

20 YEARS STRONG



**SC** CAPTIVE  
INSURANCE



STATE OF SOUTH CAROLINA  
DEPARTMENT OF INSURANCE  
CAPTIVE DIVISION





| WATERFRONT PARK  
| CHARLESTON, SOUTH CAROLINA

## WORLD CLASS CAPTIVE KNOW-HOW

South Carolina has long been one of the nation's premier captive domiciles, with over 300 captives licensed since 2000. In partnership with the captive business community, the Captive Division of our Department of Insurance continues to set the standard for excellence among America's captive domiciles. What sets our domicile apart from all the others?



| SWEETGRASS ARTISAN  
| CHARLESTON, SOUTH CAROLINA

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Captives exist to provide owners and executives more choices and better tools for managing and financing their companies' risk, so that they can go about operating and building their core businesses with less uncertainty and more security.

*It's all about owner choice and owner value.*

W. Jay Branum  
Director of Captives  
South Carolina Department of Insurance

# WHAT IS A CAPTIVE?

## A CAPTIVE IS...

- An insurance company established for the purpose of insuring the insurance risks of its owner(s) and affiliates
- A strategic risk management tool which serves as a central component of the overall risk management framework of its parent organization
- A sophisticated vehicle for the financing and management of retained risk
- Formed in a jurisdiction (a “domicile”) with special captive enabling legislation
- Licensed and regulated by the insurance regulatory authority in its domicile
- A real insurance company and as such is subject to appropriate regulatory oversight proportional to the nature, scale, and complexity of its activities and risk profile

## A CAPTIVE IS NOT...

- An estate planning, wealth transfer, or tax avoidance vehicle, although there may be certain tax benefits associated with properly structured captive programs intended first and foremost to meet legitimate risk management and risk financing needs.

## A CAPTIVE CAN...

- Act as an insurer, a reinsurer, or both
- Insure the risks of third parties, such as customers, suppliers, or subcontractors
- Purchase reinsurance in order to transfer risk and keep the captive’s net retained risk at a manageable level relative to its capital and surplus

## HOW BIG IS THE GLOBAL CAPTIVE MARKET

- At the end of 2018 there were over 7,000 captives in over 70 domiciles worldwide, and when protected cell entities are added to this number, estimates of the resulting total exceed 10,000.
- The total aggregate gross written premium written in 2018 by all captives globally exceeded \$100 billion.

Sources: NAIC and AM Best Captive Center

## WHY FORM A CAPTIVE?

- To lower total cost of risk through stabilization and control of insurance costs
- To strengthen and centralize control over insurance program design, structure, and external participants
- To reduce reliance on commercial insurance market, with its cyclical and volatility
- To tailor coverage to the risk profile and risk tolerances of the owners, to customize terms and conditions, and to provide coverages for difficult or emerging risks for which coverage may not be available in the commercial market or not available at acceptable terms or prices
- To participate in the profitability of the owner's own favorable loss experience and reap the benefit of its risk management and loss control efforts
- To capture underwriting profits as well as investment income on loss reserves and capital & surplus
- To eliminate expense loads and profit margins built into commercial insurance premiums
- To gain access to the global reinsurance market with its wholesale risk bearing and risk spreading capacity
- To help embed a culture of risk management and give teeth to the parent organization's loss prevention and claims management efforts
- To improve cash flow and accelerate tax deductibility of loss reserves
- To capture and control detailed data on the owner's individual loss experience for more in depth understanding of the organization's risk and more informed decision-making about its insurance program structure

## TYPES OF CAPTIVES

- Pure Captive
- Association Captive
- Industrial Insured Captive
- Risk Retention Group Captive
- Sponsored Captive
- Special Purpose Captive
- Branch Captive
- Unincorporated Cell
- Incorporated Cell
- Special Purpose Financial Captive

For a description of each of the above types of captives, please see: <http://captives.sc.gov/178/Types-of-Captives>. For the full statutory definition of each type, see Title 38, Chapter 90, Section 10 of the South Carolina Code of Laws (§38-90-10).

