



Captive 101

What is CTMIC

The Community Transportation Insurance Program (CTIP) is a proposed captive insurance company sponsored by CTAA for its members needing an insurance option. The current formation of CTIP is in response to various expressions of need and concern from member of the Association. In terms of rates, availability, stability, greater control and meaningful risk control training and support. See Exhibit 1 for a graphic representation of the concept.

What is a Captive?

A captive is an insurance company that primarily insures the risks of its owners and is actively managed by the owners and/or insureds. Captive insurance companies are generally formed as an alternative to commercial insurance and self-insurance. The assets of the captive are generally owned by the member insureds.

There are different types of captives: Single Parent Captives; Diversified Captives; Association Captives; Agency Captives; and Rent-A-Captives.

Association Captives, such as in the case of the CTAA-Sponsored *Community Transportation Insurance Program* (CTIP), are captives which underwrite the risks of members of an industry or trade association (CTAA member public and community transportation operators). Liability risks such as automobile liability, general liability, director's and officer's liability or medical malpractice liability insurance are frequently insured in this way.

A captive insurance company is in fact a closely held insurance company whose business is primarily supplied by and controlled by its owners. Captives are insurers owned by the insureds and organized for the main purpose of self-funding the owners' risks. The shareholders/insureds actively participate in decisions influencing the underwriting, operations, and investments of a captive insurer.

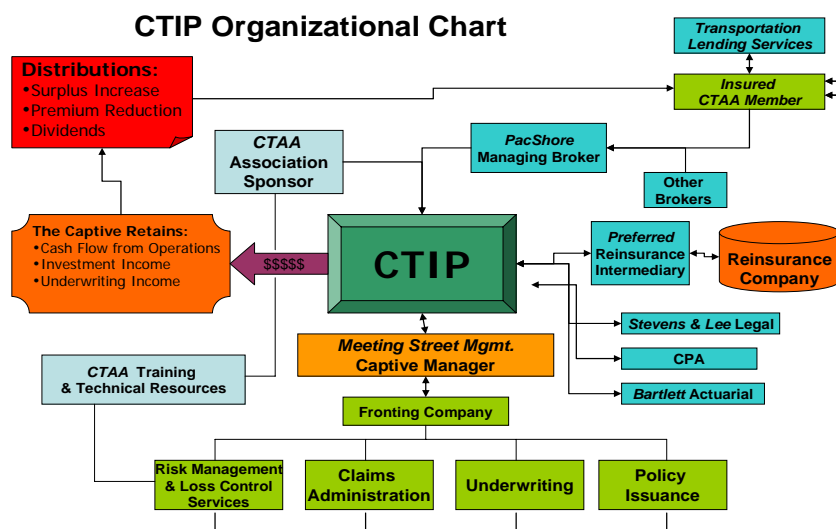
Fronting arrangements are utilized by smaller captive companies, such as CTIP. The smaller captive company acts as a reinsurer accepting the risks of its parent, which have been insured by a licensed direct-writing company and then ceded to the captive. In other words, the captive takes a certain level of risk and insurance, a fronting company takes a share and a reinsurer takes a share.

Reasons for Forming a Captive Insurer

Captives can be organized for any number of reasons. Some of the reasons for forming a captive include the following:

- To meet unique insurance needs of members and the group;
- To provide a self-funding mechanism;
- To have a more direct say in the management of the insurance entity;

- To reduce the impact of the insurance industry's underwriting price and availability cycles;
- To take advantage of the favorable experience and thereby reduce the cost of managing their risk. Conventional insurers may not take into account the full effect of an insured's good experience when pricing risk. Companies with low loss ratios on property risks may pay premium rates very similar to those of their competitors with high ratios;
- To provide opportunities for organizations to improve risk controls by centralizing the risk management functions, utilizing association and group membership safety and loss control support; and standardizing an industry's "best practices;"
- To increase control over funds flowing through the organization, through possible tax benefits and a reduction in the cost of risk management.



Setting-Up a Captive

Careful preparation and planning are essential ingredients in the process of creating a successful captive. There are several steps that have been taken so far and others that are pending for CTIP:

1. A feasibility study has been conducted, which consisted of financial analysis, legal research, actuarial projections, tax projections, domiciling options, comparisons, and an insurance issues analysis.
2. An acceptable state domicile for the future captive was selected, the State of South Carolina.
3. A line of communications was established with South Carolina state insurance regulators.
4. A state corporation for the captive (CTIP), including the board of directors, bylaws and policies and procedures was established on December 18, 2006 in Charleston, SC.
5. Application was made to and granted by the State of South Carolina for a *Certificate of General Good* to establish CTIP as a state-approved captive insurance company.
6. Commitments from reinsurers and fronting companies are currently being secured based on the feasibility study, business and operating plans, surveyed interest and operating programs (underwriting guidelines, loss control and safety plans, etc.).
7. A completed license application form will be submitted to the state regulators for conditional approval, once commitments are made by the fronting and reinsurance companies.
8. After conditional approval, the next step will be to raise the required commitments for capital and surplus from prospective CTIP members.
9. Once the minimum capital and surplus are raised, application for final approval and the ability to write insurance policies for captive members will be made to and approved by the state.