

Captive Insurance – Basics Outline

- **Captive insurance regulation.**
 - How
 - Who

- **Captive insurance risk opportunities**
 - Cannabis
 - Terrorism
 - Side A D&O

- **Delaware's experience with captive insurance.**



Captive Insurance Regulation

- **Captive insurers are licensed in only one domicile and are not multi-state insurers.**
- **Most state insurance codes have specific sections applicable to captive insurers and exempt captive insurers from the other sections.**
 - **GAAP not statutory accounting applies**
 - **RBC does not apply**
 - **ORSA does not apply**
 - **Much broader investment requirements**
 - **No market conduct examinations**



How Captives are Regulated: Application

- Each state has its own license forms for captives. UCAA not used.
- NAIC Form 11 biographical affidavits required for officers and directors.
- Submission of strategic business plan.
- Requirement of minimum statutory financial capital.
- Actuarial study of captive's feasibility under expected and adverse scenarios.



How Captives are Regulated: Ongoing

- **Filing of annual, not quarterly, financial statement.**
- **Annual audit and actuarial opinion.**
- **Regulatory examination every 3 to 5 years – domicile specific.**
- **Notice to regulator of material transactions.**
- **Captives subject to license suspension, revocation, and delinquency proceedings.**



How Captives are Regulated: Staffing

- Delaware has 30 individuals working in or with its captive bureau.
- Combination of employees and contractual.
- Eight dedicated financial analysts in positions Analyst I-IV.
- To become an Analyst III the analyst must obtain the Associate in Captive Insurance (ACI) designation.
- ACI issuing organization is International Center for Captive Insurance Education.



Captive Insurance Risk Opportunities

- **Captive insurers currently provide coverage where traditional insurers may or will not. These coverages include:**
 - **Cannabis risks**
 - **Terrorism risks – Chemical, Nuclear, Biological, and Radiological**
 - **Directors & Officer (D&O)**



Cannabis Risks

Medical and Recreational marijuana risks.

- **crop insurance**
- **product liability**
- **food safety for edible products**
- **privacy risks - dispensaries are responsible to track and validate medical marijuana cards**



Cannabis Risks

Medical and Recreational marijuana risks.

- premises liability and theft risk because marijuana is a small portable product and mostly cash basis
- medical conditions are protected health information
- cyber coverage for data breach or theft for mishandling patient information
- environmental damage



Terrorism Risks



- **Nuclear explosion involving nuclear fission or fusion. Widespread damage from explosion, heat, and radiation.**
- **Biological involves contagious or noncontagious agents like anthrax or smallpox. An attack may not be immediately recognized because of an incubation period.**
- **Chemical involves the dispersal of chemical aerosols, liquids, vapors, or solids. Nerve agents like sarin or VX can cause death within minutes.**
- **Radiological is a “dirty bomb” using conventional explosives to disperse radioactive material across an area.**



Terrorism Risks – Chemical/Nerve Agent



March 20, 1995 five members of the cult Aum Shinrikyo, puncture bags of liquid sarin, a nerve agent, in the Tokyo subway system. The sarin vaporized in the subway cars. The result is 13 deaths and thousands of injuries.

Workers cleaning a subway car



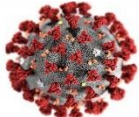
Terrorism Risks – Chemical/Nerve Agent



February 13, 2017 Kim Jung-Nam, the half brother of North Korean leader Kim Jung Un, is killed in the Kuala Lumpur Airport. A substance containing VX nerve agent is sprayed on his face and then his face is covered with a liquid laced cloth. Decontamination did not occur until almost two weeks later.



Securitizing Terrorism Risks



Insurance Linked Securities (ILS) may be a method to reinsure. Already occurring for terrorism risk.

First terrorism risk ILS launched in 2019 by Pool Re in the United Kingdom with a 3 year bond for £75 @ 5.75% issued. Pool Re is the U.K. government reinsurer for terrorism risk. U.S. Treasury's Advisory Committee on Risk Sharing Mechanisms investigating the use of ILS to shift the cost of terrorism risk away from the U.S. Government to the private market.

Governments, Insurers, and Reinsurers Writing or Reinsuring Terrorism Risk Policies Transfer Risk to SPV