## WHAT CAN A CAPTIVE INSURE?

- **Traditional property & casualty lines** such as General Liability, Products Liability, Auto Liability, Directors & Officers Liability, Medical Malpractice, Professional Indemnity, excess Workers Compensation & Employer Liability, Employment Practices Liability, Product Recall, Property, Business Interruption, and more
- **Newer or emerging lines** such as Terrorism, Cyber, Supply Chain, Reputational Risk, and Medical Stop Loss
- **Deductible “buyback” or “buydown” policies** are a very common feature of captive programs in conjunction with a commercial insurance policy featuring large deductibles
- **Bottom line:** Captives are extremely versatile and flexible instruments that can be used to protect their parent organizations from any of a wide range of risks while addressing both frequency and severity concerns



**MICHELE CALDERON JOHNS**  
 CHIEF RISK OFFICER  
 INDIANA UNIVERSITY HEALTH

“The expertise and the knowledge of the South Carolina Department of Insurance led us to choose them as the domicile for our risk retention group.... They make sure they know our business. We matter to them.”



**RANDY MARTIN**  
 VICE PRESIDENT & CHIEF OPERATING OFFICER  
 ENERGY INSURANCE SERVICES

“One of the best things about working with the South Carolina Department of Insurance is there are no surprises. They’ve laid out a platform for how to conduct business here as a captive owner. In addition, all the big names are here from a captive management standpoint.”







**JULIANA KEATON**  
FORMER DIRECTOR OF INSURANCE  
CSX TRANSPORTATION

“The Professionalism of the South Carolina Department of Insurance is really second to none. You have a real partner. You aren’t dealing with a giant bureaucracy. We know we’re in the right domicile.”



**STEVE WATSON**  
CHIEF FINANCIAL OFFICER  
THE BILTMORE COMPANY

“You’ve got to surround yourself with world class experts, and I feel like we have. They take our business very seriously and they want to help us be a successful insurance company.”

# COMPETITIVE FEES AND TAX RATES REASONABLE CAPITAL & SURPLUS REQUIREMENTS

## SOUTH CAROLINA CAPTIVE FEES

Item	Captives	SPFCs
Application Fee	\$200	\$12,000
Processing Fee	\$0	\$200
Licensing Fee	\$300 year one, \$500 renewal	\$300 year one, \$500 renewal
Review Fee	\$4,000	\$2,400 annual minimum

## SOUTH CAROLINA CAPTIVE PREMIUM TAX RATES

Premium	Captives (direct/assumed)	SPFCs
\$0-\$20,000,000	0.4%/0.225%	0.225%
Next \$20,000,000	0.3%/0.150%	0.150%
Next \$20,000,000	\$100,000/0.050%	0.050%
Next \$20,000,000+	\$100,000/0.025%	0.025%

## SOUTH CAROLINA CAPTIVE CAPITALIZATION REQUIREMENTS

Captive Type	Statutory Capitalization
Association	\$750,000
Branch	Amount equal to reserves for losses
Protected Cell	Director discretion
Pure	\$250,000
Risk Retention Group	\$500,000
Special Purpose	Director discretion
Special Purpose Financial	\$250,000
Sponsored	\$250,000

For forms, instructions, and additional information, please go to <https://captives.sc.gov>.

## OUR REGULATORY PHILOSOPHY

### FULL SPECTRUM EXCELLENCE

Our regulatory approach is defined by prudence, professionalism, and pragmatism. When you engage with us, you can expect consistency in execution and a high degree of responsiveness and reasonableness. And although we take our regulatory responsibilities seriously, you'll be surprised at how easy we are to do business with.

### A BUSINESS-SAVVY TEAM

We go beyond just being business-friendly. We are a business-minded and business-savvy team, with decades-deep knowledge and experience in the captive sector.

