

Montana Captive Insurance Program

Montana State Auditor
Office of the Commissioner of Securities and Insurance (CSI)

July 15, 2020
MCIA's 15th Annual Conference

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Topics

- About the Montana State Auditor
- 2019 Year-end Statistics
- 2020 Activity
- Examinations – 2020 & 2021
- Legislative Changes
- Positioning for the Future
- Questions

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- 2021 Captive Conference: Whitefish, MT



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About the Montana State Auditor

- Matthew M. Rosendale, Sr., Commissioner of Securities and Insurance, Office of the Montana State Auditor
- www.csimt.gov
- 406-444-2040 / 1-800-332-6148



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Commissioner of Securities and Insurance (CSI)

- The CSI is a criminal justice agency charged with regulating two of the largest industries in Montana.
- Revenue from insurance and securities taxes and fees makes the CSI the third largest contributor to the state's general fund.
- By law, the Auditor is Montana's Commissioner of Securities and Insurance (CSI).
- The Montana State Auditor does not audit the state.

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CSI Highlights for 2019

- In 2019, the CSI collected \$92 million in premium taxes and other revenue to the state General Fund.
- Captives contributed \$1,490,503 to this total.
- Legal Bureau closed 207 cases resulting in \$975,000 in fines and over \$660,000 in ordered restitution.
- Securities Bureau referred 6 criminal matters and 13 administrative matters resulting in over \$1.7 million in ordered restitution and \$315,000 in fines.

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- Flathead River in Glacier National Park



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CSI Highlights for 2019

- Policyholder Services Bureau handled 1,021 complaints and recovered more than \$5.0 million for Montana consumers.
- Licensing Bureau handled insurance licensing and renewal transactions for over 125,589 active licensees.
- Forms Bureau reviewed over 65,812 forms with an average turn around time of 3 days.
- Rates Bureau reviewed more than 4,067 rate filings and saved \$9.0 million in rate increases for 31,000 Montanans.

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Exams Bureau

- Ensures that insurance companies authorized to operate in Montana possess the financial capacity to pay claims.
- Claims paying ability is monitored through financial analysis and on-site examinations.
- Assists consumers by providing financial information on insurance companies.
- Licenses insurance companies, Captives, third party administrators, premium finance companies, medical care discount card companies, and other insurance related entities.

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Montana's NAIC Accreditation (June 2019)

- In 2019, Montana DOI maintained its accreditation with the NAIC.
- Every fifth year the NAIC accreditation team visits our offices to interview analysts/examiners and to review our work.

FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM				
Accredited US Jurisdictions				
Alabama	Florida	Michigan	North Carolina	Texas
Alaska	Idaho	Minnesota	North Dakota	Utah
Arizona	Illinois	Mississippi	Ohio	Vermont
Arkansas	Indiana	Missouri	Oklahoma	Virginia
California	Iowa	Montana	Oregon	Washington
Colorado	Kansas	Nebraska	Pennsylvania	West Virginia

Montana

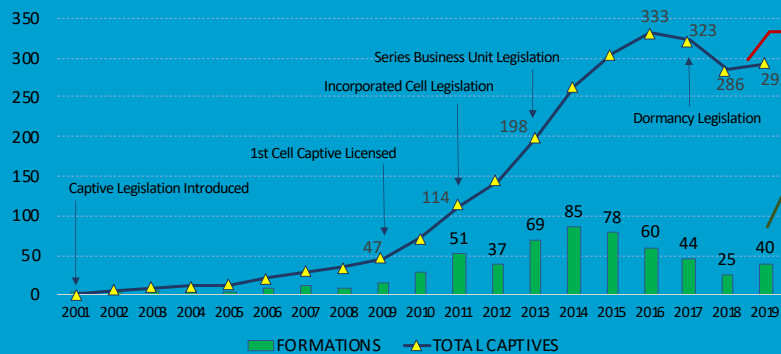
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2019 Year-End Captive Numbers

