

## 1. Introduction on captive insurance companies by IAIS (summary)

1. This paper is intended to act as a source of reference for supervisors on the nature of captive insurance and to increase the understanding of both its role and its relationship to traditional insurance and reinsurance markets. The paper will also cover some of the economic aspects of captive insurance.

2. In most cases a captive insurer's owner and ultimate insureds are one and the same, which results in captives being fundamentally different from commercial insurance companies. A key principle of regulation, the protection of the policyholder, may be of less importance when the insured is the owner of the company. The regulation of captives may take account of the ownership relationship when reviewing the required level of regulatory protection.

3. In the last 25 years growth in captive insurance companies has been substantial, rising from over 1,000 in 1980 to over 5,000 at the end of 2005. They are estimated to account for approximately 10% of the world's commercial insurance premiums.<sup>1</sup> With approximately 30% of captives domiciled in the US, net premiums written by these US domiciled captives alone amounted to over \$9bn in 2004.<sup>2</sup> (See also Appendix 5.)

4. As discussed in Appendix 1, there are many potential definitions of a captive. Largely following the definition included in the IAIS Enhanced Disclosure Standard a captive can be described as "an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties."<sup>3</sup>

5. The IAIS Insurance Core Principles (ICPs) cover a number of aspects of insurance regulation and supervision including conditions for effective insurance supervision, the supervisory system itself, the methodology used to carry out supervision, prudential requirements for insurers, market and consumer aspects and anti-money laundering (AML). The ICPs recognise that certain types of insurance entities, such as captives, reinsurers or intermediaries, differ in many aspects from commercial insurance companies.

6. When applying these principles, it is important to recognise the specific nature of the insurance company. The supervisory regime tailors its approach so that policyholders are protected and financial stability is maintained, without applying regulation that, with regard to the nature of the company, is unnecessary and may hinder the efficiency of the market.

7. The major reinsurance companies and, over a slightly longer time scale, the direct insurance market began to realise that a client which retained a portion of its own risk was likely to manage these risks more effectively.

8. The 1981 introduction of specific captive insurance legislation in Vermont, predominantly designed to accommodate workers compensation and property/casualty

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1 Source: Swiss Re *Sigma* 1/2003

2 Source: A M Best

3 See also IAIS *Standard on disclosures concerning technical performance and risks for non-life insurers and reinsurers*, October 2004

exposures, established a trend which many States have now followed. US captives now represent at least 30% of global captive insurance entities and these captives have now diversified into other areas such as product liability and employee benefits.<sup>4</sup> US captives are currently one of the most significant growth areas.

9. Typical risks that a captive could insure include property and business interruption risks, third party products and liabilities risk, employers' liability and workers compensation risk, marine, transit, fidelity and credit risks. Some captives also insure employee benefit risks including medical benefits, personal accident and in some cases, whole life insurance. It is also possible that the captive will insure directors and officers and professional indemnity liability

10. In the most simple form a captive can be described as a wholly owned insurance entity that covers the risks of a company, it's parent, that is not itself an insurance entity. Captives broadly fall into the following classifications:

Pure captives – single parent companies writing only the risks of their owner and/or affiliates.

Group captives – multi-owned companies writing only the risks of their owners and/or affiliates.

Diversified captives – captives writing a limited proportion of unrelated business in addition to the risks of their owner and/or affiliates. The amount of unrelated business that can be written without losing captive status may be limited by supervisors.

11. The placing of group risk within the captive and active management of that insurance risk has provided the opportunity for the captive insurance owner to self insure deductibles and obtain reinsurance coverage at discounted prices.

12. Often a captive will be established to insure or reinsure the deductible of its parent's insurance policies with a conventional company and will have an agreed maximum level of claim payments in a particular period. These deductibles (also known as retentions) are an agreed amount of each claim, which the insured company will meet from its own resources before receiving payment from its insurer. If the maximum aggregate level of risk in a particular period is fully covered by premium payments to the captive plus the captive's capital and retained earnings, the captive is described as fully funded.

