What Makes an Effective Captive Application?: Actuarial Dos and Don’ts

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Goals of Captive Applications

**Regulatory**
- Sufficient Information to Approve Formation
- Information for Continuing Solvency Regulation

**Captive**
- Ensure Clear Understanding of Risks
- Cost Effective

**Insurance Markets**
- Ease of Doing Business
- Minimize Barriers to Entry
Elements of a Captive Application

- Application Form
- Plan of Operation
- Actuarial Funding Analysis
- Pro Forma Financial Statements
- Articles of Incorporation/ By Laws
- Statement of Benefits to the Domicile
- Biographical Affidavits
- Parental Financials
Actuary’s Role in Captive Application Review

- Actuarial Standard of Practice No. 41
  - “(A)n actuarial report should identify the data, assumptions, and methods used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuary’s report.”
  - “(t)he actuary should take appropriate steps to ensure that the form and content (emphasis added) of the actuarial communication are clear and appropriate to the particular circumstance, taking into account the intended audience.”
Actuary’s Role in Captive Application Review

**Form**
- Is the client clearly identified?
- Is the actuary responsible for the actuarial report identified?
- Is the project scope clearly defined?
- Is the work product clear?
- Are the text and tables well organized?
Actuary’s Role in Captive Application Review

Content

- Are all assumptions and methods specified?
- Are the assumptions and methods reasonable?
- Are the data sources identified and appropriate?
- Are the resulting calculations correct?
- Are the results, findings and recommendations reasonable and adequately supported?
- Does the work product meet actuarial standards of practice or other professional standards?
- Are any reliances and limitations appropriate and clearly delineated?
- Is the potential variability of results discussed?
Tips for Captive Applications – Advice from Mom

- “Anything worth doing is worth doing well”
  - Tie it Together
- “Make your words kind, necessary and true”
  - Appropriate Detail
- “It’s okay to be unique, not weird”
  - Unique Circumstances
Tie it Together

- Footnote Exhibits
  - Data from Other Exhibits
  - Show Calculations
- Identify Data Sources
  - External Benchmarks
  - Data from Client
- Reference Specific Exhibits in Report
- Index of Exhibits
Tie it Together

- **Document Assumptions**
  - Source of Benchmarks (e.g. ISO, A.M. Best)
  - Why are they appropriate?

- **Consistency**
  - Program Design Features (e.g. Retentions/Limits)
  - Financial Results MUST be Consistent

- **Logical Flow Between Exhibits**
Appropriate Detail

- True/Accurate – Rigorous technical and peer reviews are prerequisite.
- Necessary (Part 1) – Don’t leave out essential information.
- Necessary (Part 2) – Make reports and exhibits appropriate length.
Unique Circumstances

- Hidden “surprises” tend to upset actuaries and regulators

Alternate Approach

- Discuss the unique features of a captive openly.
- Communicate how these issues are being addressed.
- Regulators, actuaries and clients all prefer this
Final Thoughts…

- Put yourself in the regulators shoes…
- If this company going under might cost me my job, would I approve it based on the information provided?