

New Zealand Captive Insurance Association

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New Zealand Captive Insurance Industry International

Purpose of this paper

The purposes of this information paper are to set out the:

1. Economic advantages of the captive insurance industry to the economy of New Zealand
2. New Zealand Captive Insurance Association (NZCIA) view on proposed insurance regulation.

1. Definition

A Captive Insurance Company is a wholly owned insurance subsidiary of a company, whose primary function is to insure the risks of its parent, subsidiaries and affiliates.

2. Types of Captives

Captive insurance companies may be:

- a) a single parent captive, designed primarily to insure or reinsure the risks of the corporate family
- b) group captives, owned by one or more organisations (usually a business association) designed primarily to insure the risks of its members

3. Benefits of Captive Insurance Companies

Captive insurance companies:

- a) reduce the cost of insurance for their parents
- b) provide coverage for risks that are otherwise difficult to place
- c) allow reserving for future liabilities
- d) have access to foreign reinsurance markets
- e) have a formalised approach to risk management.

4. Captive Domiciles

Internationally, some 4500 Captives incorporated in the following domiciles:

Domicile	2008 Captive Number
Bermuda	958
Cayman Island	765
Vermont	567
British Virgin Islands	409
Guernsey	368
Luxembourg	262
Barbados	256
Ireland	254
Hawaii	163
South Carolina	158

The following table indicates NZCIA has been successful in promoting New Zealand as a captive domicile with New Zealand experiencing the largest growth of any Captive domicile in the region.

NZCIA believes the current economic climate will result in increased demand for captive insurance companies and that New Zealand is and can be a successful player in this industry.

Southern Hemisphere Domicile	2008 Captive Number	2002 Captive Number
Singapore	61	59
Labuan	32	20
New Zealand	22	2
Vanuatu	25	24

5. Economic Benefits

Every Captive insurance company that is formed in New Zealand under our current legislation must:

- a) appoint professional advisers domiciled in New Zealand
- b) invest capital in New Zealand banks
- c) conduct executive and board meetings in New Zealand.

Captive insurance companies employ auditors, captive managers, lawyers, bankers, investment advisers, insurance policy experts, reinsurance consultants and brokers. These professionals live and work in New Zealand, helping to build a professional service industry and paying local taxes.

At 31st December 2007, the New Zealand captive insurance industry produced the following results:

Gross premiums written by captives	\$77.6 million
Assets under management in New Zealand	\$137.3 million
Capital and surplus	\$91.0 million
Income Taxes paid to the New Zealand Government	\$7.1 million

These figures do not include the economic value of the fees generated by professionals in New Zealand to manage these captives. NZCIA believes New Zealand could become a leading captive domicile in the Pacific, generating economic benefit in excess of \$50 million within the next 10 years.

6. Domicile Comparisons

Irish Government statistics on the benefit of the economic benefits of captive insurance companies to the Irish economy include:

- a) each captive produces an estimated \$160,000 in professional fees and \$330,000 in income taxation
- b) economic benefit of \$88 million
- c) \$50 million per annum in Government taxation revenue

The State of Hawaii passed captive insurance company legislation in 1989; by 2007 it had 164 captives. The State of Hawaii values each captive at an estimated \$125,000 with:

- a) economic spend of US\$16.75 million
- b) economic benefit to the State of US\$51.25 million.

The State of Hawaii does not generate any tax income from captives.

7. Captive Regulation

NZCIA is in favour of regulation for captive insurance companies. The success of the captives' domiciles listed above is based on good, secure insurance regulation which recognises that by their very nature captives have a very limited risk profile. NZCIA understands the Government (primarily Reserve Bank officials) is preparing an exposure draft of proposed legislation setting out a revised regulatory regime (probably to be tabled in early April). NZCIA believes this is an excellent time to revise captive insurance company legislation in New Zealand to national and captive owner advantage.

The Association has been told by the Reserve Bank that New Zealand-incorporated, foreign-owned captives will not be allowed to be domiciled in New Zealand; only captives owned by New Zealand organisations will be allowed to be domiciled here. We believe this is a mistake, given the benefits of a well-regulated captive insurance industry to New Zealand, especially in the current economic climate. Currently most insurance companies incorporated in New Zealand have foreign ownership (Australian).

NZCIA is comfortable with the rest of the proposed legislation as it would apply to captives.

We encourage the Minister to:

- a) allow pure (single parent) captive insurance companies to be formed in New Zealand under the new proposed legislation.
- b) allow foreign corporate companies to incorporate captive insurance companies in New Zealand.

The Association knows of, in the year 2008, a number of captive insurance companies that would have selected to have domiciled in New Zealand but chose Singapore due to the anticipated statutory direction prohibiting foreign owned captives from incorporating here to do business.

8. Captive Regulations

The Association has provided the Reserve Bank with suggestions on the proposed legislative prudential regulations of Captive Insurers.