

Interim Domicile Update – January 1 – July 31, 2010

Sponsored by



Providing and coordinating captive insurance management services under one umbrella, for greater control, customization, and ease of management.
www.wilmingtontrust.com

This report was compiled by captive.com to get a sense of the captive market during the first half of 2010. In an effort to keep you informed of industry trends, captive.com will publish a more detailed report early in 2011 that will include both US and non-US jurisdictions. We will then be well-positioned to archive industry trends going forward. Comments from regulators are quoted verbatim in this report. Captive.com thanks the domicile representatives who were kind enough to respond to our request for information. The January report will solicit data from all US domiciles, as well as the major non-US domiciles, and will include information from all jurisdictions that reply to our request.

From all indications, the ART industry appears to be picking up a bit of steam as 2010 progresses, much as it did in 2009. Some domiciles are experiencing greater success than others, for a variety of reasons. Some of the newer and smaller domiciles appear to be fighting an uphill battle, as commercial insurance rates continue to soften, despite expectations of a hardening market last year. Regulatory, taxation, and economic uncertainties have combined to slow most private sector business expansion. The captive industry has not escaped this trend.

Only a handful of new risk retention groups were formed to date in 2010, but we are encouraged that we are not seeing significant numbers of RRG's closing their doors either. Well-run RRGs remain healthy, as industry groups such as NRRA, SIIA, and captive associations like CICA, VCIA and others work with Congress on revised legislation that will meet the needs of the industry. Vermont reports continued strong RRG formations, licensing 1 RRG for every 4 pure captives so far in 2010. This is unchanged from Vermont's typical licensing pattern.

An A.M. Best Special Report entitled ***U.S. Captive - 2009 Market Review*** released on August 4, 2010 supplies statistics demonstrating that captives doubled their profits in 2009 as their investment portfolios rebounded. The full A.M. Best report and its associated data are available by subscription from www.ambest.com.

It is encouraging that a few domiciles have added regulatory staff, even as they cut ancillary expenses. This bodes well for captives, and for the domiciles with the foresight to understand the importance of maintaining experienced, competent regulatory staff that is available on an ongoing basis. Inevitably, the market will harden. Those domiciles with knowledgeable staff in sufficient numbers to handle new business while effectively regulating existing captives will be well-positioned to move forward as new captive applications arrive. We see a light at the end of the tunnel, and it is not an oncoming train.

Interim Captive Domicile Update as of July 31, 2010

Domicile and Source of Data	Total active captives	New captive licenses 1/1-7/30/10	New captives broken out by type	New licenses in pipeline for imminent licensing	Trends in type of captive or industry classifications	Comments
Arizona – Stephanie Lefkowski	101	6	5 pure 1 RRG	“We have two applications in the review process but I would not say that licensing is imminent. We are expecting several applications shortly.”	“As of 7/30/10 • 30% of all active captives were formed for the medical industry (physicians, hospitals, nursing homes, etc.) • 22% were formed for the construction industry • 16% were formed for the finance and insurance industry”	-
Bermuda – Bermuda Monetary Authority	900	15	3 class 1 pure 3 class 2 pure 5 class 3 pure 4 special purpose insurers (SPI)	13	“Overall types of captives covered various lines of business, including property and catastrophe and professional liability.”	“There were a total of 37 new insurance-related entities incorporated for the period, 15 of which were captives, one being a Long-Term insurer. The total of 37 new incorporations through to July 31st is ahead of figures recorded for the same period in 2009 (26) and compares to a total of 42 for all of 2009, an encouraging indication of Bermuda’s continued attractiveness as an insurance domicile.”
Cayman – CIMA	761 as follows: 424 pure 121 segregated portfolio 74 group 54 SPV 52 association 32 open market insurer 2 rent a captive www.cimoney.com.ky/ for more data	16	7 pure 5 special purpose 2 rent-a-captives 2 group captives	Approximately 20	“It’s difficult to quantify trends with 16 companies but our healthcare captive sector remains popular and the other licensees are from all industrial sectors. Note that the formation of new group captives reverses a negative trend over the last two years.”	Despite the soft market, formations have increased by 28% over 2008 and the fundamentals that made Cayman a domicile of choice still remain strong: <ul style="list-style-type: none"> • Net premiums have remained stable meaning captive owners have not succumbed to the unrealistic commercial market pricing structures • On average, expense ratios are still around 10% of total premiums • Great local and external service providers. <p>The biggest obstacle to captive growth in 2009-2010 has been the combination of a soft primary market and a hard credit market. However, there are signs of a reversal in both these areas.</p>

Interim Captive Domicile Update as of July 31, 2010

Domicile and Source of Data	Total active captives	New captive licenses 1/1-7/30/10	New captives broken out by type	New licenses in pipeline for imminent licensing	Trends in type of captive or industry classifications	Comments
Colorado – Ray Akers	5	0		0	-	-
Delaware – Steve Kinion	55	10	5 pure 4 special purpose 1 RRG	21	“The series entity concept is really gaining a good deal of popularity, even in unanticipated areas like estate planning. Many special purpose captives are interested in becoming series entities. Employee benefits is becoming popular as well, due to uncertainty in the market regarding the new health care law. Benefits managers are looking at all options regarding employee benefit risk.”	“We recently passed Association and Branch Captive Laws. Our series LLC captives are really taking off in both health care and financial planning areas.”
District of Columbia – Dana Sheppard	89	9	2 pure captives 2 PCCs 5 RRGs	2	RRGs and protected cell companies. Also significant interest in captives to provide stop loss coverage for self-insured health plans.	-
Georgia – Don Roof and Chris Taylor	Unknown	-	-	-	-	Georgia did not reply to captive.com's inquiries in time for publication of this report.
Hawaii – Alan I. Watanabe and George W. Sumner	163	6	5 pure 1 RRG	5	Pure captives	-
Kentucky – Russell Coy	112, as follows: 99 Pure 8 Consortium/Assoc 4 RRG 1 Agency	9	9 pure	3 applications now under review; a number of others in the pipeline	“No specific trends noted.”	-