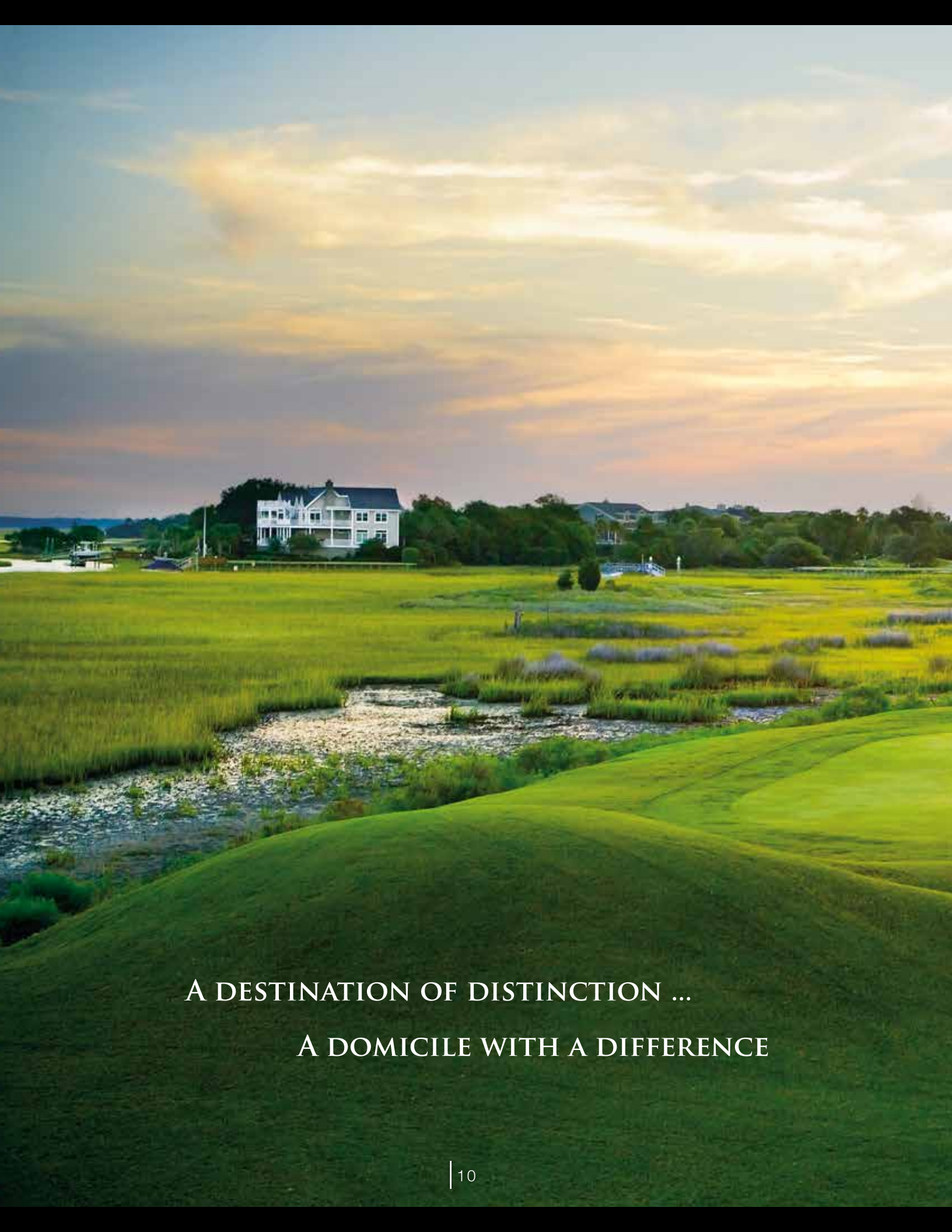
### FOCUS ON OWNER VALUE

Captives are about providing business owners and executives with smarter, more sophisticated ways to finance and manage risk. We realize that you know your own risks, risk tolerances, and risk-financing resources better than anyone else. We respect your business imperatives, and want to be facilitators in the creation and build-up of captive structures that will be of real and lasting value to you as captive owners.

### A HIGHLY RESPECTED DOMICILE

We also strive to strike the right balance between being pro-business and fulfilling our primary responsibilities as prudent solvency regulators. We are committed to providing captive owners with the confidence of being in a highly respected domicile – one that has an unimpeachable reputation.

We believe that most captive owners will gravitate toward a jurisdiction that emphasizes quality over sheer numbers. By safeguarding our own reputation as a responsible domicile, we help protect your reputation as responsible captive owners.



A DESTINATION OF DISTINCTION ...

