



Washington, DC

A World-Class City
for Captive Insurance



Government of the District of Columbia
Department of Insurance, Securities and Banking



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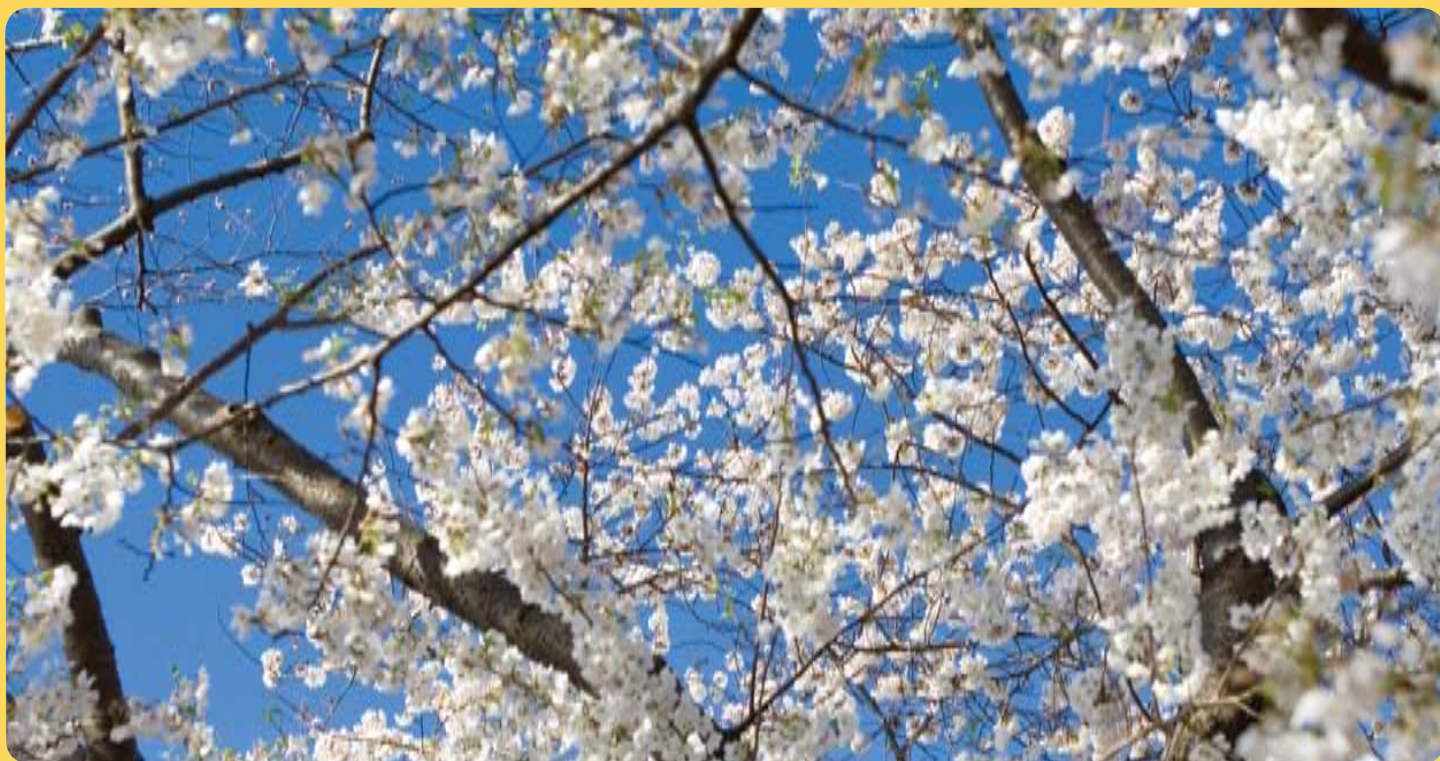
The Risk Finance Bureau regulates captive insurance companies, risk retention groups and other kinds of non-traditional risk transfer mechanisms that are licensed by the Department of Insurance, Securities and Banking (DISB). DISB licenses qualified institutions, performs financial analyses and conducts regular financial examinations to ensure financial solvency. DISB provides practical and innovative regulatory responses in a timely manner to captive insurance companies seeking to establish operations or transact business in the District.

Washington, DC Captive Domicile Offers:

- 1:** A modern, progressive captive insurance law that meets the demands of the marketplace and stays current with market trends.
- 2:** Lawmakers who understand the intricacies of balancing sound regulation with the changing nature of the captive insurance market.
- 3:** Experienced and dedicated staff committed to working with risk managers and business owners to provide creative solutions to your risk financing needs.
- 4:** An efficient regulatory process that makes Washington, DC a flexible and innovative captive domicile.
- 5:** The Captive Insurance Council of the District of Columbia (DC's captive insurance trade association), which holds quarterly meetings and an annual conference for captive businesses.
- 6:** Several legal, accounting, actuarial, captive management and investment professionals with extensive expertise establishing and managing captive insurance businesses.
- 7:** A revitalized capital city experiencing an unprecedented economic and cultural renaissance, making it one of the most attractive business destinations.
- 8:** A well-developed transportation infrastructure, making travel to Washington, DC inexpensive and convenient.
- 9:** A prestigious location that reflects influence, connection, reputation and good judgment.
- 10:** A fast-growing domicile that ranks among the leading domiciles in the nation.