13. Captive insurance programmes frequently offer a good spread of risk exposures that are well managed and realistically priced at a level where there is a minimal cost of administrative and claims handling activity. The working risk is effectively managed by the captive insurance company in conjunction with the parent, which in itself encourages better inherent risk management. The appeal of captive market partnerships for the insurance industry is that financial interests will be mutually aligned. The financial benefits of aggressive risk management can be shared by both parties and should lead to lower retained losses and less expensive charges for the risk transfer.

14. Captives can operate anywhere in the insurance chain, from direct writers to reinsurers to retrocessionaires.

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11 Further information can be obtained from the Captive Insurance Companies Association [www.captiveassociation.com](http://www.captiveassociation.com)

15. The majority of pure captives are owned and utilised by non-insurance companies that are looking for stable and economic premiums, an increased retention in the quantifiable and manageable risks of the entity or secure insurance cover where there is little capacity available from the conventional market.

16. Commercial and industrial companies continue to look to captive insurance as a solution to their business needs, the economic life cycle of the captive insurance owners may affect the level of insurance risk that is retained in the captive entity.

17. Acquisition costs related to captive insurance tend to be lower than those for open market and broker-controlled programmes. Normally broker services are provided to captive insurance programmes on a fee basis for both insurance and reinsurance, specifically net of commission.

18. Captives may utilise finite risk reinsurance as part of their overall risk-financing programme by focusing on other exposures, including investment risk (asset security and return on investment), credit risk (non payment by reinsurance partners) and protection against adverse timing of cash flows. This represents a valuable mechanism used occasionally by captives in their strategies to meet capital requirements and to demonstrate awareness of wider financial issues.

19. Although most parent companies establish captives for microeconomic reasons such as cost reduction or risk control, captives also provide economic benefits in the parent's country of domicile. Captives give increased financial strength and competitiveness to their parents. Owning a captive has brought risk management to higher prominence in many major international companies, focusing the interest and support of company boards on reviewing and managing all risks, including uninsured risks.

20. The operation of a captive encourages a new management awareness and better understanding of risk and its impact on group profitability. Although in principle these could be achieved through a self-insurance programme, it is often more efficient if contained within a separate entity such as a captive.

21. A further notable captive contribution to the international insurance and reinsurance market is in the areas of creativity, product development and quality. Throughout insurance history, new ideas and approaches have come from those who were dissatisfied with the status quo.

22. Often captives are formed solely as a means of focussing management and the owner/insured's attention on the costs of the risks inherent in the business by concentrating the costs of insurance in a single cost centre. Captives can mitigate the impact of the 'insurance cycle' and often increase their retention of risk in a hard market to enable insurance to be obtained on reasonable terms, or indeed to be acquired at all. In some hard markets insurance for certain risks may only be available through a captive.

#### *Increased awareness and implementation of risk management practices*

23. This is perhaps the most important reason for forming a captive. Most major companies recognise the part that risk management plays in the overall profitability and efficiency of their business. They institute safety and physical loss prevention programmes

with the object of achieving lower cost claims and diminishing frequency, leading in turn to a reduction in the level of insurance premiums.

24. Companies have also been able to motivate management and staff to recognise that part of each loss is actually retained within the group and have built up a strong team spirit emphasising the loss prevention aspects of their operation. They have developed technical loss control expertise and in many cases drastically reduced their legal costs associated with certain types of losses. The effects of a self-insurance programme are more evident and manageable if contained within a central separate entity such as a captive rather than being dissipated over a number of operating units. An effective risk management programme can result in recognisable profits for the captive. The captive can also be used by a multinational to set global deductible levels that allow the local manager to insure with the captive at a level suitable to the size of his business unit, while the captive purchases reinsurance appropriate to the group as a whole.

#### *Stable and lower insurance prices*

25. The insurance market is cyclical and fluctuating costs have an undesirable impact on budgeting and profit forecasting by captive owners. In recent years the insurance market has experienced arbitrary, across the board, fixed percentage increases in premium rates and these premiums are felt by many captive owners not to reflect the real risks for their particular organisation. A captive can operate at reduced expense compared with traditional commercial insurers because it will probably not have marketing expenses. It will benefit from lower personnel costs, lower underwriting expenses, lower overhead expenses and be willing to accept a minimal underwriting profit. Consequently a captive can accept risk at a higher loss ratio than the traditional market is willing to accept.

