



## 2017 Kentucky Captive Conference

# Market & Domicile Update





# Kentucky DOI

## Administration Appointments:

New Commissioner—Nancy Atkins

New Deputy Commrs —Patrick O'Connor  
Tony Butcher

Director of Financial Division—Sandra Batts

General Counsel—Michael Wilson



# Captive Insurance Industry at a Glance

- 616 new captives formed last year (78% U.S.)
- As of year-end 2016, 6,618 captives globally  
This doesn't include estimated 2,000+ cells/SBUs
- Approx. \$65 billion premium (down slightly)
- Largest Domiciles
  - Bermuda 776 (down by over 20 companies)
  - Caymans 711



# Top U.S. Domiciles

(by number of actively writing companies)

- Vermont 593
- Utah 462 (+22 last year)
- Delaware 385 (+62 last year)
- Hawaii 207
- North Carolina 190 (+96 last year)
- Nevada 207
- Montana 184
- South Carolina 164
- Tennessee 160 (+33 last year)
- Kentucky 84



# Kentucky year-end stats

- Kentucky had 2 new formations during 2016.
- We had 9 dissolutions.
- Net captives currently include 84 licensed and actively writing.
- This includes: 73 pure, 8 group/association, and 3 RRGs. Kentucky does not currently license cells or series SBUs (by choice).
- Aggregate premium is approximately \$96 million (down from \$105).
- Total assets under management equal approximately \$128 million.



# Slow Growth 2016

- Slow year for captive growth in most domiciles (2-5 new per domicile).
- PATH Act amendments and increased IRS scrutiny (especially the Notice 2016-66 reporting requirements) had a chilling effect on the licensing of new companies.
- Prospects took a “wait and see” attitude. Also, many are waiting to see the outcome of Avrahami, Wilson, and other pending IRS cases before the U.S. Tax Court.
- We had a number of companies making ownership changes and other adjustments to comply with the PATH Act restrictions.



# Expanding Coverages

- Self-insured Medical Stop-Loss (non-ERISA – non-health employees) (14% increase in 2016)
- Business Interruption/Supply Chain (7% increase in 2016)
- Terrorism/TRIA (multi-peril & domestic) (4% increase in 2016)
- Environmental Liability & Clean-up (3% increase in 2016)
- Transport & Auto Fleet Liability (Large Deductible & Umbrella/Excess) (2% increase in 2016)
- Shipping and Inland Marine (2% increase 2016)



# Emerging Risks

- Cyber Liability
  - fastest growing non-traditional risk
  - up 210% in captive programs since 2012- Marsh
  - Most allow for higher deductibles and retentions
  - Most coordinated with corp IT security and privacy investments
- Private flood, tornado, and wild fire-including:
  - Business Interruption
  - Evacuation & Disaster response cost reimbursement
  - Exempted/replacement cost (phone equipment & IT hardware, and machinery)
- Political Risk and Kidnap & Ransom (for international companies)





# 5 Yr Examination Costs

- The Department streamlined exam procedures in 2010 to be captive specific and risk-focused
- Our examination costs have been in line with the lowest 50% among reporting U.S. domiciles with a typical range of \$6,500 to \$14,500
- Exam Costs are extremely dependent on good record keeping and quality of audit workpapers
- Other factors:
  - Size & Complexity of captive
  - Lines of Business (W.C., Med-mal, warranty, & surety)
  - Reinsurance arrangements (complexity & execution)
  - Non-brokered investments (real estate, loans, P.E.)
  - Restructuring, Ownership changes, & Form D compl.



# What Kentucky has to Offer

- --Captive Law that is up to date and well crafted
- --Regulator that is firm, but flexible
- --Service Providers who are knowledgeable and experienced
- --Owners who are engaged and satisfied
- --Association that is vocal and active
- --Legislature and Administration that is informed and supportive

Values/Goals Kentucky is promoting:

- --Long-term Stability
- --Reliability
- --Responsiveness
- --Convenience & Value



# Questions & Answers

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