

Market INSIGHTS

PREMIUM EDITION
DIRECTORY

CAPTIVE MANAGERS and DOMICILES

BUSINESS INSURANCE®

2015

Smaller companies try captives



Midsize
firms opt to
retain some
difficult,
expensive
risks

BY JUDY GREENWALD

A growing number of midsize companies are forming captives, providing vigorous growth for the captive market. While the vast majority of Fortune 500 companies already have captives, that percentage plummets among smaller companies, experts say.

However, a growing number of smaller firms are forming captive insurers, including 831(b) captives.

The 831(b) captives, also known as micro-captives, earn no more than \$1.2 million in annual written premiums and thus are eligible for the Internal Revenue Code's 831(b)

election not to be taxed on those premiums. Though, efforts are underway in Congress to raise the premiums limit.

The total number of captives worldwide increased 7.1% in 2014 to 6,876, according to *Business Insurance's* annual survey. (See our key captive rankings based on the survey on page 19.)

■ While Bermuda continues to be the leading domicile, its captive total decreased 3.7% to 800 in 2014.

■ Among U.S. domiciles, Vermont remains No. 1 with 587, down one from 2013.

■ Among European captive domiciles, Guernsey held onto its lead with 321 captives, an increase of three entities over

2013.

"The biggest trend is the industry is becoming more defined by how captives are applicable to the smaller and middle-market customers, rather than the historic focus on Fortune 500" multinational companies, said David J. McManus, Bermuda-based president of Artex Risk Solutions Inc., a unit of Arthur J. Gallagher & Co.

"I think that's where all the excitement is, and certainly the innovation and growth," he said.

Middle-market companies with revenues of \$30 million to less than \$1 billion account for only 5% of all captives, Mr. McManus said.

Captive domiciles

A

Alabama

Alabama Department of Insurance
201 Monroe St., Suite 1700
Montgomery, AL 36104
334-269-3550; fax: 334-240-3194
www.aldoi.gov

CAPTIVE TYPE OFFERED: Association captives, group captives, microcaptive setup using 831(b) regulations, protected cell/segregated portfolio companies, single-parent captives.

NUMBER OF CAPTIVES

2014	40
2013	27
Captives licensed in 2014	16
Captives closed in 2014	3

CAPITAL & SURPLUS: Pure, \$250,000; association, \$750,000; industrial, \$500,000; sponsored, \$1 million; reciprocal, \$1 million. Commissioner may require more based on type, nature and volume of business to be transacted.

PREMIUMS TO SURPLUS: At discretion of regulator.

FEES: \$200 application fee; \$300 initial and annual license fee.

TAXES: Reinsurance premium tax: 0.225% on first \$20 million, 0.150% on next \$20 million, 0.050% on next \$20 million, 0.025% on all premium more than \$60 million. No reinsurance tax if premium is subject to Alabama's direct premium tax rates. Minimum annual premium tax of \$5,000. Two or more captives under common ownership are taxed as a single entity.

LAWS: Title 27 Insurance; Chapter 31B, Alabama Captive Insurers Act.

CONTACT: Sean Duke, financial analyst; 334-241-4165; sean.duke@insurance.alabama.gov.

Anguilla

Anguilla Financial Services Commission
MAICO Building, Second Floor
Cosely Drive
The Valley, AI2640, Anguilla
264-497-5881; fax: 264-497-5872
www.fsc.org.ai

CAPTIVE TYPE OFFERED: Association captives, group captives, protected cell/segregated portfolio companies, single-parent captives.

NUMBER OF CAPTIVES

2014	379
2013	295

FEES: Application: \$500; Class B general: \$2,000
Class B association, group and single: \$1,500; fee per cell: \$350.

TAXES: None

LAWS: Insurance Act, R.S.A. c116; Insurance Regulations, R.R.A. 116-1.

CONTACT: Robert Hudson, deputy director, Anguilla Financial Services Commission, (264) 497-5881, robert.hudson@afsc.ai; Lavie Hobson, senior regulator, Anguilla Financial Services Commission, 264-497-5881, lavie.hobson@afsc.ai.

