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Charting the course for a new direction in the Captive Sector

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And

Association of Insurance Managers (AIM)

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Basic Captive Solution Review

Brenda Pickering, ACI
USA Risk Group (BVI), INC.

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INTEGRITY
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INNOVATION

Captive Overview

- A Captive Insurance Company is a company that insures the specialized risks of its parent company.
- Most Captive Owners will form a Captive for their specialized risk that is not available in the conventional insurance market or suitable for their insurance need through a captive.

Role of the Insurance Manager

- Insurance Managers are the intermediary for the captives
- Handles all regulatory matters in the jurisdictions they are licensed.
- Insurance Managers are required to reside in the Territory

Benefits of Establishing & Operating a Captive

- Insurance Coverage
- Cost
- Stability
- Control
- Estate Planning and Asset Protection
- Reinsurance
- Taxation

Benefits of having a Captive in the BVI

- Confidentiality
- Competitive Pricing
- Ease of transfer of companies to & from the BVI
- Commitment to integrity
- Exemption from local taxation
- One of the world's premier offshore jurisdictions
- Regulated offshore industry
- Politically stable, common law jurisdiction

Importance and Impact of the Captive Market

- The BVI captive market has had a significant impact on the jurisdiction's financial industry, generating revenues in terms of payment of licence fees and other material changes within the insurers.
- Clients sees the BVI as a means to conducting annual Board Meetings within BVI, and taking advantages of other tourism products within the BVI.
- BVI is considered to be a sound jurisdiction for conducting captive insurance business

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Accounting for Captives

Helen Janes
Hyperion Insurance Management
Chairman of BVIAIM

Minimum capital

- $100,000 for general insurance business
- $200,000 for long term insurance business
- Or higher amount in line with the nature and extent of the business

Solvency requirement

- Minimum $100,000 for general, $250,000 for long term business
- 20% of net written premium for written premium up to $5 million
- If written premium is over $5 million, the solvency requirement is $1 million plus 10% of the premium in excess of $5 million
- Liabilities are added to this figure

Solvency requirement example

- Net written premium is $10 million
- $1 million (20% of $5 million)
- Plus $500k (10% of the excess of premium over $5 million)
- Total $1.5 million
- Plus liabilities of $1 million
- Total $2.5 million solvency requirement

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Allowable Assets

- Only certain assets can contribute to the solvency requirement
- The more liquid the assets, the higher proportion can be counted for allowable assets
- Cash is 100% allowable
- Real estate is 0% allowable

Other 100% allowable assets

- Debt securities issues by governments of approved countries
- Premiums receivable < 6 months overdue
- Reinsurance balances < 6 months overdue
- Accounts receivable < 6 months overdue

Investments as allowable assets

- An index traded on a recognised exchange can make up 30% of the solvency requirement
- Mutual funds traded on a recognised exchange are allowable but one fund to make up maximum of 30% of the solvency requirement
- Equities quoted on a recognised exchange but assets issued by one counterparty can make up 15% of the solvency requirement

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Other assets as allowable assets

- 75% of secured factored loans with insurer's affiliates, all factored loans to make up a maximum of 75% of the requirement
- 20% of advances to and investments in affiliates, total of which to make up a maximum of 75% of the requirement

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Allowable asset example

Asset	Value	% allowable	Value allowable
Cash	$500,000	100%	$500,000
Mutual funds	$1,000,000	100%, 30%	$750,000
Equities	$1,000,000	100%, 15%	$375,000
Premium receivable	$500,000	100%	$500,000
Affiliate loans	$1,000,000	75%, 75%	$750,000
Real Estate	$8,000,000	0%	$0
Total	**$12,000,000**		**$2,875,000**

Balance sheet

	Inception	Q1	Q2	Q3	Q4
Cash	$12,000,000	$9,000,000	$5,000,000	$2,000,000	$1,200,000
Mutual funds	$0	$0	$2,500,000	$3,000,000	$1,800,000
Equities	$0	$0	$500,000	$3,000,000	$1,000,000
Premium receivable	$0	$0	$0	$0	$0
Affiliate loans	$0	$0	$0	$0	$0
Real Estate	$0	$3,000,000	$4,000,000	$4,000,000	$8,000,000
Total	**$12,000,000**	**$12,000,000**	**$12,000,000**	**$12,000,000**	**$12,000,000**
Unearned premium	$10,000,000	$7,500,000	$5,000,000	$2,500,000	$0
Total liabilities	**$10,000,000**	**$7,500,000**	**$5,000,000**	**$2,500,000**	**$0**
Net assets	**$2,000,000**	**$4,500,000**	**$7,000,000**	**$9,500,000**	**$12,000,000**
Share capital	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Retained earnings	$0	$2,500,000	$5,000,000	$7,500,000	$10,000,000
Shareholders' funds	**$2,000,000**	**$4,500,000**	**$7,000,000**	**$9,500,000**	**$12,000,000**

Audit

- Audit to be submitted to FSC within 6 months of year end
- Auditor must be approved by the FSC

Questions

Any questions?