, the CBI published its Corporate Governance Code for Captive Insurance and Captive Reinsurance Undertakings in 2011, which sets out minimum statutory requirements on how captives should organise their governance functions, including membership of the board of directors and the role and responsibilities of the chairman and captive manager/CEO.

There are a number of contacts to support the new entrant to the Irish market, including several highly skilled legal and consultancy firms. Insurance Ireland is the professional association for the insurance, reinsurance and captive management sectors in Ireland. With effect from 1 January 2017, the Dublin International Insurance & Management Association merged with Insurance Ireland, to become the voice of insurance and reinsurance in Ireland.

More information on captive insurance in Ireland can be found at www.insuranceireland.eu.

Isle of Man

The Isle Man has a strong economy, backed by a Moody's rating of Aa1. Its pragmatic and effective regulation offers a choice of structures, including incorporated cell and protected cell companies. It also boasts bespoke insurance-linked securities, special purpose vehicle and catastrophe bond legislation.

Located in the heart of the British Isles, but not part of the EU or the European economic area, the Isle of Man has a skilled and cost-effective workforce, along with extensive infrastructure and supporting professional services. It's fast to set up a captive in the Isle of Man, while redomestications are allowed. Its proportional capital and solvency requirements are coupled with the ability to provide a loan back to the parent company.

The domicile offers a host of structures, including limited liability companies, protected cell companies, incorporated cell companies, insurance special purpose vehicles, and limited liability partnerships. At the formation stage, an appropriate risk-based level of capital is agreed with the regulator, the Isle of Man Financial Services Authority (IOMFSA). Thereafter, the company is required to maintain adequate capital and resources to meet its liabilities.

The minimum amounts of capital, which may be increased at the discretion of the IOMFSA, are:

- General insurer: GBP 150,000
- Reinsurance company: GBP 100,000
- Captive insurer: GBP 50,000

Fees include an application charge of £2,380 and annual charges of £5,115.

The Isle of Man, in line with most other major domiciles, is introducing a revised risk-based methodology for the calculation of solvency based on internationally recognised Insurance Core Principles. The process is well underway and the IOMFSA is engaging with the industry in this process. It plans to have a new solvency model in place by the end of 2017.

More information on captive insurance in the Isle of Man can be found at www.iomfsa.im.

Additional information, including details of all companies offering captive management services in the Isle of Man, can be found on the Isle of Man Captive Association's website at www.iomcaptive.com.

Jersey

Jersey has an impressive platform that attracts insurance, reinsurance and captive insurance business. It is also home to a range of international banking institutions and specialist law firms making it a strong contender with its other offshore competitors.

The captive insurance legislation in Jersey was enacted in 1983, and all insurance business in Jersey, including captives, is now regulated under the Insurance Business (Jersey) Law 1996.

Jersey licenses captive insurers, protected cell companies and incorporated cell companies.

In Jersey, the minimum capital requirement for a captive is GBP 100,000 but the Jersey Financial Services Commission can amend this, depending on the nature of the proposed business and financial projections.

Jersey has opted to be non-equivalent towards Solvency II and instead follows the international standards set by the International Association of Insurance Supervisors.

The solvency margin requirements for Category B permit holders stand at 17.5 percent of net premium income for general business, and 2.5 percent of the value of the long-term insurance fund or GBP 50,000, whichever is the greater, for long-term business.

Category B permit holders are subject to zero corporation or income tax under Jersey's Zero/10 taxation regime.

More information on captive insurance in Jersey can be found at www.jerseyiia.org/about.

Kansas

Captive insurance law in the State of Kansas provides for pure and industrial captives.

Pure captive insurance companies must have no less than USD 100,000 in capital, while industrial insured captives need to have at least USD 200,000 in capital, which can come in the form of cash or a letter of credit issued by a bank chartered by the state of Kansas or the US comptroller of currency, domiciled in Kansas, and approved by the commissioner.

Kansas-domiciled captives must also have paid-in surplus of no less than USD 150,000 if they are pure, and no less than USD 300,000 if they are industrial insured.

An industrial insured captive insurance company incorporated as a mutual insurer must have no less than USD 500,000 in paid-in surplus.

Prior to 1 March of each year, each captive insurance company must submit a report of its financial condition, verified by oath of two of its executive officers, to the commissioner.

Audits by the insurance department must be conducted once in every three years, which can be extended to five if the the captive subjects itself to an independent audit approved by the commissioner.

Kansas-domiciled captives are required to pay a tax on all premiums received on risks located in the state, but none others, except for ad valorem taxes on real and personal property used in the production of income.

Interested parties should contact the financial surveillance division for more information and visit the National Association of Insurance Commissioners Uniform Certificates of Authority Application website, via www.naic.org, for applicable admission documents.

More information on captive insurance in Kansas can be found at www.ksinsurance.org.

Kentucky

Kentucky is an established mature mid-western captive domicile focused on insurance and risk management.

For 17 years, Kentucky has been a successful captive domicile. It has grown to more than 80 licensed captives, with experienced captive managers and service professionals. The Kentucky Department of Insurance has experienced staff dedicated specifically to captives.

The Kentucky Captive Association is robust, and in 2016 held its 14th annual captive educational conference that was attended by more than 80 owners and service providers.

Kentucky has not specialised in a particular type of captive or industry. Kentucky captive owners come from a number of industries, including automobile, healthcare and elder services, manufacturing, computer services, real estate and construction, banking and financial services, and shipping/transport and logistics.

Total annual premiums are approximately USD 100 million. Kentucky has four risk retention groups, with three writing medical malpractice. It also has a captive owned by an international non-profit and a large employee stock ownership plan-controlled captive.

The minimum capital and surplus requirements in Kentucky begin at USD 250,000 for pure captives and special purpose captives, and USD 500,000 for most other captives.

The premium tax starts at 0.4 percent for the first USD 20 million and has lower graduated rates as premiums rise.

The premium tax is generally in line with other states that impose a premium tax. A minimum of USD 5,000 per year is charged if the premium tax would not otherwise exceed that amount.

More information can be found at captive.insurance.ky.gov and www.kycaptive.com.

Labuan

Labuan boasts a robust and internationally recognised regulatory framework, with a strong focus on insurance and risk management. Businesses are governed by eight modern acts, including the Labuan Islamic Financial Services and Securities Act of 2010, which is the world's first omnibus legislation governing all shariah-compliant financial services in an international business and financial centre. This Islamic act has also led to the introduction of Labuan's Islamic captives, or as they are more commonly known, takaful captives.

The domicile also has a broad range of entities and business and investment structures to cater to cross-border transactions, business dealings and wealth management needs. In the risk management sector, the Labuan landscape is dotted with various licensed entities, from insurers, reinsurers and underwriters to managers numbering more than 200 licensed entities alone.

Labuan offers global investors and financial services providers a competitive tax structure and various tax exemptions, as well as access to the majority of Malaysia's extensive network of more than 80 double-taxation treaties. In addition, Labuan is a cost-efficient, substance-enabling jurisdiction with an English speaking and well-educated work force.

The domicile offers multiple forms of captive structures, including single-parent, group, association, master and subsidiary rent-a-captive, cell and multi-owner captive. To set up a captive in Labuan, an applicant must be a Labuan company (including protected cell companies) incorporated or registered under the Labuan Companies Act of 1990, or a special purpose vehicle. They must also be a member of the Labuan International Insurance Association.

Every Labuan captive insurer must have an operational management office in Labuan, managed by a team that has adequate knowledge and expertise in the insurance business, including the captive insurance business. Otherwise, they need to appoint a licensed Labuan underwriting manager. Directors and principal officers need to be approved by the Labuan Financial Services Authority.

A Labuan captive insurer is required to maintain a surplus of assets over liabilities, at a rate of 20 percent of the net premium income for the preceding year in respect of general insurance business or 3 percent of the actuarial valuation of the liabilities for life insurance business as at the last valuation date. Minimum paid-up capital or working funds amounting to a specified sum must be maintained, in any foreign currency with a bank in Labuan.

More information about Labuan captives, including the capital requirements for each type of structure, is available at www.labuanibfc.com.

A VIBRANT RISK MANAGEMENT CENTRE

Labuan IBFC
International Business and Financial Centre, Malaysia

The Labuan International Business and Financial Centre (Labuan IBFC) offers a comprehensive midshore solution providing fiscal neutrality and certainty, in addition to being an ideal location for substance creation.

Labuan IBFC is home to more than 200 licensed insurance related entities and has a substantial retrocession market. Aside from reinsurance and retakaful licenses, Labuan IBFC also offers a wide range of risk management structures, such as captives, protected cell companies and limited liability partnerships.

Well-supported by a robust, modern and internationally recognised legal framework, Labuan IBFC provides clear legal provisions and industry guidelines enforced by its one-stop regulator, Labuan Financial Services Authority.

Labuan IBFC possesses Asia's widest range of business and investment structures for cross border transactions, business dealings and wealth management needs. These unique qualities offer sound options for regional businesses going global or global businesses looking at penetrating Asia's burgeoning markets.

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Luxembourg

Luxembourg is internationally known for reinsurance and especially as a captive reinsurance domicile. It has a fully diversified financial centre and is the largest captive reinsurance domicile in the EU. Companies from around the globe have domiciled more than 200 captive reinsurance companies in Luxembourg, choosing it for a variety of reasons.

They include its stable democracy and strong economy situated in the heart of Europe, its economic, social and political stability, which ensure a secure legal and tax framework, as well as a skilled multilingual workforce, excellent infrastructure, flexible and open-minded authorities, and a modern legal and regulatory framework for captive reinsurance companies.

Luxembourg legislation requires that reinsurance companies collect adequate technical and balancing reserves, so allowing captives with less favourable risk diversification to build large technical reserves to cover their 'high risk-low frequency' exposures.

It has implemented the Solvency II regime via the modified law of 7 December 2015 on the insurance sector. Any reinsurance company must be licensed by the minister before commencing its activities.

The issuance of the licence is subject to the following main requirements:

- Corporate purpose limited to the acceptance of risks ceded by insurance or reinsurance companies to the exclusion of direct insurance business
- Central administration must be established in Luxembourg
- Minimum capital requirement EUR 3.6 million for reinsurance companies and EUR 1.2 million for captive reinsurance companies
- Transparency of the direct and indirect shareholding structure
- Quality of the shareholders deemed satisfactory in view of the need the ensure the sound and prudent management of the company
- Appoint a local manager who must be authorised by the minister
- Implement among others reliable administrative and accounting procedures and adequate internal control mechanisms

More information on captive reinsurance in Luxembourg can be found at at www.caa.lu.

Malta

Malta's strengths lie in its EU-based regulatory regime, combined with the approachability of the Malta Financial Services Authority (MFSA), which engages with the industry and prospective applicants and seeks to establish communication and dialogue with stakeholders.