- 40 New Formations and 292 Active Licenses



Cells/SBU Surrender	(17)
Stand-Alone Surrender	(17)
Total Surrenders	(34)

Cells/SBU Formations	26
Stand-Alone Formations	14
Total Formations	40

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Places to Visit

- Yellowstone River & Yellowstone National Park



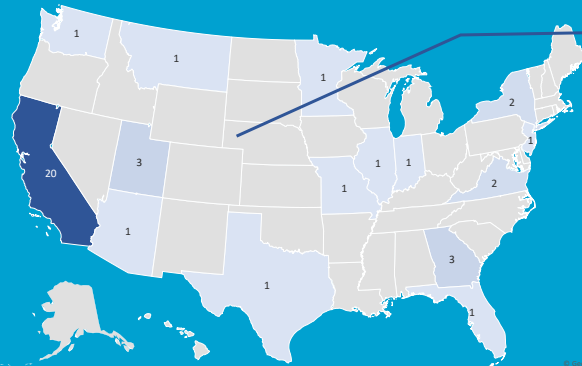
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2019 Year-End Captive Numbers

- 40 New Formations – Parent/Sponsor States



Western U.S.	26
Central U.S.	5
Eastern U.S.	9
Total	40

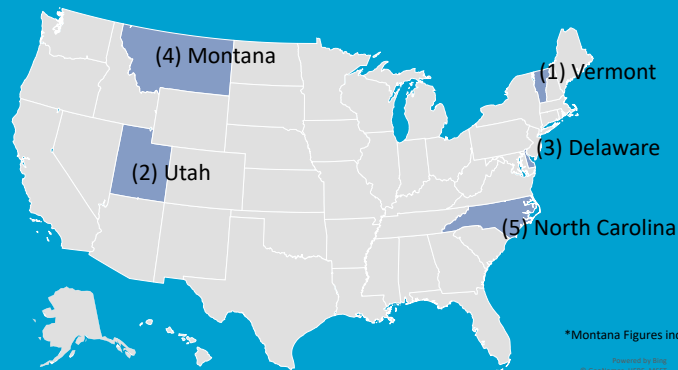
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2019 Year-End Captive Numbers

- Top 5 Largest Captive Domiciles by Total Number of Captives



*Montana Figures include protected cell and series business unit captives.

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2019 Year-End Captive Numbers

YEAR	FORMATIONS	SURRENDERED	ACTIVE LICENSED	PREM. TAX	DIR. WRIT. PREM.	ASSUMED REINSURANCE
2001	1	0	1	-	-	-
2002	4	0	5	20,037	8,750,200	N/R
2003	4	0	9	51,713	6,419,100	N/R
2004	5	3	11	72,569	7,690,736	N/R
2005	3	1	13	86,696	14,759,504	N/R
2006	8	0	21	161,994	31,580,902	N/R
2007	10	1	30	226,168	37,877,161	N/R
2008	8	3	35	339,585	65,123,909	N/R
2009	16	4	47	420,070	74,863,332	N/R
2010	29	5	71	619,539	88,724,747	N/R
2011	51	8	114	804,583	120,274,295	N/R
2012	37	7	144	1,034,625	165,605,660	N/R
2013	69	15	198	1,385,155	196,833,421	N/R
2014	86	18	266	1,546,674	227,206,651	627,566,378
2015	78	38	306	1,689,834	245,096,707	848,712,019
2016	60	33	333	1,709,617	246,394,168	879,391,814
2017	44	54	323	1,697,552	229,896,606	998,007,303
2018	25	62	286	1,369,835	203,398,282	1,003,275,791
2019	40	34	292	1,416,035	218,503,586	1,017,225,645
TOTAL	577	285	292	14,652,281	2,188,998,967	5,347,178,950

