

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.

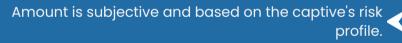


### **STATUTORY CAPITAL**

- 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.



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.



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.