The domicile has also developed an innovative product structuring framework, such as protected cell companies, reinsurance special purpose vehicles and insurance securitisation cell legislation, which it manages within strong regulatory parameters.

Captive insurance and captive reinsurance undertakings, as defined in Articles 13(2) and 13(5) of Solvency II, have been transposed into Malta's Insurance Business Act, meaning they are authorised undertakings in the domicile. Captive insurers and captive reinsurers must also adhere to the Insurance Business (Captive Insurance Undertakings and Captive Reinsurance Undertakings) Regulations of 2003 (LN 334 of 2003).

In particular, the regulations provide that certain provisions of the act do not apply to a captive insurer or captive reinsurer due to the nature of the business.

These include an exemption from the requirement to provide a statutory notice to a policyholder, advertising requirements and exemption from the requirement to contribute to the Protection and Compensation Fund in the case of insolvency of an undertaking engaged in insurance. All other prudential requirements under the act that are applicable to insurance undertakings are also applicable to captives.

Prospective applicants need to submit an application according to the act. An application for authorisation is processed within a statutory period of three months of receiving a properly completed application form together with the requisite documentation.

The MFSA aims to make the application process an efficient and manageable one. It is an interactive process involving contact and consultation between applicant and the MFSA prior to and after an application is formally submitted. In this context, it is recommended that the promoters hold a preliminary meeting with the MFSA to outline their proposal. This meeting should be held well in advance of submitting an application for authorisation.

More information on captive insurance in Malta can be found at www.mfsa.com.mt.

malta

flawless structure
seamless opportunities

Malta is host to a myriad of captive re/insurance companies, protected cell companies and cells that have come to enjoy the domicile's stable regulatory environment and EU membership benefits. Malta offers re/insurers and cells:

European Union Membership - Malta's status as an EU member allows companies and cells the ability to passport their services throughout the European Union and EEA states. Maltese insurance law and regulation implements all relevant EU directives.

Redomiciliation Legislation - Companies established in other countries can seamlessly transfer to Malta without any break in their corporate existence.

Protected Cell Legislation - Protected Cell Companies can be incorporated in Malta, enabling cell promoters to write insurance through a cell. The law ensures proper protection and insulation of cell assets and liabilities from those of other protected cells and the core of the protected cell company.

A Stable Regulatory Framework - The Malta Financial Services Authority (MFSA) is reputed to be "firm but flexible" - encouraging discussion with promoters at all stages of an application process and also on an ongoing basis.

Extensive Double Taxation Treaty Network - Malta has around 70 tax treaties with various EU and non EU countries.

more information on:
www.financemalta.org

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Mauritius

Since the enactment of Mauritius's Captive Insurance Act 2015, there has been an increasing interest in the African domicile from captive managers and companies worldwide.

Mauritius is already home to a number of global players, including multinational companies, global investment funds, international banks, legal firms and audit firms.

The country provides security and stability as a proven financial centre that adheres to global best practices; risk mitigation possibilities through a network of investment promotion and protection agreements; no exchange control; a pool of innovative financial products and structures; and long-standing bilateral relations with Africa.

Its new captive rules, which are still in draft form and subject to change, proposes four classes of captive business:

- Pure: Gross written premium, originating from risks or insurable interests of affiliated corporations in which the parent holds at least 20 percent but not more than 50 percent of voting rights, will neither exceed 10 percent of the total gross premium nor MUR 30 million (USD 842,700) for a financial year
- Class 1 third-party: Gross written premium, originating from risks or insurable interests of affiliated corporations in which the parent holds at least 20 percent but not more than 50 percent of voting rights, will be at least 10 percent and will neither exceed 50 percent of the total gross premium nor MUR 300 million (USD 8.5 million) for a financial year
- Class 2 third-party: Gross written premium, originating from risks or insurable interests of any person with which the captive insurer is related through an insurable interest, or of affiliated corporations in which the parent holds at least 20 percent but not more than 50 percent of voting rights, will neither exceed 50 percent of the total gross premium nor MUR 300 million for a financial year
- Class 3 third-party: Gross written premium will not exceed MUR 300 million and it will provide benefits through a contract of insurance with a non-related person in return for a premium

The minimum unimpaired paid-up capital requirements stand at MUR 3 million (USD 86,750) for pure captives, MUR 5 million (USD 144,600) for Class 1, and MUR 10 million (USD 290,000) for Classes 2 and 3.

More information on captive insurance in Mauritius can be found at www.fscmauritius.org/en.

Michigan

The State of Michigan is a stable, progressive, and business friendly domicile with unsurpassed customer service. Regulations are well reasoned and flexible to serve traditional and emerging industries.

Due to the unique background experience of Department of Insurance and Financial Services (DIFS) staff, application reviews are completed within 30 days.

DIFS offers pre-application meetings to ensure applicants are comfortable and ready to apply. Unlike some restrictive domiciles, Michigan allows a captive applicant to choose its actuarial and auditing firms.

Michigan can license pure captives. In terms of association captives, they can be incorporated as as a stock insurer or a mutual insurer, or organised as a limited liability company.

The state also licenses industrial insured captives, either as a stock insurer or a limited liability company, as well as sponsored captives, non-profit pure captives and special purpose financial captives.

The capitalisation requirements for these types are:

- Pure captive: USD 150,000
- Association (stock insurer or limited liability company): USD 400,000
- Association (mutual insurer): USD 750,000
- Industrial insured (stock insurer or limited liability company): USD 300,000
- Sponsored: USD 500,000
- Non-profit pure: USD 250,000
- Special purpose financial: USD 250,000

Michigan does have a resident agent requirement, meaning two of three captive incorporators/organisers must be state residents. Annual board meetings of directors must be held in Michigan.

Finally, the state does not have a tax rate, but it does have a renewal fee based on premium volume.

More information on captive insurance in Michigan can be found at www.michigan.gov/difs.

Federated States of Micronesia

Micronesia is particularly appreciated by captive owners with operations in the Asia Pacific region, especially in Japan due to its proximity and the tax treaty between the two countries, as well as Micronesia's stable, strong regulatory structure.

As of 31 December 2016, there were 19 captive insurance companies licensed in Micronesia. It has statutory authority to captive insurance/reinsurance companies as follows:

- Class 1: Single-parent
- Class 2: Parents and affiliates, associations, and related third-party business
- Class 3: Multiple corporate captive entity (akin to cell structures)

The initial minimum capital for Class 1, Class 2 and Class 3 core members is USD 1 million. Capital can be in the form of cash, letters of credit, investments pursuant to certain provisions, or any other security deemed appropriate by the commissioner. Applicants are encouraged to capitalise their captives as early as possible after incorporation. Issuance of a licence is also contingent upon presentation of authentic documentation from a bank that the applicant has in fact met the minimum capitalisation requirement.

Class 3 insurers consist of one or more corporations organised, or with the intent to organise, as a group of corporate captive insurance companies under the laws of Micronesia, which require: (i) Each member captive is formed and owned by a different parent company for the purpose of insuring risks of its parent company or related third-party businesses, respectively; (ii) each member captive that make up the multiple corporate captive entity is deemed an individual captive insurance company; (iii) the core multiple corporate captive entity must be licensed first, before any of its member captives; and (iv) all member captive insurance companies are together deemed to constitute a group.

The core member captive insurance companies must hold at least 5 percent in shares in each other, each member must permit one or more directors from the core member captive on its board of directors, the core must maintain a minimum paid in capital and surplus of at least USD 1 million, and each member must maintain a minimum paid in capital and surplus of at least USD 100,000.

Redomestication are allowed, although the process is slightly different to incorporation of a new captive insurance company, so applicants are encouraged to contact the regulator to find out more.

More information on captive insurance in Micronesia is available at www.fsminsuranceboard.com.

Missouri

Missouri is centrally located in the US. If a potential captive owner is not located in or around Missouri, there are daily non-stop flights between its two major metropolitan areas and most cities across the country. In most cases, there is no need for connecting flights and all-day travel for a simple meeting with Missouri Department of Insurance, Financial Institutions and Professional Registration staff, or with the captive company's management.

Licensing and application fees are deductible and the Missouri Department of Insurance, Financial Institutions and Professional Registration is responsive and keeps costs down by only using in-house analysts and examiners who know captives and have no incentive to drive up their consulting fees.

Missouri can license pure, association, industrial insured, branch, special purpose life insurance and sponsored cell captives, which must be meet the following minimum capital and surplus requirements:

- Pure and special purpose life insurance: USD 250,000
- Association, industrial insured, sponsored and cell: USD 500,000

Missouri's captive insurance company premium tax rates are as follows:

- USD 0 to USD 20 million: 0.38 percent, direct; 0.214 percent, assumed
- USD 20 million to USD 40 million: 0.285 percent, direct; 0.143 percent, assumed
- USD 40 million to USD 60 million: 0.19 percent, direct; 0.048 percent, assumed
- USD 60 million or more: 0.072 percent, direct; 0.024 percent, assumed

More information on captive insurance in Missouri can be found at www.insurance.mo.gov/captive.

On November 1, 2016, the U.S. Internal Revenue Service issued Notice 2016-66.

Due to the Notice, transactions where a captive insurance company is electing to be taxed solely on investment income under Section 831(b) are now a "transaction of interest."

Is this the end of the micro captive insurance strategy?

"I do not believe so. U.S. Congress offered their approval of the 831(b) captives by their amendment to the section. Recent case law in this area has been very pro-taxpayer and there is a significant case pending in the U.S. Tax Court that will hopefully clear up some of the issues impacting the micro captive insurance industry."

- Alan Fine, Brown Smith Wallace

Get the latest updates at bswllc.com

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Montana

Captive insurers domiciled in the State of Montana enjoy accessible and experienced regulators who ensure a short turnaround time on applications for credible captives and alternative risk transfer entities.

They also benefit from knowledgeable legal assistance, an extremely supportive state legislature and a strong and active industry association, the Montana Captive Insurance Association.

Montana is authorised to license pure, association, protected cell, incorporated cell, special purpose and industrial insured captives, as well as risk retention groups.

These captives are authorised to provide property, casualty, life, disability income, surety, marine, and health coverage or group health.

Montana captives must possess and maintain unimpaired paid-in capital and surplus of:

- Pure: USD 250,000
- Industrial insured and association: USD 500,000
- Protected cell: USD 250,000 to USD 500,000
- Discretionary amount for special purpose

Captives must submit an application for certificate of authority with detailed information and annual reports, and are subject to mandatory examination at least every five years. They must also maintain a resident board member and Montana office.

There is a tax on direct premiums of 0.4 percent on the first USD 20 million and 0.3 percent on each subsequent dollar collected. The tax on assumed reinsurance premiums has been set at a rate of 0.225 percent on the first USD 20 million, 0.15 percent on the next USD 20 million and 0.05 percent on each subsequent dollar. Tax must be at least USD 5,000 and shall not exceed USD 100,000.

More information can be found at www.csimt.gov/insurance/captives and www.mtcaptives.org.

