SNL DATA DISPATCH

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Leading captive domiciles, and the life insurers who use them

By Saurabh Nair and Thomas Mason

Vermont remains a powerhouse in the U.S. captive insurance market, with more than 500 active companies as of the end of 2012, but other states have been making strides, data compiled by SNL Financial shows. Utah managed to license 68 additional captives in 2012, and Delaware licensed 59, compared to only 32 for Vermont. Montana has also been growing at a relatively fast clip, with 34 new captives licensed during the year.

Top 10 captive insurance domiciles in US

2012 rank	State	2012Y Total active	2012Y New captives licensed	2011Y Total active	2011Y New captives licensed
1	Vermont	586	32	590	41
2	Utah	286	68	237	69
3	Delaware	190	59	NA	58
4	Hawaii	179	12	172	10
5	District of Columbia	170	12	160	19
6	South Carolina	149	11	NA	NA
7	Kentucky	139	14	137	18
8	Nevada	120	NA	NA	NA
9	Montana	114	34	85	26
10	Arizona	101	8	97	4
	Total	**2,034**	**250**	**1,478**	**245**
	All states	**2,173**	**273**	**1,506**	**260**

NA = Not available
As of March 5, 2013
Data collected on a best-efforts basis via e-mails, calls and websites
Source: SNL Financial

While SNL has strived to standardize the ranking as much as possible, there is some gray area, as different structures could potentially fall under the captive umbrella. For instance, Delaware has entities known as series business units, or SBUs, which are tied to the captive market but not included in the totals (for more information, see the "captive structures" section below).

When comparing domiciles, captive insurers are frequently concerned with cost, a situation states have responded to with various methods of favorable treatment. Utah, for instance, has no premium taxes, whereas Vermont and Delaware do. Vermont's tax structure would seem designed to attract larger captives, all things equal; whereas Delaware has a flat tax rate of 0.20% on direct premiums, Vermont's rate slides down at higher levels. From zero to $20 million in premiums, the rate is 0.38%, but at $40 million to $60 million, it is only 0.19%, and at $60 million or above, it falls to 0.072%.

That said, the tax structures can have different caveats. Delaware has a cap on its premium tax, with a maximum of $125,000 due annually from captive companies. Additionally, if a captive employs at least 25 full-time employees in Delaware, its premium tax will be capped at $50,000.

Captive structures

Though there are several different types of captives, the general purpose remains the same, which is to create an insurance entity that writes coverage primarily for its owners. The structure most readers are likely familiar with is that of the pure captive, also known as the single-parent captive. These entities are owned by a single company, and the owner is the company covered by the captive's policies. By contrast, there are also group captives, which are owned by multiple, unaffiliated entities. In many cases, the entities will be part of the same industry; for instance, members of the same trade association.

Within these basic categories, there are different types of classifications. The term pure captive might mean a single-parent captive, branch captive or special purpose captive, while the group captive designation includes types like association captives, sponsored captives and industrial insured captives. In addition, there are reinsurance captives, which are set up to cover reinsurance parents.

As mentioned above, Delaware has been licensing a number of SBUs, which fall under the special purpose captive designation. In essence, Delaware law allows for a series LLC structure, under which a special purpose captive can help organizations operate their own insurance companies, which are known as SBUs. Delaware licensed its first serial entity captive, Amplitude Re, in January 2010, and Amplitude provides a helpful description of SBUs on its website. The SBU is a self-governing company that can issue policies either directly or through fronting arrangements. While the format seems similar to rent-a-captives and protected cells, Amplitude says the series structure offers the flexibility of self-governance for the SBUs.

Another oft-cited advantage of SBUs is cost. The series LLC as a whole is subject to a premium tax but the individual SBUs are not; similarly, the series LLC has capital requirements but the SBUs do not. At the same time, the obligations of one SBU are shielded from that of another. The idea has obviously caught on — the number of SBUs actively licensed in Delaware stood at 358 as of the end of 2012. But since these SBUs are ultimately part of a special purpose captive's structure, and given that many states do not have them, SNL decided to exclude them from the overall tally.

Insurers using captives

When one hears the term captive, the typical thought is likely that of a company outside the insurance realm that is forming a risk-bearing entity; for example, ConocoPhillips, which was one of the parents of a captive that Vermont licensed in 2012. But insurance companies utilize them, as well. For instance, The Hartford Financial Services Group Inc. recently discussed its Vermont captive in the context of its capital management plan. As the company detailed in February, it plans to dissolve the captive, which it expects to return approximately $300 million of surplus to the holding company.