Interim Captive Domicile Update as of July 31, 2010

Domicile and Source of Data	Total active captives	New captive licenses 1/1-7/30/10	New captives broken out by type	New licenses in pipeline for imminent licensing	Trends in type of captive or industry classifications	Comments
Missouri – John Rehagen	6 active captives 1 SPC	1	1 pure	3 applications in house and under review; 1 application under development expected by 9/30/2010	"No real trends to report."	"Last year we hit a Billion in premium which was a major milestone. This year we are going to see a numbers milestone when we hit double digits, hopefully by the end of the 3rd quarter 2010. Several other feasibility studies are underway but it's still unknown how many of these plans will ultimately come here by year end. I would say it is possible that we may potentially license 10 new captives in 2010, compared to 3 last year."
Montana – Tal Redpath on behalf of Steve Matthews	48 as follows: 1 Association stock insurer 2 Association reciprocal insurers 26 Pure 4Captive Reinsurance Companies 2 PCCs 13 RRG	3	2 RRG 1 Pure	6 as follows: 2 RRGs 3 pure 1 captive reinsurance company	"We've heard much more discussion of protected cell captives in the past year or two."	"Late in 2009 we hired our third full-time captive staff person within the Department, bringing our total captive-dedicated staff to 3.5 employees."
New York – Jody Wald	48	2	2 Pure	No apps currently pending	"Trend is for TRIA captives."	-
Nevada – Michael Lynch, Deputy Commissioner, Captive Section	121	2	1 Assoc-RRG 1 Pure	16 (plus 2 cells)	Sponsored cell captives and public entity captives	"We are encouraging captives who have ceased activity to voluntarily withdraw to prevent them whittling down their capital. We can restart a captive in approximately 30 days, should they wish to do that."

Interim Captive Domicile Update as of July 31, 2010

Domicile and Source of Data	Total active captives	New captive licenses 1/1-7/30/10	New captives broken out by type	New licenses in pipeline for imminent licensing	Trends in type of captive or industry classifications	Comments
South Carolina – Jeff Kehler	154, as follows: 42% are pure; 23% are RRGs; 13% special purpose captives; and 15% are special purpose financial captives. The remainder are all others.	1	Pure – a South Carolina based company	2 pending; 1 more in the pipeline after that.	“Clearly, the trend for us is towards pure captives. We’ve only looked at one RRG in the past year and decided against doing it. As the economy picks up more steam, I think you will see more captive formations as well. Since we have an unusual insurance climate, i.e., soft market and low investment returns, I think it will be a little while yet before the RRG formations pick up. So, this year is shaping up to be a mirror image of last year where the first half of the year was a little slow and it picked up every month after that.”	“I think we will have positive net growth, but we won’t be back to our usual 20 - 25 new companies for a while yet. We are working on some new ideas, so stay tuned. It will be very interesting. ”
Utah – Ross Elliott	150	6	5 pure 1 agency	“We are expecting 25-30 net formations.”	“Prospects look good for EOY.”	“We have just hired two new analysts to keep up with our recent growth.”
Vermont – David Provost	573	20	12 pure 4 RRG 4 SPFC (special purpose financial captives)	“1 license signed 8/6, 1 scheduled to be licensed 8/9, and 10 “imminent” (companies that we’ve had meetings with and expect to receive an application within the next 1-6 weeks). Another dozen or so are in discussion, with managers reporting that there’s more in the works.”.	“It’s hard to identify any trends with 20 companies, but we’re obviously seeing interest in SPFCs, and Med Mal (either in RRGs or pure captives) remains popular. Otherwise, it’s a mixed bag of parent companies: banks, construction companies, professional services, etc.”	“As you can see, we do indeed license RRGs! The proportion has been consistent over the years – 1 RRG licensed for every 4 captives. We have the infrastructure to take care of business. We provide a consistent regulatory environment, have the deepest bench in the captive market, and keep the strong support of the Commissioner, Governor, and Legislature.”

As we celebrate our 15th anniversary, Captive.com thanks all our website sponsors, without whose support and knowledge we could not aggregate the vast resources that we have offered at captive.com since 1995. Find the contacts, information, and links you need from feasibility study to ongoing captive operations at www.captive.com. We will continue to provide access to service providers, domiciles, associations, industry news, interactive tools, events, publications, learning events, and more for many years to come.

Be sure to join thousands of subscribers, and register for the e-mail version of Captive Daily Wire™ and occasional Captive.com e-mail updates at <http://www.captive.com/subscriptions/subscribe.php>. We do not share or sell our e-mail databases so you can subscribe with confidence.