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CSI
Commissioner of Securities & Insurance

Since 2001, Montana has been a leading captive domicile. We have a dedicated and experienced regulatory team that is responsive to the developing captive landscape and open to new ideas. We work hard to keep our state captive laws current with the latest industry innovations.

Come see why Montana has the most accessible, innovative, and professional captive team around. Visit our website at www.csimt.gov/captives or contact Steve Matthews, our captive coordinator, at (406) 444-4372.

"If you have big ideas for your captive, Big Sky Country should be at the top of your list."

-Matt Rosendale
Commissioner of Securities & Insurance

Commissioner of Securities & Insurance · Office of the Montana State Auditor · 840 Helena Ave. · Helena, MT

Nevada

Nevada, which is known for being a business-friendly state, ranks high in the nation as a domicile for captive insurers. Why is it so attractive? Among many contributing factors is its no personal or corporate tax structure, and a tax credit of up to USD 5,000 applicable to the first year of a captive's acquisition of a certificate of authority. In Nevada, the captive insurance industry enjoys low application expenses, simplified financial reporting requirements, a fair and consistent regulatory environment, and a dedicated team to help our captive insurers achieve success.

Nevada offers the following types of captives:

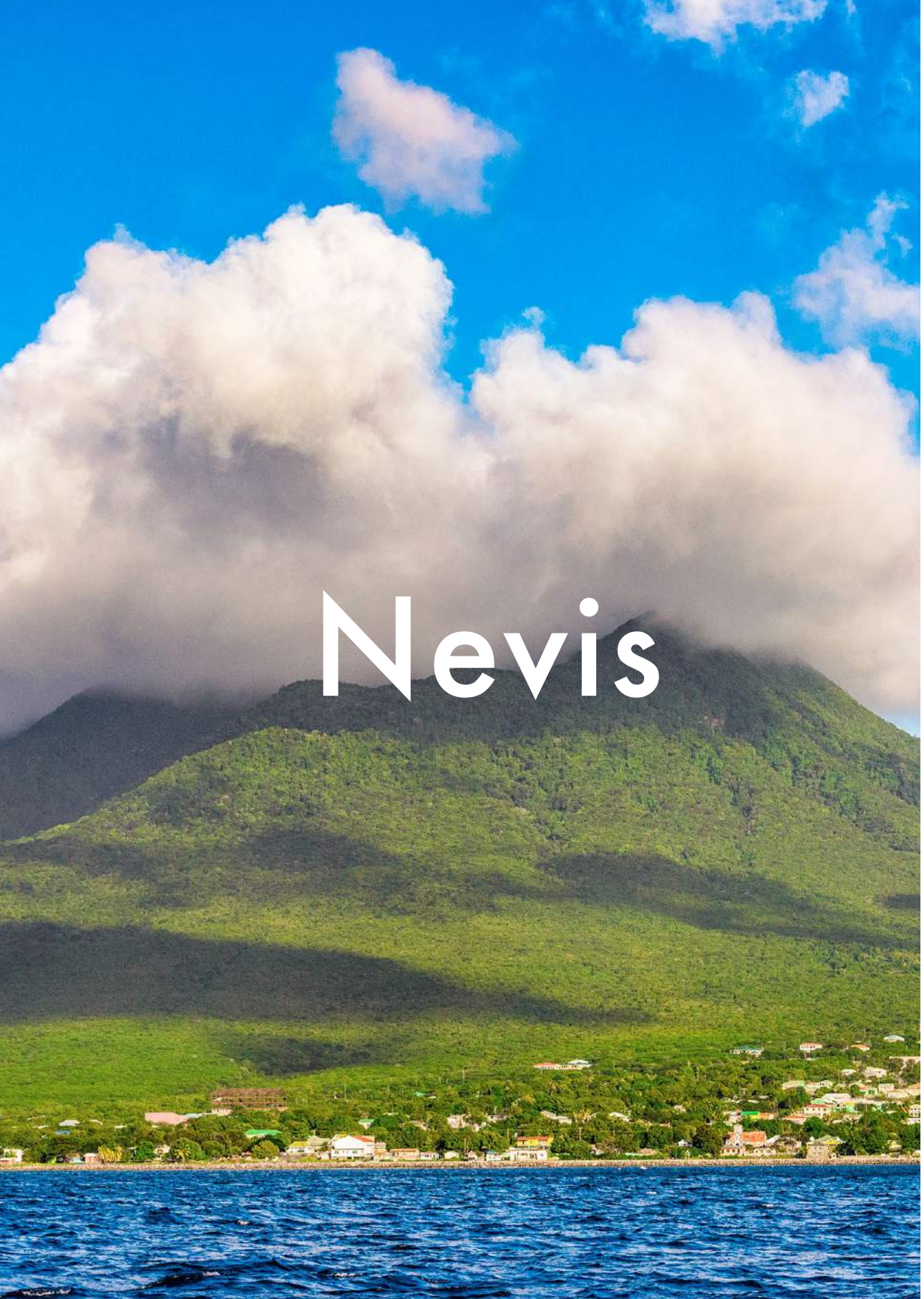
- Agency: An insurer that is owned or directly or indirectly controlled by an insurance agency or brokerage and that only insures risk of policies that are placed by or through the agency or brokerage (minimum capital and surplus of USD 600,000)
- Alien: An insurer formed to write business for its parents and affiliates and is licensed pursuant to the laws of an alien jurisdiction that imposes statutory or regulatory standards acceptable to the insurance commissioner on companies transacting the business of insurance in such a jurisdiction
- Branch: An alien captive insurer licensed to transact the business of insurance through a business unit with a principal place of business in Nevada
- Association: An insurer that only insures risks of the member organisations of an association and the affiliated companies of those members, including groups formed pursuant to the US Liability Risk Retention Act of 1986 (minimum capital and surplus of USD 500,000)
- Pure/single parent: An insurer that only insures risks of its parent and affiliated companies, or controlled unaffiliated companies or controlled unaffiliated businesses, and can include a branch captive insurer (minimum capital and surplus of USD 200,000)
- Rental: An insurer formed to enter into contractual agreements with policyholders or associations to offer some or all of the benefits or a programme of captive insurance and that only insures risks of such policyholders or associations (minimum capital and surplus of USD 800,000)
- Sponsored/series LLC: A captive insurer in which: (i) the minimum capital and surplus required by law is provided by one or more sponsors; (ii) only insures risk or its participants through separate participant contracts; and (iii) funds the liability for each participant through one or more protected cells where the assets of each protected cell are segregated from the assets of the general account of the sponsored captive insurer. (minimum capital and surplus of USD 500,000)
- Protected cell: A separate account established by a sponsored captive insurer in which the assets are maintained for one or more participants in accordance with the terms of a participant contract

The general requirements for setting up a captive in Nevada include holding an annual meeting in Nevada, as well as retaining, employing and contracting a Nevada-licensed attorney, an actuary, and an approved accountant, respectively.

Premium taxes, annual reports, licence renewals and fees, and current updated business plans all are all due on or before 1 March. Audited financial filings are due on or before 1 June for RRGs and 30 June for non-RRGs.

Non-pure captives are subject to examination by the insurance commissioner every five years, although this may be extended to every five years if comprehensive annual audits are conducted.

For more information on captive insurance in Nevada can be found at www.doi.nv.gov/captive-insurance.



Nevis

In July 2004, the Nevis Ministry of Finance and Development announced the passage of the Nevis International Insurance Ordinance, which provided for the licensing and regulation of general insurance, captive insurance and reinsurance companies.

Nevis licenses insurance entities including, allied reinsurance, allied annuity, captive insurance business, general business, insurance adjuster, insurance broker, long-term insurance business, reinsurance and registered agents.

A registered Nevis insurer that is authorised to carry only captive insurance business can only insure a parent or affiliated company, unless permission is given by the regulator.

The minimum paid-up share capital for theses classes of insurance business are:

- Long-term and general insurance: USD 185,000
- Reinsurance business: USD 75,000
- Captive with five or more owners: USD 50,000
- Captive with fewer than five owners: USD 20,000
- Single-owner captive: USD 10,000
- Allied reinsurance and annuity insurance: USD 10,000

In the case of an insurer other than one carrying long-term business, the minimum margin of solvency is at least the minimum amount of paid-up capital as prescribed in the ordinance or, if greater, where the net retained premium of the insurer does not exceed USD 5 million, then the prescribed amount is 20 percent of net retained premium.

Where the net retained premium of the insurer exceeds USD 5 million, the prescribed amount is USD 1 million plus 10 percent of the amount by which net retained premium exceeds USD 5 million.

More information on captive insurance in Nevis can be found at www.nevisfsrc.com.

New Zealand

New Zealand does not have specific captive legislation. The Insurance (Prudential Supervision) Act (IPSA) 2010 applies to all insurers carrying New Zealand insurance business, including captive insurers.

It is important to note that a New Zealand-based captive insurer with no New Zealand insurance business would also fall out of the scope of IPSA and would not be eligible for an insurance licence from the Reserve Bank of New Zealand.

In general, New Zealand insurers need to hold a current financial strength rating, although IPSA contains an explicit exemption for captives.

When considering a licence application, the Reserve Bank of New Zealand needs to know that, among other requirements, a captive is 'fit for business' by demonstrating that it has the capacity to manage the business it undertakes and to identify and manage its risks effectively, and that it has sufficient financial strength.

The Reserve Bank of New Zealand is undertaking a review of IPSA. Changes to the legislation would occur in 2018 at the earliest, and so are unlikely to take effect before 2019.

One aspect of the review is to consider whether additional tools are needed to recognise the diversity of business models in the insurance sector, which could theoretically have an impact on alternative risk transfer.

More information on captive insurance in New Zealand can be found at www.rbnz.govt.nz.

North Carolina

The North Carolina Captive Insurance Act provides regulation that does not impose a one-size-fits all approach, but instead provides the insurance commissioner with discretion to regulate each captive insurer based upon the insurer's risk profile. The act also provides low-cost captive insurance operations in North Carolina. Additionally, the captive regulatory team of the North Carolina Department of Insurance is responsive and accessible while striving to provide consistent regulation.

North Carolina is continuously seeking better ways of conducting business, such as the development of its current online captive filing system that allows for a streamlined application process while also providing additional security for the confidential information contained in the application.

The North Carolina Captive Insurance Act provides licensing of all types of captive insurers, including pure, protected cell (incorporated or unincorporated cells), association, special purpose, industrial insured, special purpose financial and branch, as well as risk retention groups.

The minimum capital requirements for these captives are as follows, although the insurance commissioner does have the the discretion to allow lesser amounts of capital for pure, protected cell and special purpose captives, if the business plan and feasibility study indicate a lesser amount is adequate and the commissioner agrees:

- Pure, protected cell and special purpose: USD 250,000
- Association and industrial insured: USD 500,000
- Risk retention group: USD 1 million
- Special purpose financial: USD 250,000

The minimum level of premium tax to be paid in North Carolina is USD 5,000, while the maximum is USD 100,000. For protected cell captives, the minimum is USD 10,000 for insurers with more than 10 cells, while the maximum is USD 200,000 for insurers with more than 10 cells.

