

CAPTIVE INSURANCE COMPANY BUSINESS PLAN

A. PURPOSE

Discuss the rationale for forming the captive insurance company (“Captive”) including information as follows:

- Generally, describe the parent company/policyholder’s business operations and exposures to loss.
- How are business operations currently insured?
- Changes in parent company/policyholder’s business operations and/or market circumstances that required revisions to the existing insurance risk financing; i.e., why is the captive being formed?
- Are insurance risk financing alternatives available?
- How will captive insurance risk financing benefit the parent company/policyholders?

B. CAPTIVE INSURANCE COMPANY OPERATIONS

Describe the proposed captive insurance operations including:

- Type of captive and basis for classification.
- Effective date; coverage and coverage limits; direct write or reinsure lines of coverage; how terms and conditions will be coordinated to manage concurrency issues, if any.
- Lines of business/coverage to be insured, entities to be insured and form of risk transfer.
- Parties involved in the risk transfer transaction(s) (i.e., fronting, excess, or reinsurance companies and counterparties, if capital markets are utilized); structure of all related transactions.
- Expected gross written premiums, overall operating ratio and underwriting ratios (i.e., expense ratio; incurred loss ratio; combined ratio; solvency ratio).
- Parent Company/Policyholder(s) ownership of captive insurance company, expectations of operating results and expected benefits.

Management Team – List Captive officers and management staff and describe their responsibilities.

Board of Directors – List Parent Company/Policyholder(s) and Captive directors.

Captive Manager - Define role and responsibilities relative to parent company management.

Service Providers – Identify individuals and/or firms that will provide services to support the Captive’s operations and describe the services that will be provided.

Organization Chart – Diagram the Captive’s position relative to the parent company and within the overall organization or group. Include information about responsibilities of the Parent Company/Policyholder(s) Board of Directors, subcommittees, and the relationship between captive insurance company management, the captive manager, and the insured parties.

C. MARKET ANALYSIS

Describe the market alternatives, if any that could provide the insurance risk transfer capabilities needed and the financial and/or coverage conditions that support using the Captive.

Discuss changes in business market or broader economic conditions that might change the Captive’s ability to provide risk transfer for the parent/policyholders and any legal or legislative changes that could adversely affect long-term parent company/policyholder’s expectations of results.

D. RISK ASSUMPTION/RISK TRANSFER

Reference the proforma financial projections and feasibility analysis in response to the following:

- Define the type(s) of risk(s) and limits of liability that will be assumed by the Captive and the evidence of coverage to be received by the parent/policyholder.
- Describe the transaction flow (provide a diagram) and how results will be monitored.
- Provide information about reinsurance ceded and/or assumed by the Captive.
- Outline risk management program(s), if any, and describe how it will mitigate exposures to loss and how results will be monitored by management.
- Captive maximum retained risk (per loss occurrence and annual aggregate).

E. FEASIBILITY STUDY

In addition to the detailed study, provide an opinion on points as follows:

- Compare the applicant's business operations results with similar business operations based on exposures to loss, claims expenses, loss payments, and premiums charged over a 5-year time period.
- Suitability of the proposed captive insurance structure for the coverage(s) to be provided.
- Quantify the financial impact of the business operations' claims and loss payment experience and project the likely result of similar experience going forward under favorable (Expected Scenario) and unfavorable (Adverse Scenario) conditions.

F. FINANCIAL PROJECTIONS

- Provide GAAP five-year pro forma financial projections.
- Describe the total amount and source of initial capitalization and specify the type of asset(s).
- Describe treatment of policyholder dividends and all tax obligations.
- Provide a summary of the actuarial analysis and opinion that support the risk assumptions and pro forma financial projections; attach analysis and opinion to the Business Plan as an exhibit.

G. ADDITIONAL INFORMATION AND SUPPORTING DATA

- Service provider agreements should be submitted for review
- Provide any additional information that clarifies ownership, source of funding, and direct and/or counterparty interests in the captive risk financing transaction.