From Strategic Risk Solutions web site:

Captive Management

SRS provides a full range of captive management services to assist owners in the formation of captives and their on-going operation. Our services are tailored to fit the needs of individual clients.

Formation/Licensing

- Business plan preparation
- Application preparation and filing
- Assistance with selection of service providers
- Development of governance structure
- Development of captive operating manual

General Management Services

- Board meeting services including coordination of meetings and preparation of materials
- Provision of local office
- Local director services
- Captive extranet

Financial Services

- Maintenance of accounting and financial records
- Preparation of management accounts
- Preparation of annual budget
- Cash management services
- Premium tax filings and assistance with income tax preparations and other tax issues

Regulatory Compliance Services

- Ensuring regulatory compliance in the local domicile
- Preparation and filing of regulatory reports
- Maintenance of records in accordance with regulatory requirements
- Responding to regulatory examinations and inquiries

Insurance Services

- Issuance of policies and/or certificates of insurance
- Liaison with insurance brokers
- Reconciliation of ceded reinsurance
- Preparation of analytic reports including benchmarking and cause of loss reports
- Management of exposure and loss data

We enforce a strict peer review process to ensure the accuracy and quality of our work. All clients receive an annual stewardship report detailing our activities during the year.

Helping Clients Succeed

Our success is dependent on our clients' success. We don't believe it is good enough to just keep a captive's books and records. We want our clients to succeed and we have developed specific services to help them succeed.

Benchmarking and Ratio Analysis

Many captive owners want to know how their captives are doing? We answer this question through the use of benchmarking and ratio analysis. We also evaluate captives against maturity models to assess the appropriateness of activities given the captive's stage of development.

Loss Analyses

The success of a captive is usually dependent on its loss experience. We use our analytic resources to develop loss scorecards and cause of loss reports to allow captive owners to proactively manage loss costs to ensure actual experience is below funded levels.

Program Management

We provide data management, pricing, allocation, policy issuance and premium rating services for existing captives. We also provide analytic services in support of reinsurance, collateral and fronting negotiations and marketing services to support the growth of our captive clients.

Captive Development

Like other organizations captives mature and develop beyond their original missions. We take a lifecycle approach helping the captive maximize the value it provides to its owners at any stage in its development. That may include expansion opportunities or options to shut down all or part of a captive's operations. Our services include strategic reviews, re-domestications, operational reviews, re-feasibilities and run-off.

Captive Consulting

Our captive consulting services support the operations of our captive management business. Our experienced captive consultants provide both feasibility consulting and on-going consulting support to our captive clients.

Feasibility Consulting Services

As a captive management firm, we take a very practical approach to assessing the feasibility of a captive. We have hands on experience of what does and doesn't work in captive insurance. We stand behind our feasibility advice in developing long-term relationships to manage successful captives. We will not take on a management contract unless we believe the captive is sustainable. Our captive feasibility services include:

- Pre-feasibility assessment
- Development of loss projections in conjunction with actuary
- Premium development
- Captive program design
- Cost benefit analysis

- Domicile comparison
- Development of financial pro formas
- Business plan development
- Capital and collateral assessment including negotiation with fronting companies
- Identification and selection of service providers

On-going Consulting Services

Our consulting services support the operation and development of our existing captive clients. Services include:

- Annual premium development
- Collateral estimation and negotiation
- Drafting of policy wordings
- New member underwriting for group captives & RRGs
- Feasibility analysis for new lines of coverage
- Re-domicile analysis
- Re-structuring analysis (RRGs, branch captives, reciprocals, etc)
- Strategic planning

A captive consultant is assigned to every management account to provide on-going consulting services, as required by the client. For more information about captives, including assessing the feasibility of a captive for your organization, see the SRS Guide to Captives

SRS Guide to Captives

What is a Captive?

A captive insurance company is a closely held insurance company that is owned and controlled by its insureds.

A captive is an insurance company licensed under the laws of its domicile, many of whom have specific
regulations applying to captives. Generally a captive does not qualify as an admitted insurer in any US state.

There are approximately 5,000 captives worldwide. Collectively captive insurance companies have net written premium in excess of $50 billion, capital and surplus of more than $100 billion and total invested assets of more than $225 billion.

Captive insurance companies vary according to:

- **The number of owners:** single parent versus group.
- **Legal structure:** captives formed by groups of owners in particular can take a number of different legal forms including, stock, mutual insurance company, and reciprocal insurer
- **Source of capital:** rent-a-captive and sponsored captives allow insureds to create a captive program using a third party's risk capital.
- **Scope of risks underwritten:** many captives have expanded their focus from the property and casualty risks of their owners to include employee benefits and/or the risks of third parties.