The rate of tax for direct premiums has been set at 0.4 percent for the first USD 20 million and 0.3 percent thereafter. For assumed reinsurance premiums, the rate is 0.225 percent for the first USD 20 million, 0.15 percent for the next USD 20 million, 0.5 percent for the next USD 20 Million, and 0.025 percent for more than USD 80 million.

More information on captive insurance in North Carolina can be found at www.nccaptives.com.

Oklahoma

In 2013, Oklahoma insurance commissioner John Doak worked with the Oklahoma legislature to complete a major revision of the state's captive insurance law.

The Oklahoma Insurance Department's captive insurance division works hard to ensure that Oklahoma is the domicile of choice through modernised laws and regulations, business-friendly requirements and forms, and fast, responsive staff.

Oklahoma can license a broad range of captive entities, including pure, association, industrial, sponsored, branch, and special purpose, as well as cell or series captives and risk retention groups.

Captive applications in Oklahoma require a USD 200 application fee and there is an annual USD 300 licence fee. Capital requirements vary by captive type and range from a minimum of USD 250,000 to USD 1 million. Pure captives have the opportunity to fund USD 150,000 of the USD 250,000 minimum at licensure with the balance required before the first anniversary of the licence.

Direct premium is taxed at 0.2 percent and assumed reinsurance premium is taxed at 0.1 percent, with taxes subject to minimum tax and a USD 100,000 premium tax cap with additional lower cap for captives with a significant employment presence in the state.

More information on captive insurance in Oklahoma can be found at www.captive.oid.ok.gov.

Oregon

Oregon's Division of Financial Regulation, headquartered in the state capital of Salem, implements the state's captive insurance law and promotes Oregon as a domicile for captive insurance companies.

Oregon's law allowing captive insurers passed in 2012, and the division began accepting captive insurer applications in fall 2012.

The state characterises itself as business friendly with regulators that desire to collaborate to form captives that are financially successful and comply with Oregon law. Among its attributes, Oregon does not collect premium tax, charges low fees and deals with admissions in a timely fashion.

Oregon caters for pure, association and branch captives, as well as captive reinsurers. The minimum capital and surplus requirements are:

- Pure: USD 250,000
- Association: USD 750,000
- Captive reinsurer: USD 300 million

Its captives are generally required to file an annual statement, an actuarial opinion, and an audited financial statement. An excise tax return must be filed with the Department of Revenue. Oregon's fee is USD 5,000 for the initial certificate of authority and the same amount annually to renew. The Division of Financial Regulation examines all captives at least once every three years, with the insurer bearing the costs.

More information on captive insurance in Oregon can be found at captive.oregon.gov.

Oregon also boasts its own trade group, the Oregon Captive Insurance Association. More information can be found at www.oregoncia.com.

Panama

Captive insurance in Panama is subject to Law 60 of 1996, which regulates the creation, operation and administration of captive insurance companies (CICs).

The law is flexible enough to accommodate myriad insurance and reinsurance activities, yet sufficiently stringent to allow the operation of sound financial ventures.

The law applies to any legal entity engaged exclusively in the business of insuring or reinsuring particular or specific foreign risks, from an office physically located in Panama.

This office must be properly identified and staffed by personnel qualified to administer its operations. The legal entity must have a licence granted by the Superintendence of Insurance and Reinsurance.

The law distinguishes two types of insurable risks:

- Long term: To insure or reinsure individual, collective or group life, including hospitalisation, pensions or life-long annuities
- General risks: To insure or reinsure any risk no defined as a long-term risk

An applicant interested in setting up a CIC in Panama may apply for either or both types of licences, but the applicant must limit its operations to the type of licence obtained.

In Panama, risks of a local nature are not insurable. The law provides specific examples of local risks and creates a presumption of applicability to all risks, with the exception of: those related to individuals, real estate, or chattel located in Panama; automobiles, airplanes or vessels of national service; civil liability derived from damages occurring in Panama; and the shipment of goods whose destination is Panama.

Insurance captives must maintain, free of any liens, the following paid in capital:

- General terms: Not less than USD 150,000
- Long-term risks or both: Not less than USD 250,000
- Annual service fee: USD 2,000, paid directly to the Superintendence of Insurance and Reinsurance

To obtain a licence to operate a CIC in Panama, applicants must follow a two-stage process. The first phase involves the registration of a legal vehicle (either a Panamanian subsidiary or a branch of the foreign corporation in the Public Registry of Panama). The second phase involves requesting an operation licence from the Superintendence of Insurance and Reinsurance.

More information on captive insurance in Panama can be found at www.superseguros.gob.pa.

Puerto Rico

Puerto Rico is the only captive insurance jurisdiction that can offer offshore tax incentives while remaining under the US rule of law.

Although Puerto Rico is not physically a part of the US, its banks use the US Federal Reserve, while the US Constitution protects Puerto Rican citizens.

The Caribbean island caters for multiple structures, including pure, association, protected cell and reinsurance captives, as well as risk securitisation programmes. Its capital requirements are set relatively higher than most other jurisdictions, at USD 500,000 generally, although differences between licences do exist. For example:

- Class 1: Pure captives, which have the authority to transact insurance and reinsurance related to risks from sole owner or an affiliate, must meet a minimum requirement of USD 500,000 for combined capital and surplus, and a 5:1 premium to surplus ratio
- Class 2: Association captives, which can cover the risks of the owners or any of their affiliates, as well as certain third-party risks, must meet a minimum capital requirement of USD 500,000, or USD 750,000 with surplus, as well as a 5:1 premium to surplus ratio and a 3:1 ratio for third-party risks

In terms of fees, Class 1 applicants must pay a general fee of USD 350 and an application fee of USD 750. Class 2 applicants must pay the same general fee, but their application fee has been set at USD 1,000.

More than a dozen insurance and financial service providers joined forces in 2016 to launch the Puerto Rico International Insurers Association, which can respond to and advise related parties on insurance issues in Puerto Rico.

More information on captive insurance in Puerto Rico can be found at www.priia.org.

Singapore

After licensing its first captive in 1983, Singapore is now the largest Asia Pacific captive domicile and one of the largest reinsurance centres in Asia.

Singapore is a well-recognised choice of domicile for many reputable international companies to set up their captives, especially with corporates from Australia.

The domicile is governed by the Insurance Act and administered by the Monetary Authority of Singapore.

In Singapore, the minimum paid up ordinary share capital is SGD 400,000 (USD 285,000), while solvency has been set at a minimum of SGD 400,000 on equity and retained earnings. There is also an offshore insurance fund margin of positive fund surplus. The capital and solvency requirements only apply to captives writing offshore business.

There are three options for captives when it comes to income tax:

- The full corporate tax rate of 17 percent (noting that SGD 152,500 (USD 110,000) of the first SGD 300,000 (USD 213,000) of chargeable income is tax exempt)
- A concessionary rate of 10 percent relating to income derived from offshore business activity
- Full income tax exemption, for income derived offshore, granted for 10 years on application

More information on captive insurance in Singapore can be found at www.mas.gov.sg.

South Carolina

South Carolina is the only mature domicile in the Southeastern US. Now in its 17th year of operation, it offers a business-savvy regulatory environment and a well-developed infrastructure of captive managers and service providers with significant captive experience.

South Carolina offers a climate that is business-friendly and visitor-friendly. A great place to do business with world-class captive know-how. South Carolina is a highly respected domicile and focuses on owner value.

The state caters for multiple structures, including pure, special purpose, association, risk retention group, special purpose financial, branch, sponsored and cell. The combined minimum capital and surplus requirements are:

- Pure: USD 250,000
- Association: USD 750,000
- Risk retention group: USD 500,000
- Sponsored: USD 1 million
- Special purpose: As determined by the director
- Branch: Funding amount varies and uses trust fund as security

The direct premium tax rate has been set at 0.4 percent for the first USD 20 million, 0.3 percent for the next USD 20 million, USD 100,000 for the following USD 20 million, and then USD 100,000 again for the next USD 20 million.

The assumed premium tax rate is 0.225 percent for the first USD 20 million, 0.15 percent for the next USD 20 million, 0.5 percent for the following USD 20 million, and then 0.25 percent for the next USD 20 million.

Special purpose financial captives are taxed differently. The premium tax rate for them has been set at 0.225 percent for the first USD 20 million, 0.15 percent for the next USD 20 million, 0.05 percent for the following USD 20 million, and then 0.025 percent for the next USD 20 million.

More information on captive insurance in South Carolina can be found at www.captives.sc.gov.

South Dakota

South Dakota is a business friendly state that prides itself on a responsive, common-sense regulatory environment. Captive owners will work directly with decision makers. South Dakota is also nationally recognised for its user friendly trust laws.

The state caters for pure, group, agency, sponsored, trust and special purpose captives. The minimum capital requirements are USD 100,000 for trust captives, while all others must have at least USD 250,000.

South Dakota does not charge premium taxes on captives, but instead has a supervision fee. The supervision fee is the greater of USD 5,000 or 0.08 percent of gross premiums less return premiums. A sponsored captive must pay an additional supervision fee of the greater of USD 500 or 0.08 percent of 1 percent on gross premiums less return premiums.

The captive board must hold at least one meeting each year in South Dakota with some members physically present. Captives must also maintain their principal places of business in the state, although a captive manager can be utilised for this purpose, at the Division of Insurance's discretion.

More information on captive insurance in South Dakota can be found at www.sdlegislature.gov under SDCL Chapter 58-46.

St Lucia

The Eastern Caribbean island nation of St Lucia requires all applicants to conduct insurance through an international business company (IBC) and have a registered agent and office.

The International Insurance Act provides for three types of licences: Class A, for general insurance business only; Class B, for long-term insurance business; and Class C, for both general and long-term insurance business. Companies seeking a Class A or a Class C licence, may, with respect to their general insurance business, be granted a Sub-Class 1 licence if the company is a captive, or a Sub-Class 2 licence in all other cases in respect of general insurance business.

A captive must have two directors, who must be natural persons. At least one of these directors must be a resident of St Lucia.

The capital requirements for insurance companies range from USD 50,000 to USD 100,000. At least USD 50,000 must be deposited or invested in a manner prescribed by the Financial Services Regulatory Authority (FSRA).

St Lucia's Insurance Act does not specify the actual solvency margins, but the FSRA has discretion to fix margins and has issued guidelines, which state:

- Class A(1): The greater of USD 100,000 and 10 percent of net retained annual premium
- Class A(2): The greater of USD 150,000 and 20 percent of the first USD 5 million of net retained annual premium plus 10 percent of any net retained annual premium in excess of USD 5 million
- Class B: USD 150,000
- Class C(1): The sum of the margin required for Classes A(1) and B
- Class C(2): The sum of the margin required for Classes A(2) & B

As insurance companies are IBCs, they are not subject to any taxes (unless they have elected to be subject to 1 percent tax) or stamp duties in St Lucia.