26. The portion of commercial premiums paid that are attributable to profit, overhead and acquisition costs can be as high as 40% of the whole amount charged. The establishment of a captive seeks to mitigate these extraneous costs by allowing the company the benefit of retaining profit for its own account and participating in the risk exposure by paying a premium that more accurately reflects the parent loss history.

#### *Better reinsurance access and terms*

27. A major benefit of captive insurance is the ability to access the wholesale reinsurance market, which can also reduce the cost of insurance protection to the parent company. In accepting cessions from captives, reinsurers benefit from the improved risk management and loss mitigation as well as gaining a more complete understanding of the nature of the risk. Consequently reinsurers may sometimes offer more competitive terms. Reinsurers take comfort from the fact that the insured is itself financially involved with the risk through the captive. Most captives are managed by specialists who themselves have ready access to both the traditional reinsurance market and also to specialist captive reinsurers, who provide an excess coverage which is sometimes difficult to achieve commercially. An example is given in appendix 3.

28. A captive may earn commission on its reinsurance premiums, which reduces overall costs and may be able to negotiate specific profit commission arrangements.

#### *Cash flow*

29. The insurance premiums paid by a company to a commercial insurer are usually paid at the commencement of the year of risk and attract, for the commercial insurer, an amount of investment income. If the premiums are paid to a captive, this can achieve improved cash retention and control by:

- (a) Structuring premium payments over a financial year.
- (b) Paying insured losses appropriately as they arise.
- (c) Retaining premiums within the group until claims become payable and hence deriving investment income from those accumulated premiums.

#### *Placement of specialised risks*

30. Certain types of risk such as sensitive product liability risks, environmental impairment, pharmaceutical liability and selected professional indemnity, regardless of the claims history, are frequently either extremely difficult or even impossible to place in traditional markets. Alternatively they demand either high premiums or unacceptable terms and conditions even though the insured may have an acceptable claims history.

31. A properly structured captive may not only cover the required risks but with more favourable access to the reinsurance market can ensure that a sound programme is in place. Additionally captives facilitate the provision of cover to satisfy legal and contractual obligations, which could not be offered by a self-insurance fund or are too small to warrant obtaining cover for in the commercial market. The captive can provide a greater variety of options for the insured in unusual situations.

#### *Communication*

32. The insurance industry has been criticised for the lack of communication between insurers and the insured. This problem is reduced for captives because they are close to the insured and are normally part of the same corporate group.

33. As the captive usually insures group risks, its mentality is closer to that of a risk manager than of a commercial insurer. An example of this is time horizon. A risk manager often considers a much longer time frame than a commercial insurer. And this attitude can be significant to the insurance strategies of captives and their parents.

#### *Customisation*

34. Insurers may apply rating guides or tariffs for particular trades and however good the experience, the insured is likely still to be tied to a minimum trade rated premium, i.e. a basic minimum below which insurers will not quote, almost regardless of risk management expenditure. Whilst premiums may increase in the event of adverse experience, the end result of this particular system is that the better quality or better performing insured with favourable loss experience tends to subsidise the higher risk or worse performing insured with poor loss experience. In addition, insurers are sometimes reluctant to provide customised policy wordings or tailored coverage. A captive can provide the parent with the cover it seeks provided that the cover is appropriately priced and sometimes leverage the insurance or reinsurance market at a higher level.

#### *Control of cover and cost of multi-national programmes*

35. A captive enables a multinational company to apply group net insurance retention at a higher monetary level than can be justified at local subsidiary level. There is greater diversity of risk at the group level and there will be no need for the subsidiaries to purchase potentially expensive full coverage with no deductible in their local insurance market. There is additionally more control on claims through a single group captive. However small the captive participation, and whether or not this passes through a fronting company, the parent becomes aware of all the claims. It can track these and their development, obtaining all necessary information on the reason for their occurrence which in turn feeds back into the group's risk management policies and practices. This is a further tool to risk management. Geographically remote subsidiaries may otherwise have an adverse claims or loss experience, which is never apparent to the parent but is information held between the subsidiary and the local insurer. Another advantage where a group has operating units in a variety of countries is that simplified global policies can be issued.