These differences in captive structures are discussed in the types of captive section of the *SRS Guide to Captives*.

Types of Captives

Captive insurance companies can take a number of different forms. The following definitions are intended to help differentiate some of the various types of captives.

Single Parent (or Pure) Captive

A single parent captive is owned and controlled by a single parent organization and is formed as a subsidiary of that organization. The captive insures the parent organization or other subsidiaries of the parent. Subject to regulatory approval it may also insure the risks of controlled third parties.

Group Captive

A group captive is owned and controlled by multiple non-related organizations. It is formed as an independent entity and insures the risks of its owners.

Association Captives

An association captive is owned by members of a common industry or trade association and is designed to insure the risks of that industry among its members. Participation in the captive program is limited to members of the association. Association captives are a means to deliver value added services to its membership.

Risk Retention Groups

A risk retention group is an entity licensed under the Federal Liability Risk Retention Act. It is owned by its insureds and is authorized to underwrite the liability risks of its owners only. Owners must be from a homogenous industry group. A risk retention group is licensed as a captive insurance company in its domicile of choice and may operate throughout the US provided it properly registers with each state.

Reciprocal Insurer

A reciprocal insurer is an unincorporated association of subscribers operating individually and collectively through an attorney-in-fact to provide reciprocal insurance among themselves. This type of captive refers to the organizational structure. It is an alternative to a stock or mutual form. Most domiciles allow for group captives, association captives or risk retention groups to be formed as reciprocal insurers.

Rent-a-Captive

A rent-a-captive is an insurance company that rents its capital and services to insureds who wish to create a captive program but do not want to invest in and own an insurance company. The owners of rent-a-captive facilities will usually require collateral from insureds to protect the aggregate participation in the captive program.

Sponsored Captives, Segregated Cells and Protected cells

These entities are all forms of rent-a-captives. Their distinguishing feature is that the assets and liabilities of one captive program (cell) are legally separated from the assets and liabilities of other captive programs. Traditional rent-a-captive structures have no such legal separation but require an indemnification from their insureds for liabilities from their captive programs. Most major captive domiciles have passed regulations creating the framework for the legal separation of cells within the rent-a-captive. Different terminology is used to refer to these new entities in different domiciles: Bermuda (segregated cell companies), Cayman Islands (segregated portfolio companies), South Carolina (protected cell companies) and Vermont (sponsored captives).

Agency Captive

An agency captive is owned by insurance agents and typically allows the agency to share in the underwriting profits and investment income of its book of business. It also demonstrates to insurers and reinsurers that the agent is committed to the profitable underwriting of that business.

Branch Captive

A branch captive is an on-shore (US) arm of an off-shore captive. Branch captives are typically used to underwrite employee benefits under ERISA. These benefits can only be offered by a US insurer.

Why Form a Captive

A captive insurance company lies somewhere between self-insurance and guaranteed cost insurance on a continuum of available risk financing techniques. To assess whether a captive is the right risk financing technique for a given situation, the potential benefits of a captive have to be compared to both self-insurance and traditional insurance. The following ten benefits are most often cited as the reason for forming a captive.

1. Insulation from market swings

A captive has the advantage of being able to charge consistent premiums and build surplus to insulate its owners from market swings associated with commercial insurance. A captive is able to do this in a more segregated and formalized environment than self-insurance mechanisms.

2. Internal smoothing of deductibles

For companies that operate on a decentralized basis, there is usually a significant difference between the amount of risk that can be comfortably retained at the corporate level and the subsidiary level. To enable these corporations to benefit from their overall financial strength and reduce the amount of external premium expenditure, an internal financing mechanism needs to be created to protect subsidiaries within the corporate retentions. A captive can be an ideal vehicle for this use and provides a formalized program to transfer the fluctuation of corporate deductibles to a captive subsidiary via the issuance of formal insurance contracts.

3. Focal point for risk management activities

A captive can be used to increase the visibility of a corporation’s risk management program. With senior managers and even operating managers participating on their Boards, captives can raise the level of awareness of risk management at these levels and help create ownership of the risk management program. A captive can also play a central role in the gathering of risk and insurance information for a decentralized organization. This is particularly true for international or decentralized programs where the captive's participation in the insurance program may allow corporate involvement without disrupting local autonomy. These strategic benefits are difficult to reproduce in traditional insurance and self-insurance programs.

