Forming a Captive – Next Steps

AIG has in-depth knowledge of and practical experience with all the aspects of forming and managing captive insurance companies. Our team has expertise in assessing both the feasibility and the management implications of captives throughout the world.

What are the next steps once a company has decided to pursue forming a captive insurance company? The summary below will help provide guidance on the process and important considerations along the way.

Stage One: Initial Information Sharing and Discussion

The first step involves gathering pertinent information and sharing it with AIG’s Captive Management Services group. This information includes:

- Specific goals that the client wants to achieve as well as its objectives for forming a captive program, e.g., cost, coverage, insulation from market swings, risk control incentives, focal point for risk management activities, access to risk transfer capacity (reinsurance), control over claims handling, internal smoothing of deductibles, profit, etc.
- Information regarding client’s financial position, corporate structure and future strategy
- Description of current insurance program that may be assumed by the captive, e.g., insurance requirements of the client imposed by law and business needs, coverages, limits and retentions, insurers, premium volume and policy dates
- The client’s staff designated to work with AIG over the course of the project

Subsequently, an introductory call is scheduled to review the information at a high level, answer initial questions, and determine if there is interest in moving forward with an AIG captive arrangement.

After this initial call, the client may choose to proceed with an AIG captive management engagement letter, which for an agreed upon fee covers the items listed below in Stages Two and/or Three.

Stage Two: Feasibility Study

In this stage, AIG is engaged to provide consulting services with the goal of determining the optimal structure of a captive program. A number of factors will be taken into account, including loss experience, risk retention appetite, and regulatory considerations. Our service team will deliver an analysis encompassing a comprehensive summary report and recommendations for all aspects of a captive program including:

- Role of captives in today’s insurance market and the advantages and disadvantages of a captive
- Lines of business to be initially covered by the captive
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Underwriting considerations, including analysis of proposed attachment and limit points that determine the retained coverage assumed by the captive
- Actuarial review and loss pick
- Five year financial projections including balance sheets and income statements
- Taxation issues (in conjunction with the client’s tax advisors)
- Capitalization requirements
- Shareholding structure in co-operation with the client’s internal and outside counsel
- Domicile comparison with recommendation, including regulatory requirements
- Formation and operations outline of the captive insurance company

The feasibility study can take approximately 60 to 90 days, depending on the timing of or receipt of information, actuarial work involved, and overall complexity of the program. The fees charged for this study vary subject to data availability, complexity, and time incurred. In order for AIG to perform a captive feasibility study, clients and their brokers are required to provide additional information such as:

- Clarification of the client’s objectives and agreement on the project scope, including initial discussion of risk appetite
- Five years of premium and loss history, including detailed report of losses exceeding $50,000
- Values at risk/exposure bases by line (sums insured, payroll, sales, contract value, property values, etc.) for 5+ years
- Business growth forecasts (payroll, sales, property values, etc) for 5+ years projected
- Description of client’s operations and production, including most recent annual report

Portions of the feasibility study may be used to form the basis for the pre-incorporation documents submitted to the regulators, should the client move forward with the formation of a captive.

Stage Three: Final Program Structuring and Formation of the Captive

After the feasibility study is completed and a decision is made to move forward with the formation of a captive insurance company, the following steps remain before the captive is fully implemented.

- AIG, other service providers, and the client meet to finalize domicile choice and coordinate business plan and 5-year financial statements
- AIG and the client meet with the captive regulator to discuss the captive business plan and the client’s goals, and to obtain verbal approval to move forward with a captive application
- Service providers: attorney, auditor, actuary, banks, etc. are identified
- The attorney is authorized to begin bylaws, articles of Incorporation, and name reservation
- AIG’s Captive Management Services completes the captive application forms and the client provides final approval of documents
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- AIG submits the completed application and responds to regulator questions during the review process, ultimately leading to an insurance license being granted to the captive.
- A petition is made for the certificate of general good and the captive is incorporated.
- Discussions are held with regard to the accounting, reporting, and banking to align with the client’s needs.
- The captive is capitalized, licensed, and begins operations (AIG can assist with establishing bank accounts and ordering checks).

Captive regulators typically request 30 days to review the submitted application. Therefore, the full captive formation process may happen as quickly as 60 days, depending on the responsiveness of the parties involved.

Stage Four: Management of the Captive

AIG provides a complete range of captive management services with a unique understanding of each domicile’s regulatory requirements and local business practices. Our overall objective is to provide efficient, innovative, and professional service to our clients. Below are some of the typical services:

Regulatory and Corporate Administration
- Assist with revisions to business plan and obtain approval from regulators.
- Provide a physical and principal office located in domicile.
- Maintain both accounting and corporate records in your domicile office.
- Work with internal client staff as required (may include treasury, accounting, risk management, etc.).
- Work with the captive’s bank and investment firm.
- Coordinate legal counsel, auditors, and actuaries.
- Communicate with regulators and ensure compliance with domicile captive regulations.
- Coordinate and attend client visits and annual board of directors meetings.
- Communicate proposed changes to legislation and provide industry updates.

Financial Accounting and Reporting
- Prepare and maintain all detailed accounting records and related sources of documentation for the balance sheet, income statement, budgets, and related reports.
- Manage cash flow and reporting as well as implement investment policy.
- Prepare financial reports in a form required by the client and in accordance with domicile regulations.
- Coordinate and assist with annual audit and actuarial certification.
- Prepare and file annual statutory filing, premium tax return, and license renewal.

Underwriting and Claims
- Implement the underwriting policy of the captive including review of reinsurance arrangements and ensure compliance with business plan.
- Maintain contracts and renewals.
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- Review analysis of funds held by ceding insurer and report to management
- Correspond with ceding carrier and follow up on cash flow and contract issues
- Maintain and review trust agreement or obtain copies of letters of credit
- Report and track claims by year by line of cover and ensure compliance with reinsurance treaty or policy

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