36. By innovation captives have encouraged:

- New methods and new classes of insurance which have expanded the insurance market.
- Detailed attention to positive risk control. Whilst this often saves premiums, it also saves uninsured losses and claims. It is interesting to note that reinsurance of captives is regarded as one of the more profitable sectors of reinsurance because captive risks tend to be good risks.
- Greater discrimination in rating so that higher quality risks are more likely to attract better rates and substandard risks are rated accordingly.

37. The development of captive insurance has brought about a number of improvements and innovations in the insurance industry and can provide greater flexibility to the captive's parent. In summary, these include:

- Since premiums paid to captives are calculated to pay losses incurred during the policy period and because the captive establishes a quantified loss reserve, the captive user is financing its risk in a more prudent manner than if it retained the risk and made no provision for the payment of the losses.
- There is a view that retaining and developing insurance risk capacity in captives can reduce the impact of insurance market cycles on risk pricing which can enhance the stability of the market both generally and to captives specifically.
- Captives allow flexibility in the structuring of the insurance programme and can leave a higher level of risk control in the hands of the parent through, for example, self-insurance and control of claims handling.
- Captives may be able to offer cover for a wider spectrum of risks than the commercial insurance market or where it is unable or unwilling to respond to the particular insurance needs of a company in a cost effective manner.
- Captives can offer flexibility, global consistency and longevity in the structure of insurance programmes. External premium expenditure can be concentrated on catastrophe exposures.

- By insuring its risks through a captive, the company or group may subject itself to disciplines of risk evaluation and measurement which will help it to improve its risk management, improve cash flow management and reduce costs.
- A captive may operate as a separate profit centre by writing third party risks. This type of risk is typically very predictable with a large number of small exposures (e.g. extended warranty business).

38. Captives are managed by third party professional insurance managers, who are themselves normally regulated and are subject to compliance and regulatory reporting requirements - see section 3). Captive supervisors often have a close supervisory relationship with the regulated entities through the insurance managers and are consequently more likely to be able to identify misuses. At the same time, the misuse of captives may be less likely because most have a limited number of annual transactions.

39. Some captives are set up as freestanding insurance companies with a complete set of management resources. This will usually be cost-effective only for large captives such as those set up by major multi-national corporations. More commonly, some or all of the captive's management will be outsourced.

40. Supervisors normally have the statutory powers to insist that captive insurers employ competent managers. Most jurisdictions license and regulate the insurance management companies to ensure that there is control by fit and proper persons possessing the appropriate degree of expertise. In view of a wide variance in regulatory practices captives would benefit with the establishment of minimum corporate governance standards and reporting procedures and practices like intimating changes in business plans, ownership, directors etc. This can assist in evaluating the sufficiency of ownership, control, and governance provisions for protecting the best interests of the insured in a timely manner.

41. There are specialist captive management companies, including subsidiaries of most of the major worldwide insurance brokers. There are also a number of independent insurance management companies. It is not unusual for the client of a major broking group to appoint a different group as captive manager and this action may be considered from a prudent governance angle. Managers typically operate a number of insurance companies on behalf of their owners.

42. Captive insurance managers provide services to captive insurance companies and these include company management, administration, accounting, company secretarial services, underwriting, the arranging and placing of reinsurance, claims handling and compliance functions. In the case of managed captives, compliance with the requirements for anti-money laundering and combating the financing of terrorism will probably also be outsourced to the captive management company. Insurance management companies are central to the operation of the vast majority of captives.

43. The captive manager acts as an intermediary between the regulator and the captive's shareholders and directors. In addition to providing market knowledge and expertise to the captive industry, the manager also provides experienced professional staff and other related services. The fact that most captives are managed by professional, approved managers, distinguishes captives from most commercial insurers. With the manager responsible for carrying out most of the day-to-day transactions of the captive, misuse would tend to require collaboration with the third party manager.