4. Coverage

Captives have more flexibility in tailoring coverage to the needs of their owners and providing coverage that is unavailable or prohibitively expensive in the commercial market. Self-funding these risks can also provide a financial buffer to protect an organization, although the greater structure of a captive may be more beneficial in creating segregated reserves and securing reinsurance support.

5. Profit

Many captives have a strong profit motive seeking to underwrite customer or related party business. The captive can often be an opportunity to sell a new service to an existing customer base, for example extended warranty insurance. Group captives often have a goal of extending beyond their initial owners to use the expertise they have developed within the captive and apply it to other peer organizations. Agency captives are primarily motivated by profit and seek to share in the successful underwriting of the risks the agency places.

6. Access to risk transfer capacity (reinsurance)

As a licensed insurer, a captive has the advantage of being able to access the reinsurance markets. This can increase the potential sources of risk transfer capacity and reduce the cost. Direct access to reinsurance can reduce the frictional costs, allow for payment of ceding commissions to the captive and lower federal excise taxes paid on the transaction.

7. Tax advantages

A captive has a potential tax advantage over self-insurance in its ability to deduct premiums paid to the captive. The tax treatment of captive premiums is an uncertain and fluid area. Any captive owner should seek advice from an insurance tax expert on the appropriate structuring of captive arrangements and the likelihood of tax deductibility before relying too heavily on this potential advantage.

8. Control over claims handling

Both captive and self-insurance programs have the potential to unbundle claims handling services with the owner/insureds having control over the TPA contracts. For liability claims the ability to have more control over claims handling is attractive to many insureds. The extent to which this can be achieved will depend to a large degree on the fronting and excess insurance or reinsurance arrangements supporting the program.

9. Risk control incentives

Being financially responsible for paying losses under captive or self-insurance programs can provide a greater incentive to prevent losses than under guaranteed cost insurance. The strength of the incentive depends on the degree to which the financial responsibility is felt by those most able to prevent the losses.

10. Cost

A captive is often seen as being able to lower frictional costs and charge stable costs independent of the commercial market. However the need for fronting and the opportunity cost associated with the capital investment and collateral requirements sometimes negate this advantage. Self-insurance mechanisms should have a cost advantage over captives, due to the management costs and capital investment associated with captives. As a result captives are rarely the optimal solution on cost alone. A combination of a captive program with self-insurance can help mitigate frictional costs while proving additional benefits

When to Consider a Captive

A captive insurance company is not a suitable option for all insureds, in all situations. Before exploring the feasibility of a captive, an insured and its advisors should determine whether the following criteria have been met. These criteria are an indication of whether a captive program could make sense.

1. Good loss experience

The insured will be assuming responsibility for the payment of losses under a captive program. If historical loss ratios are high, then it is likely that the captive option will result in considerably increased cost for the insured. As a rule of thumb, captive expenses including fronting and reinsurance costs usually comprise 35-40% of captive premium. If loss ratios are greater than 65% of premium, then the captive is likely to be a more expensive option than guaranteed cost insurance, unless it can underwrite direct and avoid the cost of fronting.

2. Available fronting and reinsurance

The market for fronting services has become restrictive for captives. The viability of many captive programs is dependent on the availability of a front at a price that does not make the program cost prohibitive. Situations that do not require fronting services can make the captive option more feasible.

3. Financially secure parent

An insured considering a captive will need sufficient financial resources to support the capital investment and the posting of collateral behind the captive program. Regulators are unlikely to approve a captive unless the parent is financially secure. In addition, most fronting companies will require collateral to match the aggregate participation of the captive. The stacking of collateral requirements over a number of years can create a significant financial burden on the parent.

4. Sufficient premium volume

A minimum level of premium volume is required in captive programs to provide stability, absorb the operating costs of the captive and provide a return on the capital invested. While there are captive structures specifically designed to accommodate smaller programs, traditional captive programs typically require a minimum of $750,000 in premium annually to make them viable.

5. Long-term commitment from the insured(s)

Captives are a means for insureds to reduce their reliance on the commercial insurance market and provide stable long-term risk financing. Captive programs will not be the lowest cost option in all years, so to be successful they will require a long-term commitment from their owner/insureds. If an insured is considering a captive purely for short-term premium savings, it is unlikely to be the right solution.

6. Predictable losses

Captives work best for programs that have predictable losses. The more predictable and consistent the losses, the greater the confidence with which premiums and reserves can be set for the captive program. Volatile lines of coverage can be problematic for captives as they are difficult to quantify. Lines of coverage with short claims development patterns can also be problematic as the ability to hold reserves against potential future losses is limited.

