



Is a Captive Insurance Company a Solution for Your Client's Insurance Needs?

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SCG Legal 2015 Annual Meeting
Vancouver, BC

September 11, 2015



What is a Captive Insurance Company?

- Form of self-insurance whereby the insurer is owned wholly by the insured or insureds (hence term “captive”)
- Once established, the captive operates like any commercial insurer – i.e., it issues policies, collects premiums and pays claims
- Regulated as a captive, rather than a traditional insurer
- Single parent and group owned structures



History

- Concept arose in early 1500s
- 1700s and 1800s – industry specific mutual insurance companies arise
- Term “captive” coined in 1950s by Frederic M. Reiss
- 1958, Reiss incorporated American Risk Management and began to assist corporations in setting up captives
- 1962, Reiss formed first modern-day captive in Bermuda called International Risk Management Ltd.
- Originally solution for times of rising commercial insurance costs or when certain types of insurance coverage was difficult to obtain



History (cont.)

- Gained momentum in mid-1980s due to hard commercial insurance market
- Significant growth last 30 years. Today, more than 5,000 captives (1,000 in 1980)
- 90% of Fortune 500 have one or more captives; middle market and small companies just learning of benefits – less than 5% but fastest growing segment
- Now formed primarily for microeconomic reasons (risk management and risk financing)



Common Types of Captives

- Single Parent (Pure) Captive
- Group Captive
- Association Captive
- Rent-a-Captive
- Risk Retention Group
- Protected Cell Captive



Advantages of Utilizing a Captive

- Focus on Insurance Management
- Lower Insurance Spend
- Control Claims Administration and Defense
- Cover Otherwise Exposed Risks
- Enterprise Asset Protection
- Potential New Business
- Incidental Tax Benefits



Formation Process

- Service Providers
 - Insurance Management Company
 - Captive Attorney
 - Audit Firm
 - Actuary
- Application for Insurance License
 - Details regarding form and governance structure
 - List of Service Providers
 - Biographical Affidavits of Directors and Officers
 - Coverage/Limits to be Written
 - Feasibility Study from Actuary
 - Detailed Plan of Operations w/ pro forma financial projections



Ongoing Regulatory Requirements

- Annual audit by independent accounting firm
- File tax returns and pay taxes
- File annual report with captive regulator
- Hold annual meetings of captive Shareholder and Board
- Execution of conflict of interest statements by Directors and Officers
- Provide regulatory notice of any changes to business plan or slate of Directors/Officers
- Payment of annual license renewal fee