44. The purpose of insurance regulation is to protect policyholders (who are in most captives also the shareholder), investors and other stakeholders through the provision of tools provided to ensure that companies operate in accordance with acceptable standards of corporate governance, financial strength and market conduct. This in turn should promote efficient, safe, fair and stable insurance markets, which encourage growth and competition in the sector.

45. In applying insurance regulations to captives, regulators may adopt a risk-based approach, which takes account of both the nature of the captive insurance market and the form of the individual captive<sup>5</sup>. For example the risk posed by a captive that only underwrites the property risks of a single parent without recourse to reinsurance is little different from the risk posed by self-insurance. On the other hand a captive, which is significantly exposed to risk from unrelated business, is no different from a normal commercial insurer. Whilst the owner/captive relationship permits the owner to exercise significant influence over its captive, it is important that the captive practises good corporate governance to ensure that the captive continues to meet its solvency requirements and maintains adequate technical provisions.

46. The application of appropriate regulation reduces the risk that a captive may become involved in fraudulent activities or be used as a vehicle for money laundering.

47. Captive insurance is in addition an alternate form of capacity available to finance commercially uninsurable risks, or risks that are otherwise retained. The establishment of the captive requires investment of capital to support the taking of risk. When underwriting profits are retained in the captive, rather than distributed, then additional capacity is created. If captives fail, capacity is likely to be reduced, because future captive owners and users will be less likely to invest capital in order to finance their risk in a captive. Confidence in the integrity of the captive mechanism needs to be maintained in order to ensure availability of this extremely important source of alternative capacity.

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<sup>5</sup> The Offshore Group of Insurance Supervisors has published papers relating to captive insurance supervision. See [www.ogis.net](http://www.ogis.net).

## Appendix – Captive definition<sup>6</sup>

1. There are a number of definitions of a captive insurer. It is important to define those captive types that might require a different regulatory approach from commercial insurers. The purpose of this paper is not to recommend a single definition, but rather to draw attention to various definitions that exist. We note below a number of definitions that may be relevant.

2. The following definition of a captive is in the IAIS standards on enhanced disclosure:

“For the purpose of this standard, “captive” shall mean an insurance or reinsurance entity created and owned by one or several industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, and only a small part, if any, of its risk exposure is related to providing insurance or reinsurance to other parties.

Supervisors can decide not to apply this standard to “captives” that are considered insurers or reinsurers in the legislation in the jurisdiction, provided there is no potential threat to the financial system, no public interest need for disclosure and no legitimately interested party is prevented from receiving information.”

3. The EU Reinsurance Directive defines a reinsurance captive as follows:

“A reinsurance undertaking owned either by a financial undertaking other than an insurance or a reinsurance undertaking or a group of insurance or reinsurance undertakings or by a non-financial undertaking, the purpose of which is to provide reinsurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which the captive reinsurance undertaking is a member.”

(The EU Reinsurance Directive applies in the EU, representing approximately 10% of the total worldwide captive insurance market).

4. As an example of a US definition, the US District of Columbia defines a captive insurer as:

“Any insurer that insures the risks of its parent or affiliated companies of its parent, any member organizations of an association and the affiliated companies of the member organizations, or any policyholders or participants that have entered into a contractual relationship with the insurer for the purchase of insurance.”

5. A. M. Best has also defined a number of different types of captives:

1. *Insurer that writes only the risks of its owners and/or affiliates.*

2. *Insurer that writes the risks of unaffiliated companies doing business with the insurer's owners and/or affiliates, in addition to the risks of its owners and/or affiliates.*

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<sup>6</sup> See paragraph 17 for an early definition of a captive.

