

Onshore Captives: A Captivating Idea

*Southeastern Actuaries
Conference*

Spring Meeting

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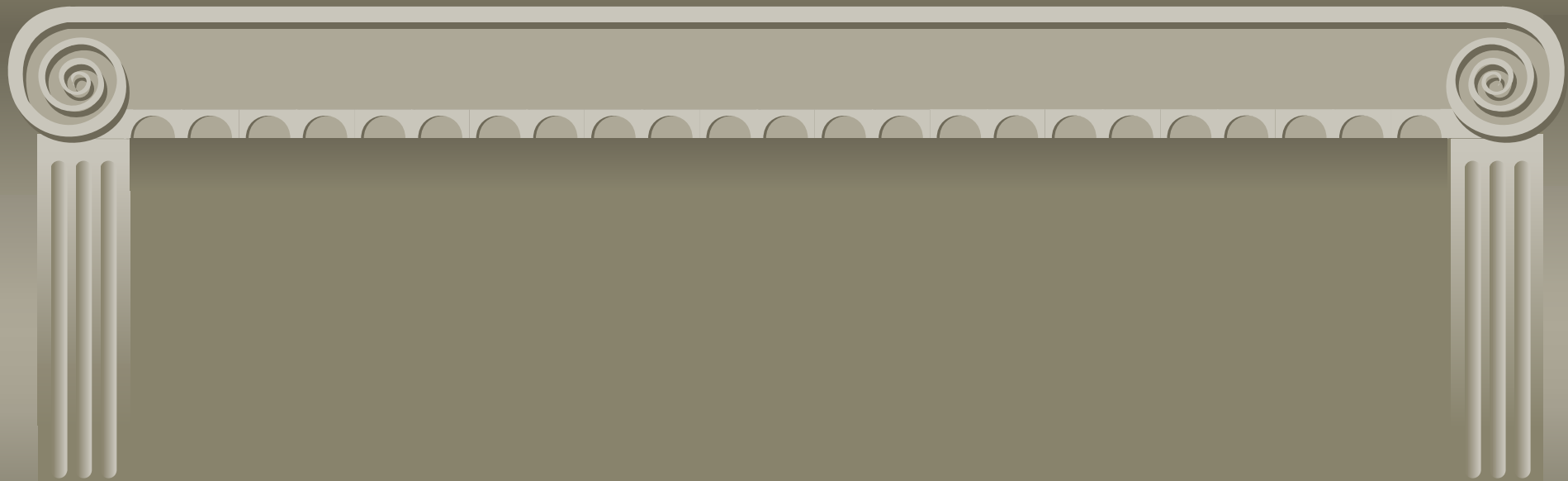
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Presented by

Clayton Ingram

Manager of Business Development

South Carolina Department of Insurance



South Carolina Insurance Initiatives

Genesis:

- ◆ 1997-The Private Passenger Automobile Insurance Crisis.
- ◆ The state of the market in SC
- ◆ The Department Responds
- ◆ Resistance
- ◆ Success!

What is the Alternative Market?

- ◆ Self Insurance
- ◆ Captive Insurance
- ◆ Derivatives
- ◆ Securitization
- ◆ Structured Insurance Contracts

Why is SC interested in the Alternative Market?

- ◆ The alternative market, particularly Captive Insurance, is regulator driven

The Regulatory Spectrum



“Pre-approval”

Costly

Obtrusive

bureaucratic

Management and
Financial
Regulation

Business is
determined by
market

The Core Philosophy

- ◆ Markets are the best regulators
- ◆ Competition provides choices
- ◆ Captives and other alternative markets are another choice