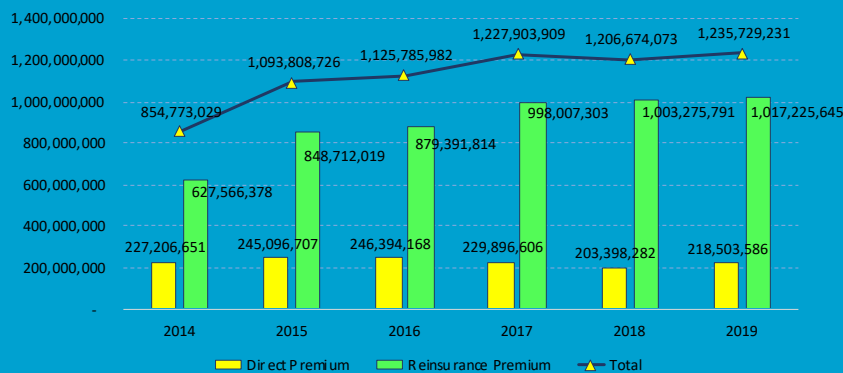
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2019 Year-End Captive Numbers

- \$218 Million Direct Premium / \$1.02 Billion Assumed Reinsurance



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Questions

- Questions and Answers



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2019 Year-End Captive Numbers

- Premium Tax and Supervisory Account Numbers

	2014	2015	2016	2017	2018	2019
Direct Premium	227,206,651	245,096,707	246,394,168	229,896,606	203,398,282	218,503,586
Reinsurance Premium	627,566,378	848,712,019	879,391,814	998,007,303	1,003,275,791	1,017,225,645
Total Premium	854,773,029	1,093,808,726	1,125,785,982	1,227,903,909	1,206,674,073	1,235,729,231
Premium Tax	1,546,674	1,689,834	1,709,617	1,697,552	1,369,835	1,416,035
Captive Regulatory Account	126,872	139,992	139,781	138,088	108,692	111,002

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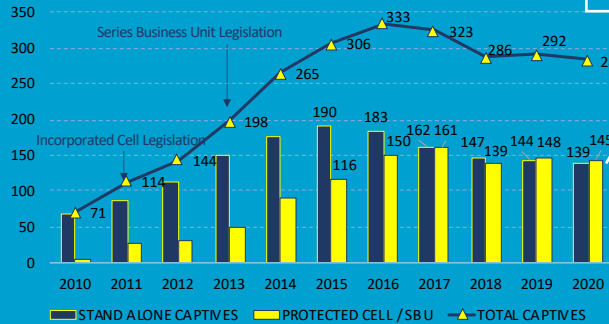
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2020 Captive Activity

• 2020 Formations/Dormancies/Surrenders

- 8 New Formations
 - 3 Stand Alone
 - 5 Protected Cell/SBU
- Dormant Captives
 - 8 Captives
- Surrendered License
 - 8 Protected Cell/SBU
 - 8 Stand Alone Captives



Protected cell/SBU captives are more prevalent than stand alone captives.

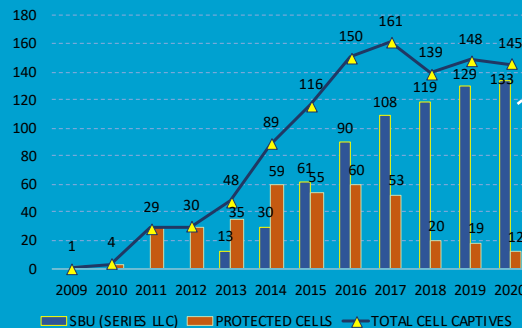
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2020 Captive Activity

• 2020 Formations/Dormancies/Surrenders

- Series LLC/SBU Captives:
 - SBUs may write direct or reinsure
 - SBUs may register separately (not required)
 - Capitalization
 - Core: \$50,000
 - SBU: (4:1) Premium to Capital
- Protected-Cell Captives:
 - Fronted business only
 - Separately incorporated cells
 - Capitalization
 - Core: \$250,000
 - Cell: (4:1) Premium to Capital