Terrorism Risk

Special Purpose Vehicle (SPV) that Issues Bond(s) Linked to Terrorism Risks

Cash held in trust to pay claims

Cat bond(s) with a term and interest rate

Hedge Fund

Private Equity

Pension Fund

Other Investors

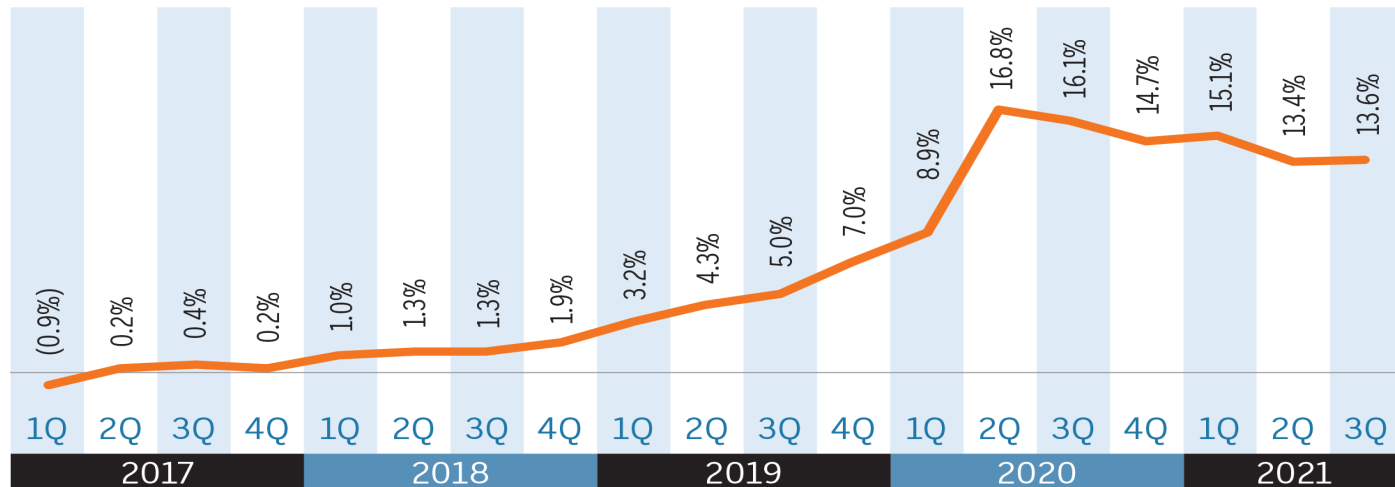


Why is D&O Going Captive?

D&O RENEWAL PRICING

According to the Council of Insurance Agents and Brokers' Q3 2021 Commercial Property/Casualty Market Index, premiums for D&O saw a notable average increase of 13.6%, marking six consecutive quarters of double-digit percentage increases.

AVERAGE D&O RENEWAL PRICING CHANGES BY QUARTER SINCE 2017



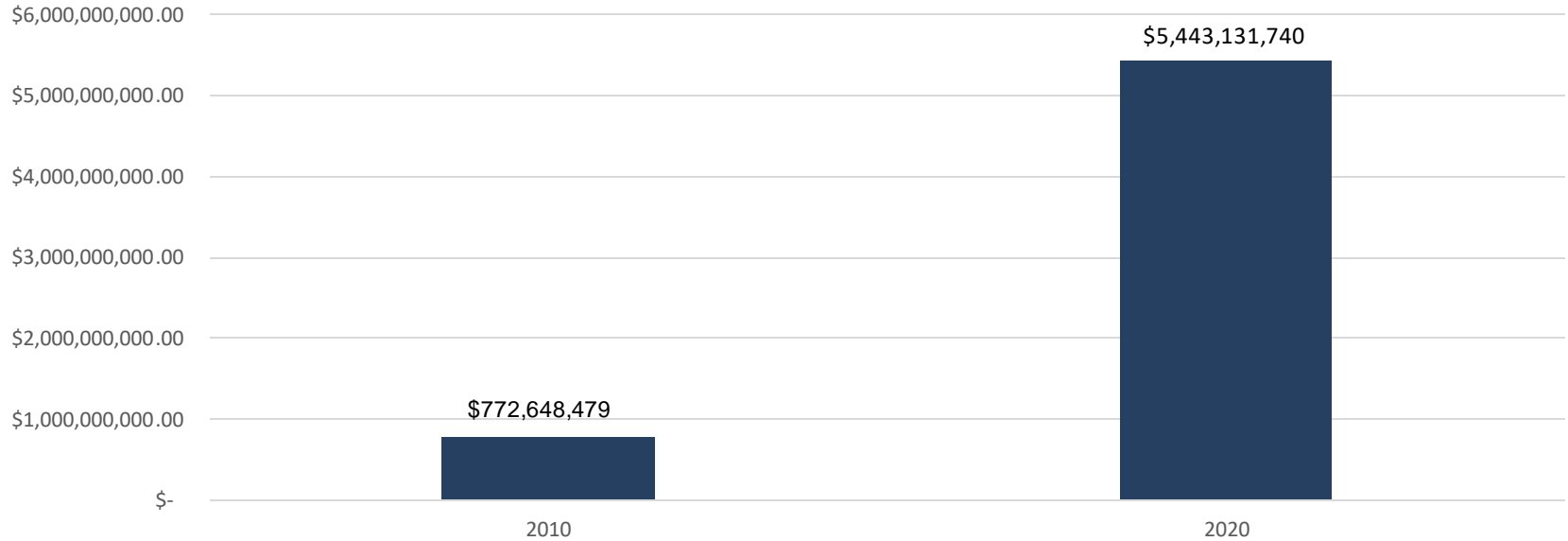
D&O Insurance - Side A

- **Side A pays on behalf of directors, officers, and employees for claims when corporate indemnification is unavailable.**
 - **Typically first dollar coverage without a self-insured retention**
 - **Applies when the corporation is bankrupt**
 - **Applies for derivative suits – a type of lawsuit brought by one or more stockholders, on behalf of the corporation, alleging financial loss to the corporation**



Captive Insurance: Growth

Delaware Captive Insurance Premium Growth
Comparing 2010 and 2020
704% Growth Over 10 Years



Captive Insurance: Economic Development

- A 2016 University of Delaware study found that captive insurance contributes \$359 million annually to Delaware's economy.
- FY 2014 through FY 2020 Delaware's captive insurance program generated \$23.96 million of *net* revenue.

Delaware Captive Insurance Revenue & Expenses