Call 202.727.1563 or visit DISB's Web site at www.disb.dc.gov.





Why a Washington, DC Captive?

- Any type of captive, including risk retention groups, may create one or more protected cells. Captives also have the option of establishing protected cells as separate legal entities.
- Parity provision will permit a captive to engage in any type of business in Washington that is permitted in any other captive jurisdiction (on-shore or off-shore).
- The minimum capital required is only \$100,000 for all types of captives.
- Captives have the flexibility of following an investment strategy that meets the needs of the owners of the captive.
- Premium tax rates have been lowered, and the maximum tax obligation is capped at \$100,000.
- Captives may take credit for risks ceded to "unauthorized" reinsurers.
- Captives are permitted to file financial statements on a GAAP (Generally Accepted Accounting Principles) basis rather than on a SAP (Statutory Accounting Principles) basis.
- Captives undergo a financial examination once every five years.
- Redomestication provisions facilitate easy entry and exit from the domicile.
- Captive managers are not required to have an office in Washington until they reach critical mass.
- Applications are reviewed within 30 days.
- No local director required.

Washington, DC

Captive Domicile Profile

Types of Captives	<ul style="list-style-type: none">• Agency, Association, Branch, Pure, Rental• Any of the above may form protected cells
Acceptable Legal Corporate Forms	<ul style="list-style-type: none">• Stock, Mutual, Reciprocal, Limited Liability Company• Both for-profit and nonprofit entities are permitted
Minimum Capital Requirements	<ul style="list-style-type: none">• \$100,000, regardless of form of ownership• Minimum capital must be in the form of either cash or a letter of credit
Minimum Surplus Requirements	<ul style="list-style-type: none">• Agency Captives: \$300,000• Association Captives (Stock): \$300,000• Association Captives (Mutual or Reciprocal): \$500,000• Pure Captives: \$150,000• Rental Captives: \$300,000• Minimum surplus must be in the form of either cash or a letter of credit
Types of Direct Insurance Permitted	<ul style="list-style-type: none">• May provide all types of insurance except direct personal motor vehicle or homeowners' coverage• May also offer excess workers' compensation insurance to parents and affiliates
Types of Reinsurance Permitted	<ul style="list-style-type: none">• May take credit for risks ceded to any reinsurer approved by the Commissioner• May assume risks from other insurers
Rates and Forms	<ul style="list-style-type: none">• Filed with plan of operation• Prior approval required for changes
Minimum Premium Amount	<ul style="list-style-type: none">• None
Parity Provision	<ul style="list-style-type: none">• DC law permits the Commissioner to authorize a captive insurer qualified to conduct business in the District to engage in any activity permitted by a captive insurer in any other jurisdiction

Premium Tax Rates

• Direct	• Reinsurance	• Risk Retention Groups
First \$25 million: • 0.250%	First \$20million: 0.380%	
\$25M-\$50million • 0.150%	\$20-\$40 million: 0.250%	
Over \$50 million: • 0.050%	Over \$40million: 0.180%	
• Minimum Tax \$7,500	• Minimum Tax \$15,000	
• Maximum Tax \$100,000	• Maximum Tax \$100,000	



Investment Limitations

- A captive may invest its assets in any investment approved by Commissioner

Financial Reporting Requirements

- Non-risk retention groups must file annual unaudited financials on DC form on GAAP basis
- Risk retention groups must file annual and quarterly unaudited financials on National Association of Insurance Commissioners (NAIC) Yellow Blank on GAAP basis
- All captives must file annual audited financials and actuarial certification of loss reserves

Application

- Application review fee: \$500 (non-refundable)

Process/Fees

- Issuance of certificate of authority fee: \$300
- Annual license renewal fee: \$300
- Completed applications processed within 30 days of filing

Other Requirements

- Captive must retain qualified manager, attorney, accountant and actuary
- Captive must hold annual board of directors meeting in DC

DC Department of Insurance, Securities and Banking ART Staff

- The DC DISB ART (Alternative Risk Transfer) staff consists of nine full-time employees dedicated to providing reasonable and prompt regulation for DC captives

Frequently Asked Questions about Captive Insurance Companies and Washington, DC

1: What is a captive?

