procedant

Captive Insurance

Capital Overview

TYPES OF CAPITAL IN CAPTIVE INSURANCE

Capital is the foundation of a captive insurance company's ability to operate and meet its obligations. Understanding the different types of capital helps ensure compliance and financial stability.

STATUTORY CAPITAL

- Minimum required by the state’s insurance department for legal operation.
- Provides liquidity and security for operational needs.
- Ensures the company can meet claims and other liabilities.

ADDITIONAL CAPITAL

- Required by the Department of Insurance (DOI) for liquidity and solvency.
- Amount is subjective and based on the captive's risk profile.
- Typically, $1 of capital for every $3 to $5 of net premium.

RETAINED EARNINGS

- Profits kept within the company rather than paid out as dividends.
- Used to fund future liabilities or premiums.
- Can help meet additional capital requirements in later years.

The mechanics of how capital is generated and used within a captive help guide its financial strategy, ensuring it meets regulatory standards and maintains operational viability.

KEY MECHANICS OF CAPTIVE INSURANCE CAPITAL

PREMIUM AND INTEREST INCOME

- Primary revenue sources: premiums and interest from investments.
- Premiums split into Pure Loss Cost for claims and Expense Loads for operations.
- Interest income from investments adds to overall revenue.

NET PROFIT AFTER TAXES

- Calculated at year-end and moved to retained earnings.
- Cannot be used for writing additional premiums until after year-end.
- Helps strengthen the financial position for future premium increases.

LOSS RESERVES

- Amount set aside for anticipated claims, adjusted annually.
- Actuarial evaluations determine adjustments based on claims experience.
- Reductions in reserves can add income and increase capital for future premiums.

TYPES OF CAPITAL CONTRIBUTIONS

Capital contributions are essential for funding a captive's operations. Different types of contributions help meet regulatory requirements and ensure the company's solvency.

CASH CONTRIBUTIONS

- Used to meet the statutory minimum capital requirements.
- Provides liquidity and security for operational needs.
- Ensures the company can meet claims and other liabilities.

LETTER OF CREDIT

- A financial guarantee from an approved institution.
- Meets statutory capital requirements when needed.
- Provides assurance that the required capital will be available if necessary.

SURPLUS NOTES

- Special debt instrument treated as capital.
- Allows captives to raise capital without diluting ownership.
- Paid after policyholders and creditors in the event of liquidation.