There are special provisions maintaining the confidentiality of the information submitted to the FSRA on application and protecting the confidentiality of the affairs of the licensee or the affairs of a customer of a licensee.

More information on captive insurance in St Lucia can be found at www.saintluciaifc.com.

Tennessee

Tennessee is home to a wide variety of captives, from Fortune 500 companies to small business captives to risk retention groups and association captives.

Nashville is an attractive place for business from both professional and geographical standpoints, while the Tennessee governor and legislature are positive to the business, enabling the Tennessee Department of Commerce & Insurance to focus on customer service and be quick to respond to queries.

The state caters for pure, association, branch, industrial insured, protected cell and special purpose financial captives, as well as risk retention groups.

Capital is required in the form of cash or cash equivalent, or irrevocable letter of credit. The minimum requirements are:

- Pure and protected cell (core): USD 250,000
- Association and industrial insured: USD 500,000
- Risk retention groups: USD 1 million

Payable fees include USD 675 for an application and USD 440 for a certificate of authority. Tennessee boasts a favourable tax rate starting at 0.4 percent and decreasing with increases in premium.

Tennessee offers a one-year tax holiday for alien captives that redomesticate to the state, with the option of applying the tax holiday in either year one or two of operation. It also boasts a member-based trade group, the Tennessee Captive Insurance Association, which is dedicated to promoting and protecting the interests of all captives in the state.

More information can be found at www.captive.tn.gov and www.tncaptives.org.

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Texas

Texas is focused on enabling business owners to operate efficiently and to protect the enterprise value those businesses create. Fortune 1000 companies and mid-size captive owners will both find a supportive environment in Texas in which to domicile their captive. Geographically and philosophically, there is room to grow in Texas—for businesses and their captives alike.

The Texas statute provides for single-parent captives alone at the moment, but within that capacity the state seeks to create as broadly constructive a single-parent statute as possible.

Captives must meet a minimum capitalisation requirement of USD 250,000 for combined capital and surplus, but as in most domiciles, the Texas Department of Insurance will examine actuarial projections and other issues before making a decision on formation.

The premium tax rate has been set at 0.5 percent, with a minimum of USD 7,500 and maximum of USD 200,000 to be collected. The maintenance tax varies by prior-year premium and line.

For growth initiatives as they relate to the Texas domicile, desired changes to statute, ongoing education, and a generally fun and supportive peer group environment for Texas-based captives, everyone is encouraged to contact and join the Texas Captive Insurance Association.

More information on captive insurance in Texas can be found at www.tdi.texas.gov/licensing/company/captives.html and www.texascaptives.org.

Road to the top is full of risks – to be ahead, plan ahead

Companies operating in the current business environment may find hazards hiding around every corner. To be prudent and prevent economic leakage, entities should proactively identify those hazards and structure their affairs to manage risk in a holistic, tax-efficient manner. With EY's global integrated approach, you can improve cash flow, reduce expenses and use capital more effectively.

EY's US Captive Services Team can determine whether your business structure and operations are suited for a captive insurance arrangement, evaluate your current risk financing structures, and develop feasible and efficient alternatives – all to significantly increase your coverage options while improving cash flow and expense management and reducing overall economic costs. As part of EY's Global Captive Services network, EY's US Captive Services Team is uniquely positioned to efficiently and effectively address domestic or cross-border/foreign issues and advise on planning opportunities.

Risk isn't going away, and neither is uncertainty. You need a plan that weighs all the options so that your organization does not have to settle for high expenses as a necessary cost of doing business. Let EY show you how.

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Ernst & Young LLP (EY US) Services Team – *Innovating Risk Management*

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Building a better working world

The Bahamas

The Bahamas has made a dedicated effort to ensure that the legislative and regulatory environment awaiting new captive insurance arrivals is proactive and recognises the real business needs of entities. The domicile has minimum capital requirements that are competitive with other jurisdictions.

Potential licensees are encouraged to work through an insurance manager that is familiar with the Bahamas, but this isn't mandatory.

The captive environment in the Bahamas is supported by an experienced and diversified asset and wealth management industry. These have been able to facilitate synergies with the insurance market. Other advantages include a sustained commitment from the government and private sector to develop the domicile, an ideal location 30 minutes off the coast of Florida, US preclearance, and idyllic surroundings for board meetings.

The Insurance Commission of the Bahamas licenses medium and small captives, including investor, reinsurance and association captives. Cell captives are increasing in popularity the Bahamas as the cost structure of these entities is more efficient than operating a standalone captive.

The Segregated Accounts Companies Act of 2004 provides a legal framework to facilitate the use of segregated accounts companies to establish insurance companies, including captive insurers.

The general requirements for a captive include a minimum of two directors, the appointment of an insurance manager, a resident representative in the Bahamas at whose office books and records shall be maintained, and a minimum of USD 100,000 in share capital. There may be additional regulatory capital requirements depending on the business plan submitted.

Captives must maintain an adequate capital available to capital required ratio in order to ensure that the business can meet unforeseen circumstances. The annual fee payable under the External Insurance Act of 2009 for a captive (restricted external insurer) is USD 2,500.

More information on captive insurance in the Bahamas can be found at www.icb.gov.bs.

US Virgin Islands

The US Virgin Islands is considered outside of the US while being under the US flag, so it is in a sense 'onshore', but it also qualifies as an 'offshore' jurisdiction for tax purposes but within US law. The domicile is treated as a 'state' for various insurance programmes and is eligible for tax benefits.

The US Virgin Islands has a sophisticated broadband infrastructure for voice and data, and an established financial services sector with a complete network of support services, including legal, accounting, banking and actuarial services. It boasts an educated labour force with the University of the Virgin Islands campuses in the St Thomas/St John and St Croix districts. It is strategically located between the US and Latin America with a year-round tropical climate. Its infrastructure includes accredited hospitals and educational facilities.

Captive legislation was enacted in 1994 and was amended in 2009 and 2013. Its service providers have decades of experience in the industry.

The following types of captives can be licensed in the US Virgin Islands: single-parent (stock), industrial insured (stock or mutual), association international (stock or mutual), protected cell, special purpose financial captive insurance company, and special purpose vehicle.

Their minimum capital and surplus requirements are:

- Single-parent: USD 75,000 and USD 100,000
- Industrial insured (stock): USD 100,000 and USD 125,000
- Industrial insured (mutual): USD 100,000 and USD 200,000
- Association international (stock): USD 125,000 and USD 250,000
- Association international (mutual): USD 125,000 and USD 325,000

Various tax incentives are in place for captives in the US Virgin Islands, including a 100 percent reduction in income tax in St Croix and 80 percent in St Thomas and St John. Captives are also exempt from real property, gross receipt, excise and premium taxes (100 percent in St Croix, but 80 percent in St Thomas and St John).

Captive boards of directors are required to hold at least one meeting each year in the US Virgin Islands. It must also maintain its principal place of business in the US Virgin Islands or authorise an international insurer support business to conduct its insurance business within the territory.

More information about captive insurance in the US Virgin Islands can be found at at www.ltg.gov.vi.

Captives in the U.S. Virgin Islands

Form Your Captive in a U.S. Jurisdiction with Tax Benefits

Office of the Lieutenant Governor
Division of Alternative Markets & International Reinsurance

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Utah

There are multiple advantages to forming a Utah-domiciled captive. A key selling point to consider is that Utah does not impose a premium tax or any other state tax—only a very reasonable annual fee of USD 5,250 (USD 1,000 for cells). Additionally, Utah is among the leading captive domiciles when it comes to technological advancement and implementation of technology.

It has created a smooth and less time-consuming interaction between regulators and captive companies where all applications and annual filings may be accessed and submitted online.

Utah is consistently voted among the best states—if not the best state—in which to do business. Its regulatory environment is reasonable and effective, providing easy access to regulators and legislators.

Utah is authorised to issue a licence to the following captive types: pure, branch, special purpose, association, sponsored, industrial insured and risk retention group.

Minimum capitalisation varies by captive type:

- Pure: USD 250,000
- Association: USD 750,000
- Industrial insured: USD 700,000
- Sponsor: USD 1 million (of which a minimum of USD 350,000 must be provided by the sponsor)

Some key requirements for a Utah-domiciled captive include the use of an approved captive manager, independent auditor, and actuary. Utah captives must also have a principal place of business address in the state, have a Utah-registered agent, and have at least one Utah resident on the board of directors (or managing member for limited liability companies).

Utah captives file annually with the state an annual statement, statement of economic benefit, statement of actuarial opinion, and independent audit report. Utah does not collect premium taxes or any other tax—only an annual fee. Naturally, captives are subject to taxes on real and personal property owned in Utah.

More information on captive insurance in Utah can be found at www.captive.utah.gov.

In Utah, we understand that companies are sophisticated and able to take greater control of their own insurance risks. It is our goal to provide affordable, diverse and flexible solutions that protect against any company's dynamic business environment.

Utah is recognized as an innovative state, fostering and supporting innovative solutions. If you are looking for an on-shore domicile to form a captive insurance company, a Utah domiciled captive is the choice for you, where Risk Management, Cost Control, and Regulation connect.

Utah Captive Insurance, 3110 State Office Building, Salt Lake City, UT 84114

Vanuatu

Vanuatu is a full-service financial centre. It covers all financial services, including company formation, trusts, mutual funds, international and captive insurance.

Three pieces of legislation govern captive insurance business in Vanuatu: the Insurance Act of 2005, Protect Cell Company (PCC) Act of 2005 and the Incorporated Cell Company (ICC) Act of 2009.

As of March 2017, Vanuatu had six active captives (including cell structures), and one active individual cell. Pure captives, PCCs and ICCs are the domicile most popular captive structures, although all types are permitted. Together, the six active captives have written USD 7 million in premium.

The Reserve Bank of Vanuatu is the chief captive insurance regulator. Its licensing fees are: USD 250 to file an application and USD 2,000 for a licence. The basic requirements for filing for a licence include a certificate of incorporation, a minimum of two directors (do not need to be local), a detailed business plan, appointment of a resident insurance manager, books and records to be maintained in Vanuatu, and appointment of a resident auditor.

Vanuatu's minimum capital requirements are USD 100,000 for general classes USD 200,000 for life and long term.

Vanuatu's regulatory framework offers choice and flexibility and accommodates the challenges faced and outcomes sought by the captive insurance market. Capital requirements and reporting systems are similar to other well-regulated jurisdictions.

The establishment of a new captive programme or the repatriation of an existing captive from another jurisdiction can be effected easily and seamlessly.

More information on captive insurance in Vanuatu is available at www.insurance.vu.

Vermont

Vermont is the largest US captive domicile and the third largest in the world for number of captives licensed. It's also the largest in the world for premium volume and assets under management.