How to Choose a Domicile

A captive domicile is a jurisdiction that has specific regulations applying to captive insurance companies. There are over 30 captive domiciles worldwide including many US states that have passed a captive insurance company law. The leading domiciles for captives with US parents are Bermuda, Vermont, Cayman Islands, Hawaii, and South Carolina.

The selection of a captive domicile is not just a question of comparing the captive laws for each domicile. The applicable regulations are just one of a number of factors that go into domicile selection.

Regulations

Differences in capitalization requirements, premium taxes, investment restrictions, discounting of reserves, reporting and meeting requirements will all play a role in choosing the appropriate domicile. Regulations affecting the parent organization can also be a factor. For example, employee benefits under ERISA may only be written through a domestic captive or US branch of a foreign captive.

Tax

Premium tax rates vary by domicile/state, although captive premiums are typically taxed at a much lower level than premium paid to traditional insurers. The impact of federal taxes will be a factor in deciding between onshore and offshore domiciles.

Infrastructure

It is important that there is an established infrastructure to support the captive. This applies to both the availability of specialist service providers and a regulatory body that has sufficient resources dedicated to captives in that domicile.

Logistics

Many captive domiciles are in "out-of-the-way" locations. The ease of travel to the domicile and the communications infrastructure of the domicile are important considerations. Often a captive can gain more visibility and senior management involvement if it is physically domiciled closer to its parent.

Perception

Some domiciles have built a reputation for a particular type of captive or industry. Being in this specialist environment can help in the operation of the captive. Conversely an insured would want to avoid certain domiciles that could create additional scrutiny on the legitimacy of the business and reasons for its formation

Senior Account Manager – East Coast

Location: Charleston SC

SRS is looking for an experienced accounting professional with 5 plus years' experience to join its east coast servicing team. The successful candidate will manage the financial and regulatory affairs of a portfolio of captive insurance companies and risk retention groups. The position will ideally be based in our Charleston SC office, although we would consider other east coast offices (DC, Tennessee or Vermont).

Role

Duties will include:

- Preparing financials statements.
- Maintaining accounting records and work papers.
- Preparation of regulatory filings including NAIC statements and premium tax returns.
- Managing client communications.
- Co-ordination of the audit of client companies.
- Preparing for and attending Board of Directors meetings.
- Managing workflow across multiple captive insurance company and risk retention group accounts.

Minimum Qualifications

To be considered candidates must have at least the following minimum qualifications:

- A minimum of 5 years' insurance accounting experience.
- GAAP and statutory accounting experience.
- Experience managing the accounting needs of risk retention groups or commercial insurance companies including the preparation of financial statements, regulatory filings and premium tax returns.
- Comprehensive and up-to-date technical knowledge and practical experience of insurance accounting.
- Self-motivation with the ability to work effectively as part of a team or on individually assigned tasks in a fast paced dynamic environment where superior time management and prioritization of skills are essential.
- Excellent organizational skills.
- Excellent verbal and written communication skills.

- Accounting or business degree or equivalent.

Compensation and Benefits

We offer a competitive salary and a comprehensive benefits package including life, medical, dental, flexible spending accounts, disability coverage, 401k, profit participation and tuition reimbursement.

Apply

To apply for this position, please email your resume to Andrew Berry.

Andrew Berry

Contact Information:

2352 Main Street, Suite 204
Concord, MA 01742

Tel: 781-672-3454

Fax: 978-328-5513

Email: andrew.berry@…

COO & Managing Director

Current Responsibility

Andrew has primary responsibility for the day to day management of all SRS staff functions, including finance, legal, technology, marketing and human resources. He is actively involved in the firm’s efforts to improve the quality and efficiency of its operations, as well as identifying and supporting strategic expansion opportunities.

Experience

Andrew has over 20 years experience in the captive, insurance and risk management industries. Prior to joining SRS, he was President of Newport Risk Services, a consulting firm serving the insurance industry and was previously Co-Founder, President and COO of GRX Technologies, an industry leader in the development of collaborative technologies streamlining the management of large commercial insurance programs.

Andrew started his career as an insurance broker in the London and UK retail brokerage markets, before spending nine years as a risk management consultant with Tillinghast – Towers Perrin in London and Boston. While at Tillinghast, he consulted with Fortune 500 corporations, US and European multinationals, public sector and non-profit organizations.

Education and Professional Designations

- Babson College, MBA (summa cum laude) with concentration in Entrepreneurship
- Nottingham University, B.A., Industrial Economics
- Fellow of the Chartered Insurance Institute (FCII)
- Fellow of the Institute of Risk Management (FIRM)