

MCIA Spring Seminar

Montana Captive Insurance Program 2009 Year in Review

Red Lion Helena, MT

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Subjects

- What's New
- White Paper on Protected Cells
- 2009 Year-end Statistics
- Examinations – 2009 & 2010
- Captive Applications
- Dissolutions
- 2010 Focus

What's New

- New Employee – approved in 2009 Legislative Session.

Protected Cells

- Currently there are two captives licensed as Protected Cell Captive Insurers.
- 2009 saw more interest than ever before, as the Department had several inquiries about cell captives.
- Moulton Bellingham Law Firm prepared a White Paper in 2009 to discuss the business and legal issues involved.

Protected Cell Captives

- Issues & Questions

- Incorporated Cells...
- Can the front contract directly with cells?
- When is the Core's capital at risk?
- Can there be reinsurance agreements between cells?
- Captive Industry needs to decide what changes, if any, need to be made to Protected Cell statutes.

2009 Year End Numbers

- **16 New Captives in 2009**

- 9 Pure Captives

- 4 Reinsurance Captives

- 2 RRGs (one was a redomestication)

- National Contractors Ins Co RRG

- CrossFit Risk Retention Group

- 1 Protected Cell Captive

- **4 Dissolutions in 2009**

- 3 Pure Captives

- 1 RRG

Redomestications

- Double-edged Sword
 - Acceptable under the right circumstances.
 - Reputation risk considerations.

Dissolutions

- **4 Dissolutions in 2009**
 - 2 Merged with another Montana captive
 - 2 Voluntarily dissolved / business reasons
- **U.S. Fidelis RRG Dissolution in 2010**

2009 Year End Numbers (cont)

- 2009 Year End Totals by Company Type

26 Pure Captives

12 RRGs

4 Reinsurance Captives

2 Protected Cell Captives

2 Association Reciprocal Captives

1 Association Stock Captive

47 Total Captives

2009 Year End Numbers (cont)

- **Gross Premiums written by Montana Captives:**

2007	\$ 37,877,161
2008	\$ 65,123,909*
2009	\$ 74,863,332*

* Does not include assumed reinsurance premiums of \$11.6M in 2008 and \$27.3M in 2009.

- **Premium Tax:**

2007	\$ 226,168
2008	\$ 339,585
2009	\$ 420,070

- **Captive Regulatory & Supervision Account:**

2007	\$ 19,408
2008	\$ 26,879
2009	\$ 34,504

RRG Premium & Loss Data

	<u>2009</u>	<u>2008</u>	<u>2009</u> <u>Ind Avg</u>
Net Premiums Earned	\$33.7M	\$32.1M	-
Losses Incurred	\$27.3M	\$16.8M	-
Average Loss Ratio	81%	52%	72.4%
Average Expense Ratio	19%	13%	27.6%
Average Combined Ratio	100%	65%	100.0%
Avg. Prem*-to-Surplus Ratio	68%	86%	78.5%

* Net premiums written

RRG Highs and Lows

	2009		2008	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
Loss Ratio	90%	45%	160%	45%
Expense Ratio	69%	8%	64%	7%
Combined Ratio	138%	66%	179%	57%

Note: Negative ratios were omitted.

Non-RRG Premium & Loss Data

	2009	2008
Premiums Earned	\$ 46.1M	\$ 30.0M
Losses Incurred	\$ 22.7M	\$ 13.2M
Average Loss Ratio	49%	44%
Average Expense Ratio	17%	17%
Average Combined Ratio	66%	61%
Avg. Prem*-to-Surplus Ratio	37%	36%

* Net premiums written

Examinations

- Examinations Completed in 2009
 - 2 RRGs
 - 1 Protected Cell Captive
- Examinations Scheduled for 2010
 - 4 RRGs
 - 3 Pure Captives
 - 1 Association Reciprocal Captive

Captive Applications

- For Captive Applications in 2009, what types of business plans did we see on successful applications?
 - 7 off-shore captives redomesticated to Montana.
 - 4 captive reinsurance companies.
 - 3 pure captives insuring/reinsuring affiliated risks.
 - 1 RRG redomesticated from D.C. writing contractor liability.
 - 1 start-up RRG writing athletic trainer liability.

Captive Applications (cont)

- What issues did we see that caused unsuccessful applications?
 - Inability to raise minimum capital.
 - On a potential RRG redomestication, we saw unfavorable financial results (exceptionally high expense ratio and unprofitable operations).
 - On a proposed start-up RRG, there was an aspect of the insurance product that was not deemed to be liability insurance by the Department.
 - On a potential RRG redomestication, the coverage was related to vehicle service contracts.

Captive Applications (cont)

- Application Review Timeframes in 2009
 - RRGs – Averaged 7 weeks from receipt to licensure.
 - Non-RRGs – Took 2-4 weeks.
- Applications Pending
 - RRGs – four applications currently active.

Captive 2010 Focus

- Continue responsive and responsible regulation.
- Timely and professional examinations (meeting accreditation standards).
- Promote Montana.
- Seek opportunities to learn.
- Prepare for the 2011 Legislative Session.

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