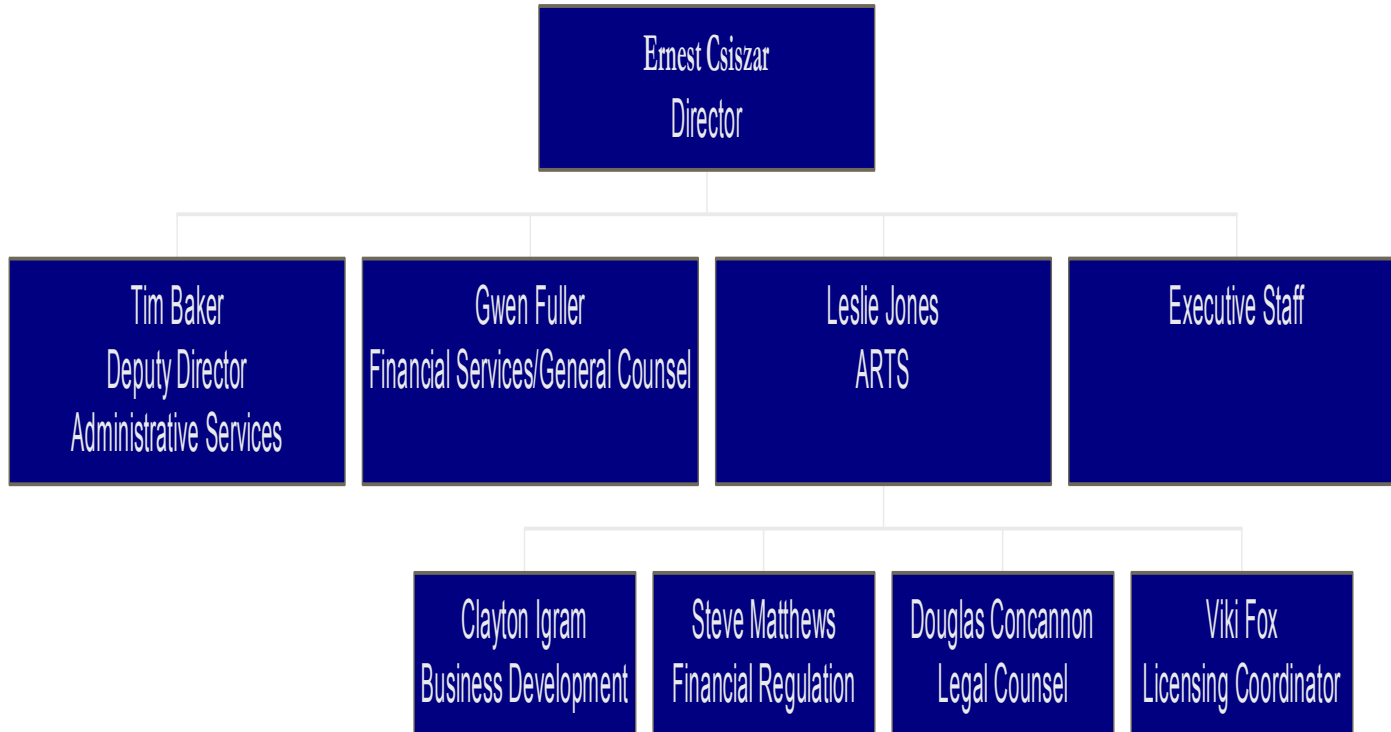
Where SC Stands

- ◆ Constantly evaluate areas where we are over-regulating and deregulate where appropriate
- ◆ Evaluate areas in which we may be under-regulating and shift resources appropriately
- ◆ Regulate the essentials-then apply conditions as each case dictates.

1999-2000 Initiatives

- ◆ Deregulation of Commercial Lines
- ◆ Captives
- ◆ Protected Cells/Securitization
- ◆ Extended Service Contracts