A DOMICILE WITH A DIFFERENCE

## DEDICATED CAPTIVE DIVISION

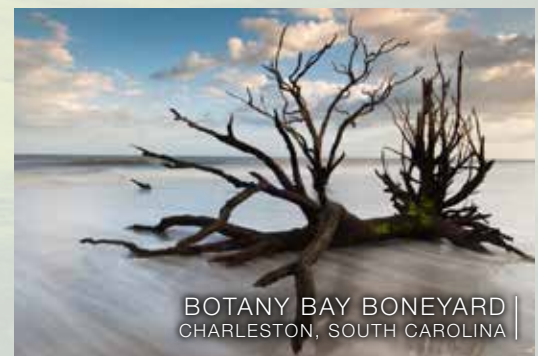
Our Department has a fully staffed Captive Division of extremely talented professionals 100 percent dedicated to the captive sector. We have deep experience with captives of all kinds and sizes representing a diverse mix of industries. Their parent companies range from small-to-medium sized privately held firms, to hospital and medical practice groups, to some of the world's biggest and most successful multinationals.

## CHARLESTON - A VIBRANT CAPTIVE HUB

Eight of the ten largest worldwide captive management firms have offices and staff in Charleston. Together with knowledgeable captive practitioners from law, accounting, actuarial, and investment management firms, they offer captive owners the full range of professional services required to efficiently form and effectively manage even the most complex captive insurance companies.

## STATE OF THE ART LEGISLATION

Our statutory regime offers prospective owners a full menu of captive options to suit their particular needs and objectives. In addition to considering a stand-alone captive, prospective captive owners should not overlook the possibility of forming a protected cell within a sponsored captive facility. These cost effective structures offer real advantages to prospective owners who want to fund their own risk, but also value speed and ease of establishment and may not be ready to commit to a full-fledged, freestanding captive. In particular, the legal segregation of an incorporated cell's premiums, losses, capital, and results adds up to an attractive package for some owners, and the cell can even be converted to a wholly owned stand-alone captive later on.



# FORMATION & LICENSING PROCESS

## AN OVERVIEW

**PRELIMINARY MEETINGS:** Preliminary meetings with captive managers or other advisers to explore the captive concept and potential uses in the context of the prospective captive owner's needs, resources, risk appetite, and potential for commitment.



**FEASIBILITY STUDY:** Assemble and analyze relevant insurance program and risk data, formulate assumptions regarding lines of business, program structure, etc., procure actuarial funding study, establish capital requirements and obtain premium estimates and 5-year pro-forma financial projections.



**DECISION TO PROCEED:** Engage SCDOI-approved captive management firm and other key service providers to form captive and put together complete license application for submission to the SCDOI Captive Division. Introductory meeting with SCDOI Captive Division strongly advised.



**FILE LICENSE APPLICATION, RECEIVE LICENSE AND APPROVAL TO WRITE:** Approved captive manager or other adviser submits license application to SCDOI. Captive Division thoroughly reviews application, seeks any additional information or clarification required, and decides whether to issue licensing letter setting forth any applicable stipulations and conditions to be met either in advance of receiving approval to write or on an ongoing basis. In vast majority of cases, the Captive Division can license a new captive within 30-45 days of receipt of a complete application.



**COMMENCE OPERATIONS**

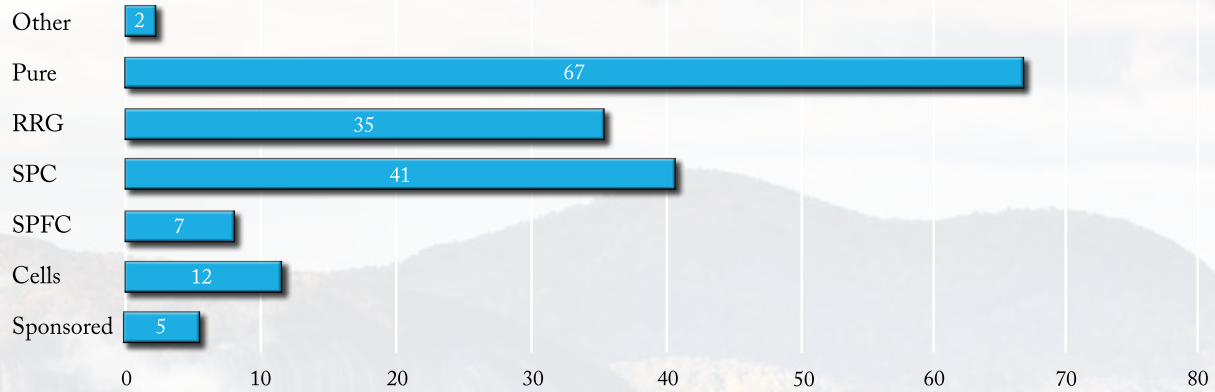
## SIX KEY CONSIDERATIONS FROM A REGULATOR'S PERSPECTIVE

The establishment of a captive insurance company is a serious business decision which requires:

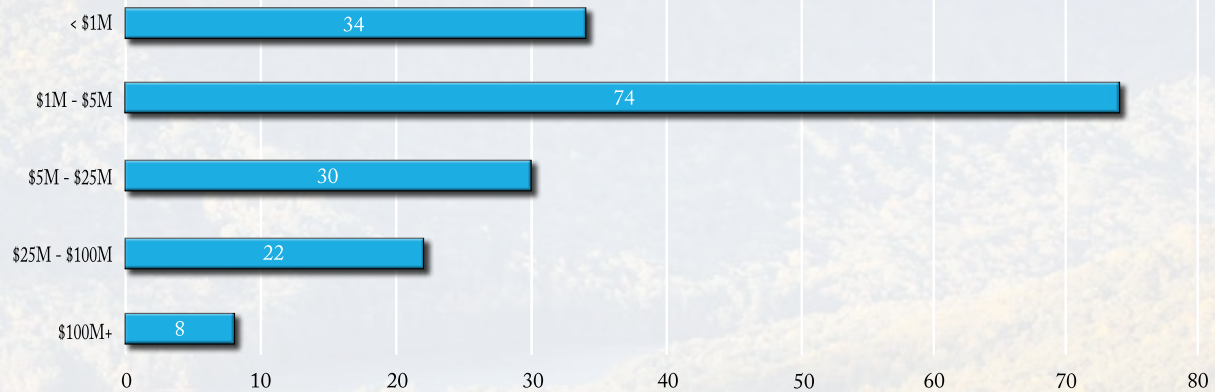
- Long-term thinking and commitment on the part of the owner
- Careful quantitative and qualitative analysis at the outset followed by ongoing monitoring and oversight of the captive's financial health and the performance of its service providers
- A clear-eyed view of the organization's risk exposures, loss and payout characteristics, as well as the captive's projected capital requirements and operating expenses
- Observance of proper governance standards and compliance with the laws and regulations of the state or country of domicile
- A risk management culture which makes loss control and claims management a priority across all business operations
- The selection of captive managers who are not only experienced and reputable, but also knowledgeable about the statutory financial, reporting, and governance requirements of the chosen domicile. This is a vital consideration for the successful launch and operation of any captive insurance company.

# SOUTH CAROLINA CAPTIVE FACTS AND FIGURES

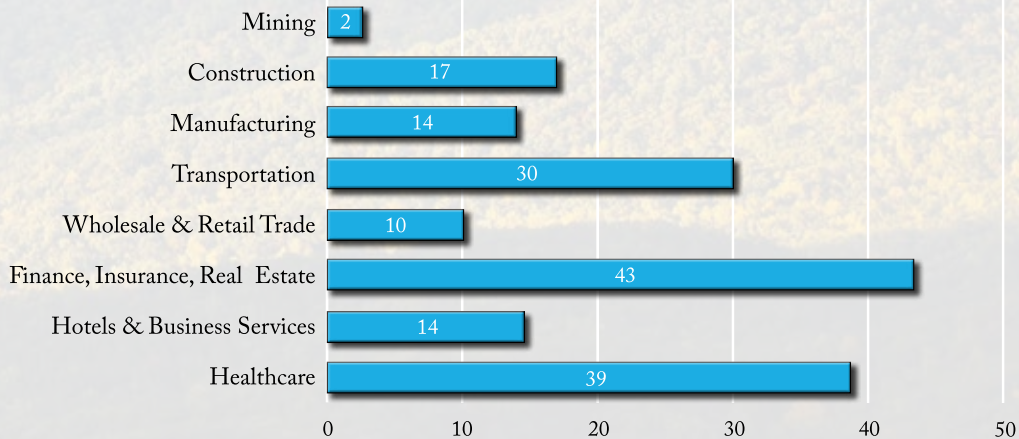
## ACTIVE CAPTIVES BY TYPE



## SC ACTIVE CAPTIVES BY PREMIUM SIZE



## ACTIVE CAPTIVES BY INDUSTRY





# AMERICA'S PREMIER CAPTIVE DOMICILE HOME OF CAPTIVES DONE RIGHT!

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