With a 35-year history in captive insurance, it has the largest governmental staff of captive insurance professionals in the world. The state's experienced regulatory team provides the resources necessary to deliver an efficient application process, prompt response time to questions and business plan change requests, and effective, efficient examinations.

There is universal support for the captive insurance industry from Vermont's governors and state legislatures. The state government is educated, aware and responsive to captive insurance needs. Laws and regulations are continually modified to meet the needs of the industry.

The largest captive trade association, the Vermont Captive Insurance Association, has legislative representation on the federal level as well as the state level to ensure the continuation of a strong industry.

Vermont caters for pure, sponsored, branch and industrial insured captives, as well as risk retention groups and special purpose financial insurance companies. The agency captive structure has also been proposed in 2017 legislation.

The capital requirements for these structures are:

- Pure, sponsored and branch: USD 250,000
- Association, industrial insured and agency: USD 500,000
- Risk retention group: USD 1 million
- Special purpose financial insurance company: USD 5 million

The insurance commissioner may prescribe additional surplus requirements based on the type, volume and nature of the insurance business. Capital and surplus may be in the form of cash, marketable securities, a trust approved by the commissioner and of which the commissioner is the sole beneficiary, or an irrevocable letter of credit issued by a qualified bank.

Vermont premium tax is computed annually on premiums written and assumed. Captives are statutorily exempt from other Vermont state taxes.

More information on captive insurance in Vermont can be found at www.dfr.vermont.gov/captives/captive-insurance-division, www.vermontcaptive.com, and www.vcia.com.

Virginia

Although Virginia does not market itself as a captive domicile, the state does cater for this type of insurance. Its law allows for pure and association captives, which can write fire, fidelity, motor vehicle and marine insurance.

Captives in Virginia can be incorporated as stock companies with USD 1 million in capital and USD 3 million in surplus, or as non-stock companies with USD 4 million in surplus.

The premium tax rate has been set at 2.25 percent of gross premium written in Virginia and in any state in which the captive is not licensed and not subject to premium tax.

Pure captives must show that their total insurance coverage necessary to insure all risks, hazards, and liabilities would develop, in the aggregate, gross annual premiums of at least USD 500,000.

This figure has been set at USD 1 million for association captives, which must also show that the insurance association has been in existence for at least one year, although this would be waived if each member has a gross annual premium in excess of USD 100,000.

More information on captive insurance in Virginia can be found at www.scc.virginia.gov/boi.

A

Actual Loss Sustained: Coverage applies to the actual loss sustained by the insured as a result of a covered loss.

Actuary: An individual, often holding a professional designation, who computes statistics relating to insurance. Actuaries are most frequently used to estimate loss reserves (for both insurers and self-insureds) and to determine premiums for various coverage lines. Professional designations are awarded by the Casualty Actuarial Society and the Society of Actuaries.

Admitted Insurer: An insurance company licensed to do business in a specified jurisdiction to underwrite insurance in that jurisdiction.

Aggregate Excess of Loss Reinsurance: A form of reinsurance that requires participation by the reinsurer when aggregate excess losses for the primary insurer exceed a certain stated retention level.

Aggregate Limit of Liability: An insurance contract provision limiting the maximum liability of an insurer for a series of losses in a given time period, for example, a year or for the entire period of the contract. Aggregate limits may be equal to or greater than the per occurrence or per accident policy limit. An insurance policy may have one or more aggregate limits. For example, the standard commercial general liability policy has two: the general aggregate that applies to all claims except those that fall in the products-completed operations hazard and a separate products-completed operations aggregate.

Alien Insurer: An insurer domiciled outside the US.

Alternative Market: A term commonly used in risk financing to refer to one of a number of risk funding techniques or facilities that provide coverages or services outside the realm of those provided by most traditional property and casualty insurers. The alternative market may be utilised by large corporations, for example, to provide high limits of coverage over a large self-insured retention. It may also be utilised by groups of smaller entities, for example, participating in a risk retention group or group captive programme.

Note that the distinction between traditional and alternative markets tends to blur over time as many traditional insurers have expanded their offering of products to encompass alternative-type funding techniques, and vice versa. Finally, retrospective funding plans, especially paid loss plans, are sometimes identified with the alternative market.

Association Captive: A captive insurance company formed and owned by a trade or professional association.

Attachment Point: The point at which excess insurance or reinsurance limits apply. For example, a captive's retention may be USD 250,000. This is the attachment point at which excess reinsurance limits would apply.

Automatic Treaty: A reinsurance treaty under which the ceding company must transfer exposures of a defined class that the reinsurer must accept in accordance with the terms of the treaty.

B

Bordereau: A report providing premium or loss data with respect to identified specific risks. This report is periodically furnished to a reinsurer by the ceding insurers or reinsurers.

Bornhuetter-Ferguson Technique: An actuarial technique for developing losses to estimate their ultimate amount. An amount for expected unreported losses (derived using the reciprocal of the loss development factor) is added to the actual reported losses to obtain the estimated ultimate loss for a given accident year. The technique is most useful when actual reported losses for an accident year are a poor indicator of future incurred but not reported claims for the same accident year, as is often the case where there is low frequency of loss but a very high potential severity.

Break Point: The loss level at which losses below the level are considered 'primary' losses and losses above are 'excess' losses. The appropriate break point in any risk financing programme is a matter of judgement and is dependent upon that programme's individual characteristics.

Brokerage Market: Reinsurers that write business through reinsurance intermediaries. Reinsurers that do not generally accept such business are referred to as the direct market.

Buffer Layer: Any layer of insurance (or risk retention) that resides between the primary (burning) layer and the excess layers. For example, if the insured's primary commercial general liability limit is USD 500,000 and its umbrella attachment point is USD 1 million, the layer of USD 500,000 excess of USD 500,000 coverage between the two is the buffer layer.

Business Income: The net income (net profit or loss before income taxes) that would have been earned by the insured if a loss hadn't occurred, as well as the numerical value of the insured's regular operating expenses.

C

Captive Insurer: A captive insurer is an insurance company that insures the risks of an associated business. For example, a parent corporation may own both an operating company and a captive insurance company as brother-sister subsidiaries where the captive insures risks of the operating company, such as for illustration, ABC Parent Corporation owns both ABC Manufacturing Company and ABC Captive Insurance Company, and ABC Captive Insurance Company insures certain of the risks of ABC Manufacturing Company. This arrangement is often called a single-owner captive. There are many other forms of captive. As an example of an alternative arrangement, a captive may be owned by a number of unrelated companies in the same industry and insure a set of risks unique or common to that group of companies. This form of captive is often referred to as an association captive (meaning that it insures a specific industry or trade group). There are many more ways of classifying captives by type, for example, pure captives (those that write no outside business) and so on.

Catastrophic Loss: Loss in excess of the working layer, usually of such magnitude as to be difficult to predict and therefore rarely self-insured or retained.

Catastrophic Reinsurance: A form of reinsurance that indemnifies the ceding company for the accumulation of losses in excess of a stated sum arising from a single catastrophic event or series of events.

Cedant: A ceding insurer or reinsurer. A ceding insurer is an insurer that underwrites and issues an original, primary policy to an insured and contractually transfers (cedes) a portion of the risk to a reinsurer. A ceding reinsurer is a reinsurer that in turn transfers (cedes) a portion of its reinsurance layer to a retrocessionnaire.

Ceding Commission: A percentage of the reinsurance premium retained by a ceding company to cover its acquisition costs, and sometimes, to provide a profit.

Claims Reserve: An amount of money set aside to meet future payments associated with claims incurred but not yet settled at the time of a given date.

Combined Ratio: The sum of two ratios, loss and expense, calculated by dividing incurred losses and all other expenses by earned premiums. Used in both insurance and reinsurance, a combined ratio below 100 percent indicates an underwriting profit.

Contingent Business Interruption (CBI) Coverage: This covers an insured's income loss resulting from covered losses experienced by an entity which the insured relies upon, ie, suppliers, manufacturers and distributors.

Contingent Commission: In reinsurance, an allowance payable to the ceding company in addition to the normal ceding commission allowance. It is a predetermined percentage of the reinsurer's net profits after a charge for the reinsurer's overhead, derived from the subject treaty.

Credibility: An actuarial term describing the degree of accuracy in forecasting future events based on statistical reporting of past events. Credibility tends to increase with the number of exposure bases in the observed data and to decrease with higher levels of variability in the observed data.

D

Deductible: An amount agreed between the insured and insurer whereby the insured reimburses the insurer for losses it pays within the specified deductible amount.

Dividend: The return of premium to an insured by the insurance company. Policies on which dividends may be paid are often called participating insurance. It is important to note that it is illegal for insurers to guarantee that dividends will be paid.

Domicile: The location or venue in which a captive insurer is licensed to do business. Some factors to be considered in selecting the best domicile for a given captive include capitalisation and surplus requirements, investment restrictions, income and local taxes, formation costs, acceptance by fronting insurers and reinsurers, availability of banking and other services, and proximity considerations.

E

Earned Premium: An insurer 'earns' a portion of a policy's premium as time elapses during the policy period.

Earned Surplus: Funds earned by an insurance company (including captives and risk retention groups) after all losses and expenses have been paid. Once earned surplus is recognised, it can be allocated to capital and/or dividends.

Enterprise Risk Management: A risk management approach that totally integrates both financial (ie, speculative) and event (ie, pure) risk into one broad programme of multiple retentions and high-excess aggregate insurance limits. To date, however, few firms have implemented such a comprehensive programme. Nevertheless, companies are increasingly buying multi-year, multiline insurance programmes that cover disparate forms of risk (for example, property and directors and officers liability), which are designed to maximise the benefits of portfolio diversification.

Excess Insurance: A policy or bond covering the insured against certain hazards, and applying only to loss or damage in excess of a stated amount, a specified primary limit, or a self-insurance limit. It is also that portion of the amount insured that exceeds the amount retained by an entity for its own account.

Excess of Loss Reinsurance: A form of reinsurance that indemnifies the ceding company against the amount of loss excess of only the specified retention.

Expected Loss: Estimated loss frequency multiplied by estimated loss severity, summed for all exposures. This measure of loss generally refers to the total losses of an organisation of a particular type, for example, workers' compensation or general liability.

Experience Ratio: Describes any plan that uses the past loss experience and exposure levels, for example, payrolls, of the individual risk as a basis of determining premiums.

Exposure: The state of being subject to loss because of some hazard or contingency. Also used as a measure of the rating units or the premium base of a risk.

Extra Expense: The expenses incurred by the insured during the period of restoration. These would not have been necessary if there had been no physical loss to real or personal property caused by a covered loss. For example, temporary business equipment rentals.

F

Facultative Obligatory Treaty: The hybrid of the facultative versus treaty reinsurance approach. It is a treaty under which the primary insurer has the option to cede or not cede individual risks. However, the reinsurer must accept any risks that are ceded.