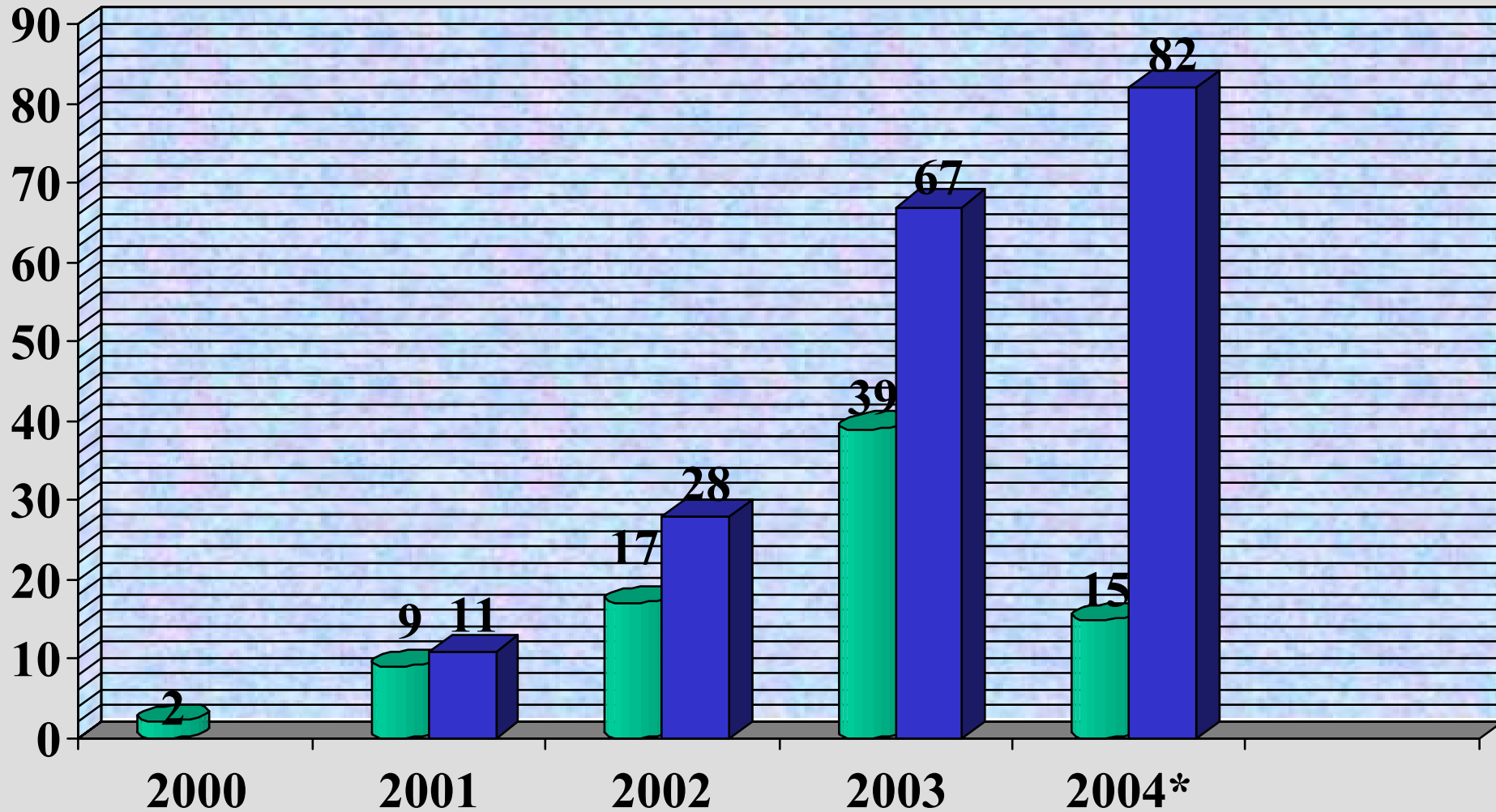
Organizational Chart



- ARTS separated from traditional regulatory thought
- Direct access to the Director

Captive Growth 2000-Present*

*Thus Far



Unique SC Structures

- **Reinsurance Captives** – Used by large reinsurance companies to access favorable statutory treatment in SC. Highest capitalization standards in the world.
- **Special Purpose Captive Companies** –(2002)-Used for cases that fit into the captive structure but do not approximate any of the other know captive definitions. Capital, surplus and business plan are approved on a case by case basis by the director.
- **Special Purpose Financial Captives**-(2004) To facilitate securitizations.

Domicile Selection

Decision Steps in Order of Importance

- ◆ Tax
- ◆ Regulatory
- ◆ Proximity/client preference
- ◆ Infrastructure
- ◆ Costs

- **South Carolina has now issued 82 captive licenses,**
- **attracted eight captive management companies,**
- **has four legal group with an alternative market specialty.**
- **By end of year 2004 we expect 100+ active companies**
- **Securitization remains a hot topic –One fully executed--5 pending.**

2001 Initiatives

- ◆ Strengthen the Protected Cell/Sponsored Captive position-including discounting
- ◆ Add Reinsurance Captives-allowing discounting

2002 Initiatives

- ◆ Added Special Purpose Captives
- ◆ File and Use for Commercial Lines
- ◆ SPRVs
- ◆ Established a special development fund for alternative market initiatives
- ◆ Legislature also set a moratorium on mandates of health insurance coverage

2003 Initiatives

- ◆ Allowed captives to form as LLCs
- ◆ Capped premium taxes at \$100,000
- ◆ Added new fees

New initiatives for 2004

- ◆ Securitization-SPFCs
- ◆ Refinement to Sponsored Captive/Protected Cell Uses-capital and surplus
- ◆ Limited, direct-write workers comp.
- ◆ Redomestication simplification
- ◆ Additional language for non-profit captives

What's Next?

- ◆ File and Use across all lines?
- ◆ Alternative tax scenarios?
- ◆ Expanded use of Captive vehicles?
- ◆ Expand the ability to discount reserves, where appropriate, especially for direct writers.
- ◆ The marriage of Security/Banking with Life products (asset back securities)?
- ◆ CAT bonds and tax free accumulation?

THE END

Thank you