Some information on insurers' use of captives is available through statutory filings with the NAIC. Even though captives are generally not required to file, the affiliated insurance companies will often disclose how much premium they ceded to these entities in a given year. Since the captive itself likely does not have an NAIC code, SNL looked at reinsurance relationships where a statutory filer ceded premiums to a U.S.-based affiliate that lacked a code. This revealed many companies that SNL was able to confirm as captives, either through the insurers' public documents or through state insurance departments.

Of the different insurance sectors, life insurers have made particular use of these entities, based on SNL data. Life companies ceded around $17.91 billion in premium in 2012 to U.S. affiliates that did not have an NAIC code, while the P&C industry only ceded about $3.55 billion. In terms of the amount in force on life insurance policies, life insurers ceded around $3.469 trillion in 2012, according to SNL data.

US insurers ceding life business to domestic affiliates that do not file with NAIC
Data as of year ended Dec. 31, 2012

Top-tier group	Ceded amount of life in force ($B)
Reinsurance Group America Inc.	557.22
SCOR SE	529.03
Prudential Financial Inc.	506.88
Swiss Re Ltd.	301.89
AEGON NV	254.73
ING Groep NV	243.34
Legal & General Group Plc	146.90
Protective Life Corp.	141.79
Genworth Financial Inc.	100.59
MetLife Inc.	91.87

Data compiled as of March 15, 2013.
Based on NAIC life statutory statement filings. U.S. filers only. Top 10 entities shown.
Includes reinsurance relationships where the insurer ceded life business to a U.S. affiliate that did not have an NAIC code.
Entities shown reflect the consolidation of data from individual filers within an SNL-defined company structure, as well as unaffiliated single companies.
Data derived from Schedule S, Part 3, Section 1.
Source: SNL Financial

Accident & health premiums ceded by US life insurers to domestic affiliates that do not file with NAIC
Data as of year ended Dec. 31, 2012

Top-tier group	Premiums ceded ($M)
Aetna Inc.	3,050.0
Unum Group	707.0
Highmark Insurance Group	9.4
AEGON NV	1.2
Central States Health and Life Co. of Omaha	1.1

Data compiled as of March 14, 2013.
* Reflects life insurance entities owned by Wells Fargo & Co.
Based on NAIC life statutory statement filings. U.S. filers only. Top five entities shown.
Includes reinsurance relationships where the insurer ceded A&H premiums to a U.S. affiliate that did not have an NAIC code.
Entities shown reflect the consolidation of data from individual filers within an SNL-defined company structure, as well as unaffiliated single companies.
Data derived from Schedule S, Part 3, Section 2.
Source: SNL Financial

SNL used amount in force as a way of identifying some of the leading life insurers that use captive entities, since that metric was available for life entities. While premiums ceded can also be used, that metric can fluctuate, sometimes dramatically, from year to year. In certain insurance lines, however, premiums represented the best measure available from statutory filings.

One of the ways life insurers utilize captives is the management of reserves under Regulation XXX, which is an NAIC guideline that establishes reserve requirements for universal life products that employ secondary guarantees. RGA Reinsurance Co. is a prime example. The Reinsurance Group of America Inc. unit retrocedes a majority of its XXX reserves to affiliated and unaffiliated entities, including captives, according to RGA Inc.'s latest Form 10-K.

In the accident & health line, Aetna Inc. demonstrates another way that captives can be used, namely the securitization of risk. Aetna ceded $3.05 billion in accident & health premiums in 2012 to Health Re Inc., a Vermont captive licensed in November 2010 that has played a role in its Vitality Re securitizations. For these deals, Aetna Life Insurance Co. enters into quota share reinsurance agreements with Health Re and Health Re then enters into excess-of-loss reinsurance agreements with Vitality Re.

Insurers' use of captives has gained some regulatory scrutiny of late, with both the NAIC and New York Department of Financial Services conducting investigations. The NAIC formed a Captive and Special Purpose Vehicle Use subgroup in early 2012, given potential concern that a "shadow insurance industry" is being created, as detailed in its draft white paper on the subject. The outcome of the investigations remains to be seen, but RGA, for one, has already braced itself for the possibility.

"While this study continues, it is possible that in the future there may be some limitations on RGA Re's ability to use special purpose vehicles to finance Regulation XXX reserves. Such limitations could cause the Company to utilize alternative financing methods," the company wrote in its Form 10-K.

Though any changes to the regulations would ostensibly affect all the insurance sectors, the life space would appear to have more exposure, especially when one takes into account non-U.S. counterparties. The life industry ceded about $64.50 billion in life and A&H premiums to all affiliated reinsurers without an NAIC code in 2012, whereas the P&C industry ceded about $29.12 billion. While the scope of this report was limited to the U.S. market, there are indeed large amounts of captives in other locales. Bermuda, the Cayman Islands and Guernsey have historically been some of the hot spots outside the U.S.

Click here for a downloadable template featuring Schedule S data from life insurer filings.