Facultative Reinsurance: Reinsurance of individual risks on an individual 'offer' and 'acceptance' basis wherein the reinsurer has the option to accept or reject each risk offered.

Feasibility Study: A study undertaken to determine whether a contemplated risk financing programme is practicable for an organisation or group of organisations. An actuarial analysis is often performed in conjunction with a feasibility study. The term is often used in reference to studies that attempt to ascertain whether or not the formation of a captive insurance company is a viable risk financing option under a given set of circumstances.

Foreign Insurer: An insurer domiciled in the US but outside the state in which the insurance is to be written.

Frequency: The likelihood that a loss will occur. Expressed as low frequency (meaning that the loss event is possible but the event has not happened in the past and is not likely to occur in the future), moderate frequency (meaning the loss event has happened once in awhile and can be expected to occur sometime in the future), or high frequency (meaning the loss event happens regularly and can be expected to occur regularly in the future). Workers' compensation losses normally have a high frequency as do automobile collision losses. General liability losses are usually of a moderate frequency, and property losses often have a low frequency.

Fronting: The process whereby an insurance company issues an insurance policy to the insured and then reinsures all or most of the risk with the insured's captive insurance company or elsewhere as directed by the insured. This approach allows the insured to issue certificates of insurance acceptable to regulators and lenders and avoids the burden of licensing the insured's captive in all states or of becoming a qualified self-insurer in all states.

H

Hard Market: One side of the market cycle that is characterised by high rates, low limits, and restricted coverage.

I

Incurred But Not Reported (IBNR): Recognition that events have taken place in such a manner as to eventually produce claims but that these events have not yet been reported. In other words, IBNR is a loss that has happened but is not known about. Since it is impossible to know the value of a case not yet reported or investigated, a subjective estimate is often used by insurance companies to recognise losses incurred but not reported.

Incurred Losses: All open and closed claims occurring within a fixed period, usually a year. Incurred losses include reserves for open claims but do not usually include incurred but not reported losses.

Interruption by Civil or Military Authority Coverage: Provided for the insured's actual loss incurred during the length of time when access to real or personal property is prohibited by order of civil authority. For example, the surrounding area of the business is labeled a 'crime scene', and ordered to be closed off by local law enforcement.

Investment Income: The income of an insurance company derived from its investments, as opposed to its underwriting operations. The term has special significance in the insurance industry as various factions consider whether such income should be considered in ratemaking.

J

Judgement Rates: Rates that are established by judgement of an underwriter rather than by a rating authority. Judgement rates are used most often for those lines of insurance in which there are not enough similar exposure units to develop statistically credible rates.

L

Large Deductible Plan: An insurance programme that allows the insured to retain a portion of each loss through a substantial deductible and to transfer to an insurer losses in excess of that deductible. The insurer typically handles losses falling below the deductible and bills these costs back to the insured.

Law of Large Numbers: A tool used in probability and statistics. The larger the number of units independently exposed to loss, the more accurate the ability to predict loss results arising from those exposure units.

Letter of Credit: A legal commitment issued by a bank or other entity stating that, upon receipt of certain documents, the bank will pay against drafts meeting the terms of the letter of credit. Letters of credit are frequently used for risk financing purposes to collateralise monies owed by an insured under various cash flow programmes such as incurred but not paid losses in a paid loss retrospective rating programme. Letters of credit also provide a means of meeting capitalisation requirements of captives, and are used to satisfy the security requirements in 'fronted' deductible or retention programmes.

Loss Adjustment Expense: The cost of investigating and adjusting losses. Such expenses may be termed allocated loss adjustment expenses (ALAE) or unallocated loss adjustment expenses.

Loss Development: The difference between the original loss as first reported to an insurer and its subsequent evaluation at a later date or at the time of its final disposal.

Loss Forecasting: Predicting future losses through an analysis of past losses.

Loss Portfolio Transfer: A financial reinsurance transaction in which loss obligations that are already incurred and will ultimately be paid are ceded to a reinsurer.

Loss Ratio: Proportionate relationship of incurred losses to earned premiums expressed as a percentage. If, for example, a firm pays a USD 100,000 annual premium for workers' compensation insurance, and its insurer pays and reserves USD 50,000 in claims, its loss ratio is 50 percent (USD 50,000/USD 100,000).

Loss Reserve: An estimate of the value of a claim or group of claims not yet paid. A case reserve is an estimate of the amount for which a particular claim will ultimately be settled or adjudicated. An insurer will also set reserves for its entire books of business to estimate its future liabilities.

Loss Trending: One step in the process of predicting future losses, through an analysis of past losses.

Leader Property: Otherwise known as an 'attraction property', a leader property is not owned, controlled, or operated by the insured. Instead, it attracts customers to an insured's place of business. For example, a souvenir shop located next to a museum, selling museum-related merchandise.

M

Market Cycles: Market-wide fluctuations in the prevailing level of insurance and reinsurance premiums.

A soft market, ie, a period of increased competition, depressed premiums, and excess capacity, is followed by a hard market—a period of rising premiums and decreased capacity.

Medical Stop-Loss: Insurance coverage that protects against unforeseen or catastrophic losses. Medical stop-loss insurance is typically purchased by employers looking to reduce health benefit costs, maintain control over cash reserves, and offer comprehensive health coverage for employees. Under medical stop-loss policies, employers that have opted to self-insure their employee benefit plans do not assume 100 percent of the liability for losses that may arise from those plans. Liability is transferred to the insurance company for eligible losses that exceed certain limits called deductibles.

Minimum Premium: The least amount of premium to be charged for providing a particular insurance coverage. The minimum premium may apply in any number of ways such as per location, type of coverage or policy.

O

Obligatory Treaty: A reinsurance treaty between an insurer and a reinsurer (usually involving pro rata reinsurance), in which the insurer agrees to automatically cede all business that falls within the terms of the treaty. The reinsurer, in turn, is obligated to accept such business. Automatic treaty is another term for obligatory treaty.

Outstanding Losses: Losses that have been reported to the insurer but are still in the process of settlement. Paid losses plus outstanding losses equal incurred losses.

P

Participating Reinsurance: A form of reinsurance under which the reinsurer and primary insurer share losses in the same proportion as they share premiums and policy limits. Quota share reinsurance and surplus share reinsurance are the two types of participating reinsurance. Pro rata reinsurance is another term often used to describe participating reinsurance.

Payout Profile: A schedule illustrating the typical rate of dollars paid out in claim settlements over time. For example, on average, less than 30 cents of the total loss dollar for workers' compensation claims is paid during the first year of coverage. Even less is paid on average for general liability claims. Depending upon the particular type of risk, an additional five to 10 years can elapse before the full 100 percent of the loss reserve is paid out on a particular claim.

During this long pay-out period, the loss reserves (ie, the not-yet-paid-out funds that are set aside by the insurer to cover the loss claims) can be a source of significant investment income to the insurer, and the payout profile is instrumental in estimating this source of profit for any given category of risk.

Period of Restoration: The time needed to repair or replace property after loss or damage occurs.

Pool: An organisation of insurers or reinsurers through which particular types of risks are underwritten with premiums, losses, and expenses shared in agreed ratios. Pools are also groups of organisations that are not large enough to self-insure individually and so form a shared risk pool, also referred to as risk pooling.

Portfolio Reinsurance: A form of reinsurance under which a reinsurer assumes the entire book of the ceding company's business in a certain class or classes.

Pro Forma Financial Statements: A set of financial statements (usually an income statement, balance sheet, and statement of cash flows) designed to exhibit 'as-if' financial results, often used to project future financial results, based on a set of assumptions. These statements are commonly used to evaluate the feasibility of proposed risk funding programmes such as captives and risk retention groups.

Pro Rata Reinsurance: A term describing all forms of 'proportional' reinsurance. Under pro rata reinsurance, the reinsurer shares losses in the same proportion as it shares premiums and policy amounts. Quota share and surplus share are the two major types of pro rata reinsurance.

Probability: A numerical measure of the chance or likelihood that a particular event will occur. Probabilities are generally assigned on a scale from zero to one. A probability near zero indicates an outcome that is unlikely to occur, while a probability near one indicates an outcome that is almost certain to occur.

Producer-Owned Reinsurance Captive (PORC): This is a type of captive reinsurance company that underwrites risks of an affiliated operating business by means of having those risks directly underwritten by a fronting insurance company, which then cedes those risks on through to the captive as reinsurer. The insurance is 'producer-owned' in the sense that the producer of the initial insurance contract owns the captive. In some instances, this type of reinsurance company is owned by an insurance agent and broker, in which case, it is not technically-speaking a captive insurer since it is not owned by the owners of the affiliated operating company.

Professional Reinsurer: A company whose business is confined solely to reinsurance and peripheral services offered by a reinsurer to its customers. This is in contrast to primary insurers that exchange reinsurance or operate reinsurance departments as adjuncts to their basic business of primary insurance.

Profit Commission: A provision found in some reinsurance agreements that provides for profit sharing. Parties agree to a formula for calculating profit, an allowance for the reinsurer's expenses, and the cedant's share of profit after expenses.

Prospective Rating: A method used in arriving at an insurance or reinsurance rate and premium for a specified period based in whole or in part on the loss experience of the prior period.

Purchasing Group: Authorised by the US Liability Risk Retention Act of 1986, a group formed to obtain liability coverage for its members, all of whoch must have similar or related exposures. The act requires a purchasing group to be domiciled in a specific US state. In contrast to risk retention groups, purchasing groups are not risk-bearing entities.

Pure Risk: The risk involved in situations that present the opportunity for loss but no opportunity for gain. Pure risks are generally insurable, whereas speculative risks (which also present the opportunity for gain) generally are not. See Speculative Risk.

Q

Quota Share Reinsurance: A form of reinsurance whereby the reinsurer accepts a stated percentage of each exposure written by the ceding company on a defined class of business.

R

Rating Bureau: An organisation that collects statistical data on losses and exposures of businesses and promulgates rates for use by insurers in calculating premiums. The two most important US rating bureaus are the National Council on Compensation Insurance and the Insurance Services Office. However, a number of US states also use their own rating bureaus.

Reinsurance: Insurance in which one insurer, the reinsurer, accepts all or part of the exposures insured in a policy issued by another insurer, the ceding insurer. In essence, it is insurance for insurance companies.

Reinsurance Assumed: That portion of a risk that a reinsurer accepts from an original insurer (also known as a primary insurer) in return for a stated premium.

Reinsurance Ceded: That portion of a risk that an original insurer (also known as a primary insurer) transfers to a reinsurer in return for a stated premium.

Reinsurance Intermediaries: Brokers who act as intermediaries between reinsurers and ceding companies. For the reinsurer, intermediaries operate as an outside sales force. They also act as advisers to ceding companies in assessing and locating markets that meet their reinsurance needs.