SBUs outnumber protected cells almost 10:1

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Risk Pooling / Reinsurance Facilities

- Separate-entity pool vs. contractual pool
- Transparent facilities
- Clearly defined metrics for claims settlement and reserve setting
- Conservative investment parameters
- Performance reporting
- Monthly/quarterly cession statements to reinsurer participants

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RRGs by Class of Business

- Montana’s 8 active RRGs write the following policies:
 - Professional liability insurance for physicians . . . 4
 - Professional liability insurance for contractors . . . 1
 - Professional liability ins. for fitness programs 1
 - Commercial trucking liability insurance 2
- 1 additional RRG is currently in liquidation

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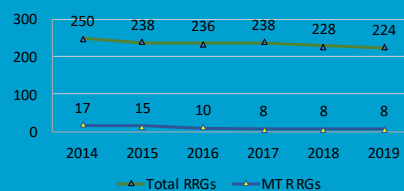
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RRG Figures by Year End

- Montana’s RRG total has declined since 2014

	2014	2015	2016	2017	2018	2019
Total RRGs in the US	250	238	236	238	228	224
Montana’s RRGs	17	15	10	8	8	8
Market Share	6.80%	6.30%	4.24%	3.36%	3.51%	3.57%



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MT Domiciled RRG Premiums by State

State	2019 Written Premium
California	\$ 15,941,348
Washington	\$ 10,920,842
Texas	\$ 9,003,989
Colorado	\$ 8,802,807
Florida	\$ 6,052,004
New Mexico	\$ 5,045,462
Kentucky	\$ 4,349,412
Arizona	\$ 4,180,198
New York	\$ 3,937,332
Oklahoma	\$ 3,653,759
Other	\$ 13,350,322

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Montana's RRG Performance

RRG	Gross Written Premium	Net Income	Surplus 2019 YE
American Trucking & Transportation	\$ 23,228,280	\$ (634,542)	\$ 8,503,335
CrossFit RRG	3,666,947	(705,605)	2,650,929
MD RRG	5,834,507	2,581,470	20,146,328
Mountain States Healthcare	-	(124,234)	18,975,605
National Transportation RRG	13,597,031	(35,169)	6,427,551
Preferred Contractors RRG	34,480,424	(5,180,742)	8,623,389
Professionals RRG	2,660,197	(25,070)	1,346,975
Select MD RRG	1,480,239	1,530	916,860
	\$ 84,947,625	\$ (4,122,362)	\$ 67,590,972

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Examinations

- Examinations in 2019
 - 10 Pure Captives
 - 1 RRG
- Examinations Scheduled for 2020
 - 24 Pure Captives
 - 2 RRGs

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Examinations

- Pure Captives: Streamlined and cost efficient (~\$2,500).
 - Examination conducted by Department staff.
 - Ten examinations conducted in 2019.
- RRGs: NAIC Risk Focused Exams.
 - In 2019, one exam was conducted by CSI staff.
 - In 2020, two exams being conducted by contract examiners.

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Requirements for Dormancy

- To Apply for a Certificate of Dormancy
 - Submit cover letter requesting dormancy status.
 - Submit current financial statements reflecting no insurance activity and no loss reserves.
 - Return original Certificate of Authority in exchange for Certificate of Dormancy.
- During Dormancy
 - Possess capital and surplus of at least \$25,000.
 - Submit annual financial statements 90 days after year-end.
 - Pay \$1,000 annual dormancy tax.
 - Captive in dormant status is not subject to examination.
 - Certificate of Dormancy expires after 5 consecutive years.
 - Certificate of Dormancy is not subject to renewal after five years.
 - CPA audit not required during dormancy.

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- 110 years of insurance regulatory experience



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Positioning for the Future

- Strengths:
 - Leadership at CSI
 - Legislative Support
 - Laws
 - Regulatory Staff
 - MCIA

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