3. *Insurer that writes unrelated, open market risks, in addition to the risks of its owners and/or affiliates.*
4. *Subsidiary of a commercial insurer and/or reinsurer that writes only risks assumed from its owners and/or affiliates.*
5. *Insurer that is owned by a trade association or members of a common industry or trade association for the purpose of sharing risk among its members.*
6. *Any type of captive writing coverage for hospitals, health maintenance organizations or managed care companies.*
7. *Insurer that is owned by two or more unrelated parties for the purpose of writing the risks of its owners and/or affiliates.*
8. *Any type of captive writing long term (life) business.*
9. *Any type of captive writing a combination of long term (life) business and general (non-life) business.*
10. *Insurer that contractually provides captive facilities for a fee to parties unrelated to the insurer's owners.*
11. *Insurer that is owned by one or more independent insurance agents to write high-quality risks that the agents control so the agents can participate in the profits generated by the business.*
12. *Any type of captive that writes related and/or unrelated risks involving: (i) clearly defined aggregate limits; and (ii) premiums that reflect the underwriter's anticipated investment income.*
13. *Insurer that writes risks on a direct or reinsured basis that was formed to meet the insurance needs of its owner(s) whether it is formed under captive legislation or not.*
14. *Insurer that provides captive facilities for a fee to parties unrelated to the insurer's owners. The captive is established by legislation that legally protects, or segregates, each cell's assets so that liabilities of other cells cannot attach to them.*
15. *Insurer that is owned by one or more insurer, reinsurer and/or captive. Each participant is unrelated to the owner(s) and insures its own risks. Each participant has its assets protected in a separate cell within the facility so that one participant never pays for the losses or expenses of any other participant.*
16. *U.S. domiciled subsidiary of an offshore captive that writes U.S. employee benefits subject to ERISA legislation for the owner of the offshore captive.*
17. *Multi-owner captive formed under the U.S. Product Liability Risk Retention Act of 1981 or under the U.S. Federal Liability Risk Retention Act of 1986 that writes only liability risks.*

18. *Separate, legal, non-governmental, risk-bearing entity that is formed by one or more governmental agencies and/or subdivisions for the purpose of self-insuring its risks.*
19. *Separate, legal, risk-bearing entity that is formed by a trade association, common industry or other related group for the purpose of self-insuring the risks of its members.*
20. *Any type of captive that transfers insurance and non-insurance risks into the capital markets.*
21. *A fiduciary relationship created by agreement in which money from individuals and/or companies is held by a trustee to satisfy the legal obligations of the individuals and/or companies to injured third party claimants.*

6. The definition of unrelated parties needs to be carefully considered. For example, a captive could derive more than 50% of its business from unrelated parties e.g. a captive that provides employee benefit reinsurance for the parents employees, the insured employees are "other parties" and this captive may therefore not meet a "pure" captive definition. It is also important to define what is meant by "third party business"<sup>7</sup>. Many of the definitions of a "pure" captive may exclude the insurance of third party risks and the issue arises as to whether this is a reasonable restriction on a captive of a major industrial or commercial company that provides insurance for workers compensation, employers liability or public and product liability exposures. Liability insurance is purchased to benefit the insured, not the injured party which is why it is a related and not unrelated risk. There is therefore a strong argument that those companies referred to above are regarded as "pure" captives as they are only insuring a responsibility that would ultimately fall on the parent company if no insurance were in place.

7. Other possible definitions exist, for example instead of attempting to define a "captive", the supervisor can focus on defining "captive insurance". This aspect was adopted by Kate Westover in her book "Captives and the Management of Risk".<sup>8</sup> In a subsequent book by the same author "Captive Practices and Procedures"<sup>9</sup>, a captive was defined as "A special purpose insurance company....(that is) not licensed to sell insurance to the general public. Its source of business is the primary business activity of the captive user". A "captive user" can be defined as "the insured, or an affiliate of the insured, or individuals or organisations connected to the insured through some existing business relationship". The above definition would allow for the legitimate use of captive insurance laws by rental captives or by companies that use captive insurers to reinsure unrelated risks, e.g. customers or suppliers, to support their primary business activities.

8. Note that by defining a captive or captive insurance in this manner, the supervisor may then begin to draw the distinction between the different types of captive "users" that require more or less regulatory protection. This is arguably more logical than making

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7 This paper has defined "third party business" and "unrelated party business" in the footnote to paragraph 5

8 Published by IRMI 2002 ISBN 1-886813-88-4

9 Published by IRMI 2006 ISBN 1-886813-86-8

regulatory distinctions based on the number of owners of the captive or the amount of unrelated risks that are underwritten.