Reinsured: An insurer that contracts with a reinsurer to share all or a portion of its losses under reinsurance contracts it has issued in return for a stated premium. Also called a ceding company.

Reinsurer: An insurer that accepts all or part of the liabilities of the ceding company in return for a stated premium.

Rent-A-Captive: An arrangement in which a captive insurer 'rents' its facilities to an outside organisation, thereby providing the benefits that captives offer without the financial commitments that captives require. In return for a fee (usually a percentage of the premium paid by the renter), certain captives agree to provide underwriting, rating, claims management, accounting, reinsurance, and financial expertise to unrelated organisations.

Reporting Lag: The span of time between the occurrence of a claim and the date it is first reported to the insurer.

Reserve: An amount of money earmarked for a specific purpose. Insurers establish unearned premium reserves and loss reserves indicated on their balance sheets. Unearned premium reserves show the aggregate amount of premiums that would be returned to policyholders if all policies were canceled on the date the balance sheet was prepared. Loss reserves are estimates of outstanding losses, loss adjustment expenses, and other related items. Self-insured organisations also maintain loss reserves.

Retention: Assumption of risk of loss, generally through the use of non-insurance, self-insurance, or deductibles. This retention can be intentional or, when exposures are not identified, unintentional. In reinsurance, it is the net amount of risk the ceding company keeps for its own account or that of specified others.

Retention Plan: A dividend plan normally used in writing workers' compensation insurance in which the net cost to the policyholder is equal to a 'retention factor' (insurance company profit and expenses) plus actual incurred losses subject to a maximum premium equal to standard premium less premium discount.

Retrocession: A transaction in which a reinsurer transfers risks it has reinsured to another reinsurer.

Risk-based Capital (RBC) Requirements: A method developed by the National Association of Insurance Commissioners (NAIC) to determine the minimum amount of capital required of an insurer to support its operations and write coverage. The insurer's risk profile (ie, the amount and classes of business it writes) is used to determine its risk-based capital requirement. Four categories of risk are analysed in arriving at an insurer's minimum capital requirement: asset, credit, underwriting, and off-balance sheet.

Risk Financing: Achievement of the least-cost coverage of an organisation's loss exposures, while assuring post-loss financial resource availability. The risk financing process consists of five steps: identifying and analysing exposures, analysing alternative risk financing techniques, selecting the best risk financing techniques, implementing the techniques, and monitoring the selected techniques. Risk financing programmes can involve insurance rating plans, such as retrospective rating, self-insurance programmes, or captive insurers.

Risk Purchasing Group: A group formed in compliance with the Liability Risk Retention Act of 1986 for the purpose of negotiating for and purchasing insurance from a commercial insurer. Unlike a risk retention group which actually bears the group's risk, a risk purchasing group merely serves as a vehicle for obtaining coverage, typically at favourable rates and coverage terms.

Risk Quantification: Measurement of risk to make risk financing decisions. Loss frequency and loss severity are the dimensions of measurement. The value of loss and the variation in value from one period to the next will quantify the impact of the risk.

Risk Retention: Planned acceptance of losses by deductibles, deliberate non-insurance, and loss-sensitive plans where some, but not all, risk is consciously retained rather than transferred.

Risk Retention Act: Federal legislation that facilitates the formation of purchasing groups and group self-insurance for commercial liability exposures.

Risk Retention Group: A group self-insurance plan or group captive operating under the auspices of the US Liability Risk Retention Act of 1986. A risk retention group can cover the liability exposures, other than workers' compensation, of its owners.

Risk Sharing: Also known as 'risk distribution', risk sharing means that the premiums and losses of each member of a group of policyholders are allocated within the group, based on a predetermined formula. Risk is considered to be shared if there is no policyholder-specific correlation between premiums paid into a captive, for example, and losses paid from the captive's reserve pool.

S

Self-Insurance: A formal system whereby a firm pays out of operating earnings or a special fund any losses that occur that could ordinarily be covered under an insurance program. The moneys that would normally be used for premium payments may be added to this special fund for payment of losses incurred.

Self-Insured Retention: The amount of each loss for which the insured agrees to be responsible before a commercial insurer begins to participate in a loss. This is in contrast to a deductible in that the commercial insurer is responsible for losses even within the deductible limit. Although the deductible insurer looks to the insured for reimbursement of such losses, the insurer's responsibilities are unaffected by the insured's failure to reimburse.

Service Interruption: Coverage for an insured for direct physical loss, damage or destruction to electrical, steam, gas, water, sewer, or other utility.

Settlement Lag: The span of time between the first report of a claim and the date on which it is ultimately settled.

Severity: The amount of damage that is (or that may be) inflicted by a loss or catastrophe. Severity is sometimes quantified as a severity rate, which is a ratio relating the amount of loss to values exposed to loss during a specified period of time.

Soft Market: One side of the market cycle characterised by low rates, high limits, flexible contracts, and high availability of coverage. Contrast with hard market.

Speculative Risk: Uncertainty about an event under consideration that could produce either a profit or a loss, such as a business venture or gambling transaction. A pure risk is generally insurable, while a speculative risk is usually not.

Spread of Risk: Consideration of the number of independent exposures to loss in a given time period. As the number of units exposed independently to loss increases, the spread of risk expands and the likelihood that all units will suffer loss diminishes. Predictive ability increases as the spread of risk increases. This is often called the 'law of large numbers'.

Stop-Loss Reinsurance: A form of reinsurance also known as 'aggregate excess of loss reinsurance' under which a reinsurer is liable for all losses, regardless of size, that occur after a specified loss ratio or total dollar amount of losses has been reached.

Structured Settlement: A settlement under which the plaintiff agrees to accept a stream of payments in lieu of a lump sum. Structured settlements can be tailored to the individual's inflation-adjusted living costs, anticipated future medical expenses, education costs for children, and other lifetime needs. Annuities are usually used as funding mechanisms.

Surplus Reinsurance: Reinsurance amounts that exceed a ceding company's retention. In surplus reinsurance, the reinsurer contributes to the payment of losses in proportion to its share of the total limit of coverage.

Surplus Share Reinsurance: Proportional reinsurance in which the reinsurer assumes pro rata responsibility for only that portion of the risk that exceeds the ceding company's established retention.

T

Third-Party Administrator (TPA): A firm that handles various types of administrative responsibilities on a fee-for-services basis for organisations involved in cash flow programmes. These responsibilities typically include claims administration, loss control, risk management information systems, and risk management consulting.

Treaty: An agreement between an insurer and a reinsurer stating the types or classes of businesses that the reinsurer will accept from the ceding insurer.

Treaty Reinsurance: A form of reinsurance in which the ceding company makes an agreement to cede certain classes of business to a reinsurer. The reinsurer in turn agrees to accept all business qualifying under the agreement, known as the 'treaty'. Under a reinsurance treaty, the ceding company is assured that all of its risks falling within the terms of the treaty will be reinsured in accordance with treaty terms.

U

Unallocated Loss Adjustment Expense: Salaries, overhead, and other related adjustment costs not specifically allocated to the expense incurred for a particular claim.

Unbundling: The practice of separating risk handling and risk funding services either from a multiline insurer or from themselves. Captives that require a 'front' may also be required to purchase all or some of the services from the same insurer. This is a 'bundled' programme. Unbundling indicates the ability to purchase services from any vendor, not just those associated with the fronting insurer.

V

Valuation Date: The cutoff date for adjustments made to paid claims and reserve estimates in a loss report. For example, a workers' compensation loss report for the 1996 policy year that has a 1998 valuation date includes all claim payments and changes in loss reserves made prior to the 1998 valuation date.

W

Weighted Average Loss Forecasting: A method of forecasting losses that assigns greater weight, typically to more recent years, when developing a forecast of future losses. Recent years receive a greater weight because they tend to more closely approximate current conditions (for example, benefit levels, nature of company operations and medical expenses).

Working Layer: A dollar range in which an insured or, in the case of an insurance portfolio, a group of insureds, is expected to experience a fairly high level of loss frequency. For many organisations, this loss frequency is adequate to provide some degree of statistical credibility to actuarial forecasts of the total expected losses during a specific period of time, for example, one year. This is the layer typically subject to deductibles, self-insured retentions, retrospective rating and similar programmes.

Wrap-Around Risk Financing Programme: A risk financing programme in which two or more different risk financing approaches are combined into one overall programme. Typically, a wrap-around is used for workers' compensation insurance so that the most cost-effective programme in each state can be used to an insured's advantage. For instance, in State A, an insured may have an exposure large enough to qualify as a self-insurer, whereas the requirements in State B may be such that another type of risk financing programme is preferable.

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A
Active Captive
Advantage Insurance
Alabama Captive Insurance Association
Arizona Department of Insurance
Arkansas Insurance Department
Arsenal Insurance Management

B
Barbados Financial Services Commission
Bermuda Business Development Agency
Bespoke Software
British Columbia Financial Institutions Commission
Brown Smith Wallace
BVI Finance

C
Capstone Associated Services, Ltd
Captive Alternatives
Cayman Islands Monetary Authority
Commissariat aux Assurances (Luxembourg)
Connecticut Insurance Department
Cook Islands Financial Services Development Authority

D
DBA Communications
Delaware Department of Insurance
District of Columbia Department of Insurance, Securities and Banking

E
EY

F
Finance Malta
Florida Office of Insurance Regulation

G
Georgia Captive Insurance Association
Georgia Captive Insurance Division
Guernsey Financial Services Commission

H
Hawaii Department of Commerce and Consumer Affairs

I
Illinois Department of Insurance
Insurance Commission of the Bahamas
Insurance Ireland
Isle of Man Financial Services Authority

K
Kansas Insurance Department
Kensington Management Group
Kentucky Department of Insurance

L
Labuan International Business and Financial Centre
Lansons

M
Malta Financial Services Authority
Mamo TCV Advocates
Michigan Department of Insurance and Financial Services
Missouri Department of Insurance
Montana Securities and Insurance Commissioner
Moulton Bellingham

N
Nevis Insurance Department
North Carolina Department of Insurance

O
Oklahoma Insurance Department Captive Division
Orchard PR Company
Oregon Department of Financial Regulation

P
PMA Lawyers
Puerto Rico International Insurers Association
Reserve Bank of New Zealand

S
Sextant Claims Administrators
SIGMA Acturial Consulting Group
South Carolina Department of Insurance
South Dakota Division of Insurance
Steven Beeghly of Kreger Beeghly

T
Tennessee Captive Insurance Association
Tennessee Department of Commerce and Insurance
Texas Captive Insurance Association
Tracy Stopford of Willis Towers Watson

U
US Virgin Islands Division of Banking and Insurance
Utah Insurance Department

V
Vanuatu International Insurance Association
Vermont Department of Financial Regulation
Virginia Bureau of Insurance

W
Walkers

Do you want to contribute to the Domicile Guidebook in 2018, either as an expert on a domicile or as a sponsor? If so, contact John Savage via: johnsavage@captiveinsurancetimes.com