A captive insurance company is generally defined as an insurance company owned and controlled by its insureds. The captive's primary purpose is to insure the risks of its owners. It issues policies, buys reinsurance, pays claims and invests premiums similar to a traditional insurance company.

2: Why should I form a captive?

There are many advantages to insuring risks through a captive insurance program as well as disadvantages in terms of risk and commitment. Some commonly cited advantages include:

- **Tailored coverage:** the captive can custom-write a policy to fit the needs of its insureds, even when such

coverages are unavailable or prohibitively expensive in the commercial market;

- **Pricing stability:** stable loss experience results in stable premiums. Since the captive insures only the risks of its owners, broad market conditions that result in fluctuations to premiums may not affect your captive insurance program;
- **Direct access to the reinsurance market:** the captive can negotiate directly with the reinsurance market thereby avoiding commissions charged by commercial carriers;
- **Greater control over claims:** captive insurance, essentially self-insurance, provides financial





incentives to control claims costs through proactive risk management;

- **Accumulation of investment income:** the captive receives and invests premium payments until such time when those funds are needed to pay claims, operating expenses or dividends; and
- **Increased insurance capacity:** a successful captive will build surplus over time, which will enable the captive to retain more risks.

3: What types of captives can be formed in Washington, DC?

- **Pure captives:** a captive insuring only the risks of its parent and affiliated companies;
- **Association captives:** a captive that insures the risks of the member organizations of an association and the affiliated companies of those members;
- **Agency captives:** a captive that is owned by an insurance agency or brokerage and that only insures risks of policies that are placed by or through the agency or brokerage;

- **Branch captives:** an alien (i.e., foreign) captive licensed to transact insurance in the District through a business unit with a principal place of business in the District;
- **Rental captives:** a captive formed by an organizer in which the rental captive enters into contractual agreements to insure the risks of policyholders or participants. The rental captive offers some or all of the same benefits of a traditional captive without all of the costs and responsibilities associated with a traditional captive insurance program; and
- **Protected cells:** any type of captive insurer may form one or more protected cells to insure the risks of the captive's participants. Each protected cell is capitalized separately, and the assets and liabilities in the protected cells are legally separate from the assets and liabilities in the captive insurer and the other protected cells.

Where can I find more information on captive insurance?

A variety of good information on captives is available on the Web, including:

- www.captiveassociation.com
- www.captiveguru.com
- www.dccaptives.org
- www.disb.dc.gov
- www.rrr.com
- www.captive.com

4: What types of insurance can captives write?

Captives are generally restricted to writing only commercial lines of coverage, such as commercial property, auto liability, general liability, professional liability and employers' liability. Many captives also insure workers' compensation; however, this line must generally be written through a commercially licensed insurer and reinsured by the captive.

5: What is a risk retention group (RRG)?

A risk retention group is a captive insurance company operating under the federal Liability Risk Retention Act, and organized for the primary purpose of insuring liability risk exposures of its group members. Members of the RRG must be engaged in similar business activities (e.g., doctors seeking medical malpractice insurance).

6: What is a feasibility study?

The feasibility study, generally prepared by a consulting actuary, is documentation of how the captive program will operate and is a required element of the captive application. The study is often the pivotal piece of information used to decide whether or not to proceed with the formation of the

captive. The study may include both a written summary of the business plan and five years' worth of projected financial results. Those interested in forming a captive will need to accumulate three to five years worth of past premium and claims data, as well as prospective information related to the insurance risks the captive is anticipated to write. The cost of the feasibility studies varies with the complexity of the captive program.

7: What involvement will I have in operating the captive?

Many of the day-to-day operations of the captive, including accounting, regulatory compliance and routine claims handling, are typically handled by contracted service providers, including an approved captive manager. However, the ultimate responsibility for management rests with the captive's board of directors. Management must provide direction, coordinate the work of contracted services providers, ensure that loss control programs are executed and attend board meetings, among other responsibilities. Appropriate management participation is critical to achieving success in a captive program.

8: What is a captive manager?

A captive manager is a contracted service provider that specializes in running the day-to-day operations of captive insurers. The captive manager will often perform the accounting function, interface with the Risk Finance Bureau on regulatory issues and provide general consulting assistance. A captive manager can also be helpful in steering management through the captive formation process. Contact DISB for a list of approved captive managers.

9: What services do actuaries perform?

An actuary experienced in captive programs can assist in the formation of a captive by preparing a feasibility study, determining the appropriate premium to charge and recommending appropriate reinsurance coverage. The captive must also engage an actuary to perform an annual estimate of the captive's liability for future claims (i.e., reserves).

10: What is a fronting company?

A fronting company is a commercially licensed insurance carrier that issues a policy and reinsures all

or a substantial part of the risk to another carrier, such as a captive.

11: Will my captive have to use a fronting company to issue insurance policies?