Arizona

Arizona Department of Insurance
2910 N. 44th St., Suite 210
Phoenix, AZ 85018
602-364-4490; fax: 602-364-3989
www.azinsurance.gov

Captive type offered: Association captives, group captives, protected cell/segregated portfolio companies, risk retention groups, single-parent captives.

NUMBER OF CAPTIVES

2014	114
2013	106
Captives licensed in 2014	13
Captives closed in 2014	5
Estimated premium volume	\$4,000,000,000

CAPITAL & SURPLUS: Single-parent, \$250,000; group, \$500,000; association, \$500,000; agency, \$500,000; protected cell, \$500,000.

PREMIUMS TO SURPLUS: None

FEES: \$1,000 for first year, \$5,500 annual renewal fee.

TAXES: None

LAWS: Title 20, Chapter 4 of Arizona Revised Statutes, Article 14.

CONTACT: Germaine L. Marks, director-insurance.

Arkansas

Arkansas Insurance Department
1200 W. Third St.
Little Rock, AR 72201
501-371-2680; fax: 501-371-2747
www.insurance.arkansas.gov

CAPTIVE TYPE OFFERED: Association captives, protected cell/segregated portfolio companies, special-purpose captives.

NUMBER OF CAPTIVES

2014	2
2013	2

CAPITAL & SURPLUS: Pure captive, \$250,000; industrial insured, \$500,000; producer reinsurance or special-purpose, \$600,000; association, \$750,000; sponsored, \$1 million.

PREMIUMS TO SURPLUS: None

FEES: \$200 application fee, \$300 annual license.

TAXES: \$5,000 minimum annual premium tax. Direct written premiums: 0.4% on first \$20 million, 0.3% on next \$20 million, 0.2% on next \$20 million, 0.075% thereafter. Reinsurance premiums: 0.225% on the first \$20 million, 0.15% on next \$20 million, 0.05% on next \$20 million, 0.025% thereafter.

LAWS: Licensing and Regulation of Captive Insurers, 2001, amended in 2003.

CONTACT: Mel Anderson, deputy commissioner-financial regulation and audit.

Australia

Australian Prudential Regulation Authority
400 George St., Level 26
Sydney, NSW 2000, Australia
61-2-9210-3480

CAPTIVE TYPE OFFERED: Single-parent captives

NUMBER OF CAPTIVES

2014	7
2013	7
Estimated premium volume	\$500,000,000

CAPITAL & SURPLUS: \$1,000,000,000

PREMIUMS TO SURPLUS: 2-to-1

CONTACT: James Wong, managing principal, Aon Risk Solutions, 80 Collins St., Melbourne, VIC 3000, Australia; 61-3-9211-3107 and 61-4-0447-1803; james.wong@aon.com.

B

Bahamas

The Insurance Commission of the Bahamas
Charlotte House, Third Floor
Charlotte & Shirley Streets, P.O. Box N-4844
Nassau, Bahamas
242-397-4100; fax: 242-328-1070
www.icb.gov.bs

CAPTIVE TYPE OFFERED: Association captives, group captives, microcaptive setup using 831(b) regulations, protected cell/segregated portfolio companies, single-parent captives.

NUMBER OF CAPTIVES

2014	18*
2013	16**
Captives licensed in 2014	34
Estimated premium volume	\$117,712,050

CAPITAL & SURPLUS: Minimum capital requirements: \$100,000 general insurance, \$200,000 long-term insurance, \$300,000 general and long-term insurance.

PREMIUMS TO SURPLUS: 5-to-1

FEES: \$100 application fee, \$2,500 annual registration fee.

TAXES: None

LAWS: The External Insurance Act and Regulations

CONTACT: Michele Fields, superintendent of insurance.

*116 includes 98 cells, for a final count to 18 captive entities; clarification provided by regulator jamellbodie@icb.gov.bs.

**The number was revised in 2014; the original reported figure (81) included 65 captive cells, so the number of captives in 2013 is 16, not 81.