



## First is first

# CIT takes a closer look at the show-me state and how it embarked on an overhaul to rival its fellow domiciles in the quest for captive domination

JENNA JONES REPORTS

Despite allowing captive formations since 2007, Missouri was home to three captives when state governor Jay Nixon signed House Bill 577 in 2009.

The 2009 law aimed to simplify the process of moving offshore captive operations to Missouri, and made it more attractive for companies that are based outside of the state to set up captive operations there.

In a statement at the time, John Huff, director of the Missouri Department of Insurance, said: “The Show-Me state has shown the insurance and business communities that we have an outstanding domicile for captive formation.”

“These significant milestones in number of captives and premium volume demonstrate Missouri’s commitment to a healthy, sustainable and long term captive industry.”

Since then, Missouri has gone from strength to strength. In September 2012, the state celebrated the granting of its 25th licence and it now has 30 captive insurance companies to its name.

In May, Nixon modified Missouri’s captive

insurance laws once again when he signed Senate Bill 287 into law, which allows segregated cell captives to be formed in the state.

The bill—that came into effect on 28 August—was intended to help lower the overhead costs for mid-sized businesses in Missouri that self-insure through captive insurance companies, and to encourage more captives to form in the state.

Under the new bill, a sponsored captive insurance company can be incorporated as a stock insurer with its capital dividend turned into shares and held by stockholders, as a mutual corporation, as a non-profit corporation with one or more members, or as a manager-managed limited liability company.

The bill also allows sponsored captive insurance companies to establish one or more protected cell companies to insure risk under certain conditions.

Alan Fine, partner in insurance advisory services at Brown Smith Wallace, explains that as the law only took effect a short time ago, it is premature to expect significant results, but it does “reaffirm Missouri’s commitment to be to captive

domicile of choice for its citizens and provides the flexibility potential captive owners and advisors are looking for”.

David Dimit, executive director of the Missouri Captive Insurance Association, says that the current laws in Missouri allow for captive flexibility and are responsive to the needs of businesses.

“There are already several potential cell captives being organised and the first application of this type are expected soon,” he adds.

Dimit also explains that Missouri’s 30 licensed captive companies have total annual premiums of \$6.6 billion, adding that the state also has the average highest captive premium in the world and ranks in the top five in total premiums.

### Put into practice

There are currently six different captive structures available in Missouri: pure, branch and special purpose life insurance captives that each require a minimum capitalisation of \$250,000, industrial insured and segregated cell captives that require minimum capitalisation of \$500,000

and association captives that need a minimum capitalisation of \$750,000.

Fine explains what services teams at Brown Smith Wallace provide to captive insurers in Missouri and throughout the US.

He says: “Specifically, we assist our clients with feasibility studies to determine whether a captive is right for them, and if so, help design the structure and insurance coverages to be placed in the captive.”

“After start-up, we stay involved in several ways. First, we provide the financial statement audits, which are required by Missouri law. We also prepare the requisite federal income tax returns for the captives. Finally, we consult on an ongoing basis with our clients to ensure that their captives are fully meeting their business needs.”

According to Dimit, there are a number of factors that contribute towards Missouri’s success as a captive insurance domicile. He explains that firstly, the state is centrally located in the US, which makes it easy for customers to travel there for meetings.

Dimit also highlights that Missouri’s fees for licensing and renewal are fully deductible from future premium taxes and that the state offers

clients a “speedy application process, usually 30 days or less; and 60 days for special purpose captives as required by law”.

And despite its relatively modest total of just 30 captives—that seems low when compared to the now 1000 strong Vermont—Fine thinks that Missouri should be commended for its regulatory environment that “compares favourably to other jurisdictions”.

“The regulators appropriately oversee the formation of captives and their ongoing activities without being overzealous in their oversight. The Missouri Department of Insurance is also user-friendly as applications are completed and the captives organised.”

Dimit adds that Missouri maintains a regulatory attitude that is supportive of captive formation. He explains that Missouri has amended its laws to allow for flexibility that responds to business needs, as it wants captives to succeed there.

“Regulators are available to travel, to visit with interested parties, and answer questions and address concerns. Missouri has captive specialists within the Department of Insurance, Financial Institutions & Professional Registration that are experienced, knowledgeable and dedicated to captive formation and operation.”

“Missouri is [also] familiar with many captive formations; it hosts captives with premiums exceeding \$1 billion and those smaller than \$2 million. There are captives writing just one line of coverage and up to 25 lines—with coverage lines varying from workers’ compensation to property and casualty life reinsurance and medical stop-loss.”

While on paper Missouri certainly has a lot to offer with regards to a stable regulatory environment and coverage options, Fine ultimately feels that at this present time, captive owners have a wide array of choices on where to domicile their captives.

With US domicile numbers increasingly on the rise, without mentioning venturing offshore to favoured veteran destinations such as Bermuda, the Cayman Islands, and Guernsey, it is easy to see how a small domicile such as Missouri could get lost in the mix.

But on the contrary, Fine concludes: “It is important to select a domicile that provides the appropriate level of regulation as well as flexibility with respect to structuring options. Missouri is committed to the captive industry and its enabling statutes are now on par with other domestic domiciles.” **CIT**

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