Possibly. Certain types of coverage require evidence of insurance from admitted insurers. In addition, some insureds may be required to show evidence of insurance from a highly rated carrier.

12: What types of investments are captives allowed to use?

As part of its business plan filed with DISB, the captive will document its investment plan, including the proposed types of invested assets to be acquired and held by the captive. DISB will review the proposed investment strategy and may approve the plan as submitted or require revisions. Typically, newly formed captives invest in bank instruments (e.g., money market funds and certificates of deposit) and highly rated marketable securities, including mutual funds.



13: Does the captive get to keep its investment income?

Yes. The captive retains all of the income earned on its investments and can use that revenue for any purpose. The captive retains the risk of default and depreciation on its investments as well.

14: Does a captive pay income taxes?

Yes and no. A captive insurance company is required to file a federal income tax return but generally is not subject to state income taxes. The federal rules for taxing captive insurance programs are complex, and professional advice is often important for making appropriate tax elections.

15: Can a state guaranty fund assess captives who write business in their state?

No. Captives are exempt from state guaranty fund assessments.

16: What information is required to accompany the captive application?

The application must include the following:

- A completed signed application
- A business plan summary
- An actuarial feasibility study
- Articles, by-laws, participation or shareholders agreements
- Captive manager and other service provider agreements
- A description of the risk management program
- A description of the underwriting and claims administration process
- Five-year financial proformas showing expected and adverse scenarios
- Biographical affidavits for all officers, directors and key service providers
- A non-refundable application fee (\$500) and certificate of authority fee (\$300)



Who should I contact at DISB to talk about forming a captive?

Your first call should be directly to the Risk Finance Bureau of the Department of Insurance, Securities and Banking at 202.727.5074 to set up an initial meeting to discuss your captive program.

17: What are the common sources of formation capital?

Capital, either in the form of cash or an approved letter of credit, is often funded by the owner(s), but may also be obtained through assessments on the individual insureds.

18: Can I use a letter of credit to capitalize the captive?

Yes. The District's Captive Law allows for a letter of credit as evidence of the formation capital. A letter of credit can satisfy both the minimum capital and surplus requirements.

19: What fees are involved in setting up a captive in the District of Columbia?

A non-refundable fee of \$500 is required with the application and a licensing fee of \$300 will be assessed upon approval of the application. DISB will charge the applicant an additional fee (currently \$3,200) if it deems it necessary to send the feasibility study to an independent actuary for review.

The costs of professional services to complete the application, feasibility study and incorporate the entity can vary significantly based on the type of captive, the nature of the risks and the complexity of the program. In our experience, we have seen organizational costs range from \$50,000 to \$150,000.

20: What is underwriting?

Underwriting is the process of selecting and rating (i.e., pricing) the risks to insure.

21: What is reinsurance?

"Insuring the insurer." A form of insurance whereby one insurer agrees to indemnify another insurer for losses resulting from retained risks. Reinsurance is very common in captive programs and can take a variety of forms including:

- **Quota share reinsurance:** the captive and the reinsurer agree to split premiums and losses proportionally (e.g., 50/50 split); and
- **Excess of loss:** the reinsurer agrees to reimburse the captive for claims costs over a specified amount (e.g., individual claims over \$100,000).

22: What is the difference between gross written premium and net written premium?

Gross written premium represents the consideration charged to the insured. When the captive shares risk with a reinsurer, part of the gross premium is paid to the reinsurer. The remaining premium (i.e., gross less reinsurance premium) represents the net written premium.

What are the minimum capital and surplus requirements in Washington, DC?

The statutory minimum capital and surplus requirements are listed below. Additional capital may be required based on the volume and type of risk to be retained. An actuary or captive manager will be helpful in determining an appropriate level of capital to maintain.

Captive Form	Paid-In-Capital	Surplus	Total
Pure captive	\$100,000	\$150,000	\$250,000
Association captive–stock	\$100,000	\$300,000	\$400,000
Association captive–mutual	N/A	\$500,000	\$500,000
Agency or rental captive	\$100,000	\$300,000	\$400,000
Protected cells	Amount of capital and surplus to be determined by the Commissioner		

23: How should I decide what reinsurance programs are appropriate for my captive?

It is very important to consult someone experienced in forming captive programs to select an appropriate reinsurance program for your captive. Actuaries and captive managers may be valuable resources in designing the reinsurance program and contracting with reinsurers.

24: What are premium taxes?

Captive domiciles each charge a tax on the amount of premium written by the captive.

The District's tax rates can be found at www.disb.dc.gov.

25: How does a captive settle claims?

Claims against captive insurance policies are settled essentially in the same manner as commercial policies. Often, captive programs are structured so that the fronting carrier settles the claims. In other cases, the captive may settle claims directly or through use of service providers (i.e., insurance adjustment firms and attorneys).

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