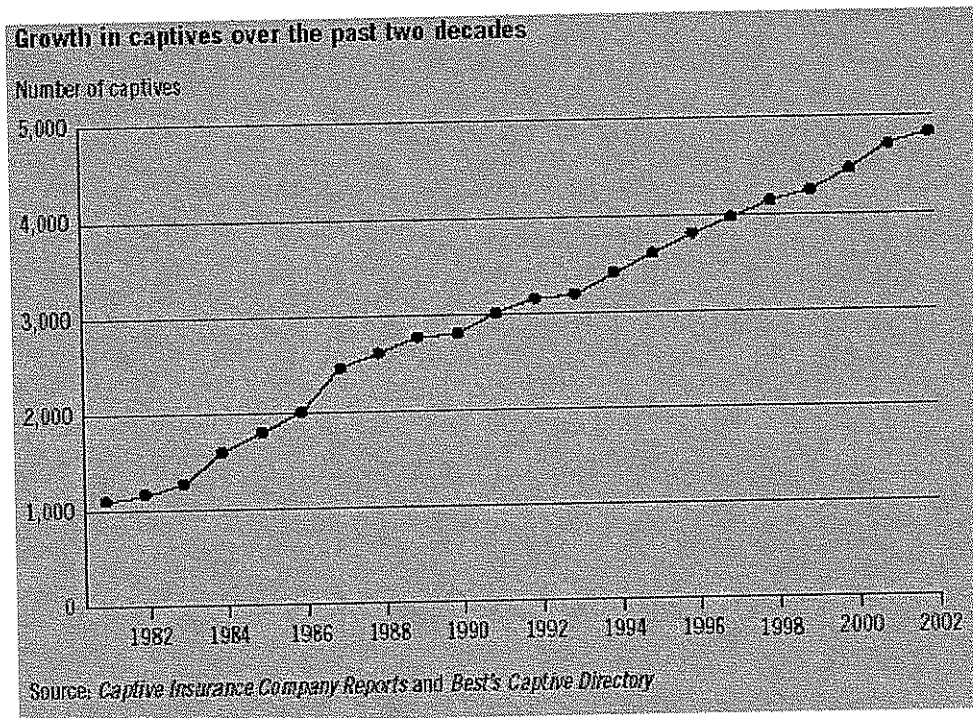
9. While historical attempts to define captives have focused on the ownership (owner equals policyholder) the reality is that this does not necessarily serve the regulatory purpose. For example most jurisdictions have rental or sponsored captives that allow the use of the captive by a policyholder that is not an owner. Additionally, captives can be owned by individuals or trusts, not just corporate entities.

10. A single definition of a captive remains a challenge both to the industry and to supervisors.

## Appendix - The captive insurance market

1. A M Best estimates that the captive market has grown by an average of 10% per annum since 1998, with a correlated increase in premiums written by captives. In 2002 Swiss Re estimated that captives accounted for 10% of global premium income, and A M Best estimated that the alternative market, including captives, would account for almost 50% of the US Commercial market by the close of 2003. Over the five-year period ending 2003, domestic US captives saw net written premiums rise 45% year-on-year, with 'admitted assets' increasing in value by 29%, according to an August 2004 report by A M Best. At the same time, loss reserves grew annually by 35%, while surplus levels rose 2%.

2. The growth in captive insurance can be illustrated by the following graph:



By 2005, the number of captive insurers had grown to an estimated 5,500 worldwide.

3. A M Best has also reported that in June 2006, the following locations had more than 20 captives resident:<sup>10</sup>

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<sup>10</sup> Source: A M Best

America

Vermont	533
Hawai	143
S Carolina	110
Other	723

Asia Pacific

Singapore	57
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Europe

Guernsey	387
Luxembourg	277
Ireland	199
Isle of Man	161
Switzerland	48
Sweden	42
UK	30

North Atlantic & Caribbean

Bermuda	1,326
Cayman	737
BVI	377
Barbados	218
Turks & Caicos	95
Bahamas	22