

ACCESSING YOUR CAPTIVE'S SURPLUS

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CAYMAN
CAPTIVE
FORUM
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SPEAKERS



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bjectives

- **Forms of Distributions**
- **Distributions by type of entity**
- **Purpose of the distribution**
- **Adhere to the Principles of Insurance**
- **Respect the Process**
- **Ramifications of Improper Distributions**
- **Q & A**



FORMS OF DISTRIBUTIONS*

- Policyholder Dividends (rewards the insured)
- Stockholder Dividends (returned to owner)
- Retrospective Rated Balances
- Premium “Holidays” (offset cash flows)
- Risk Management Grants (investments in loss reduction efforts)



* U.S. Income Tax ramifications will differ by type of structure, ownership & distribution

WHAT IS THE PURPOSE OF THE DISTRIBUTION?

- Release excess surplus to parent for reinvestment (to achieve higher ROI)
- Shore up parental shareholder or insured cash balances
- Offset uninsured loss at the parental level
- Offset current or future premium payments
- Distribute profits to captive's beneficial owners
- Allow the captive to insure a wider array of risks
- Reward good risk management efforts
- Fund new risk management programs



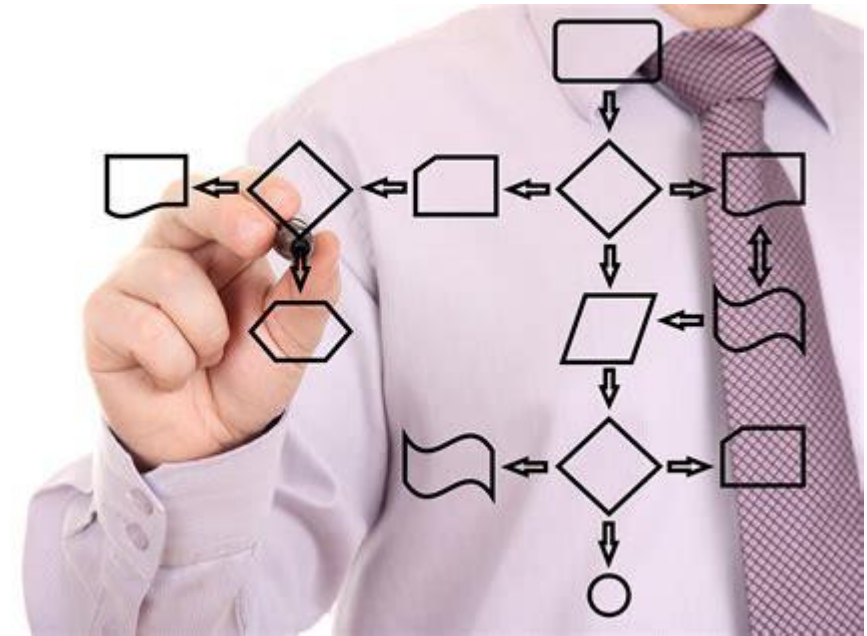
ADHERE TO THE PRINCIPLES OF INSURANCE

- Premium “Holiday” is a misnomer
- Premium credits should be actuarially determined
- Should not excessively erode surplus
- Evidence clear management consideration
- Additional lines/coverages should be priced appropriately



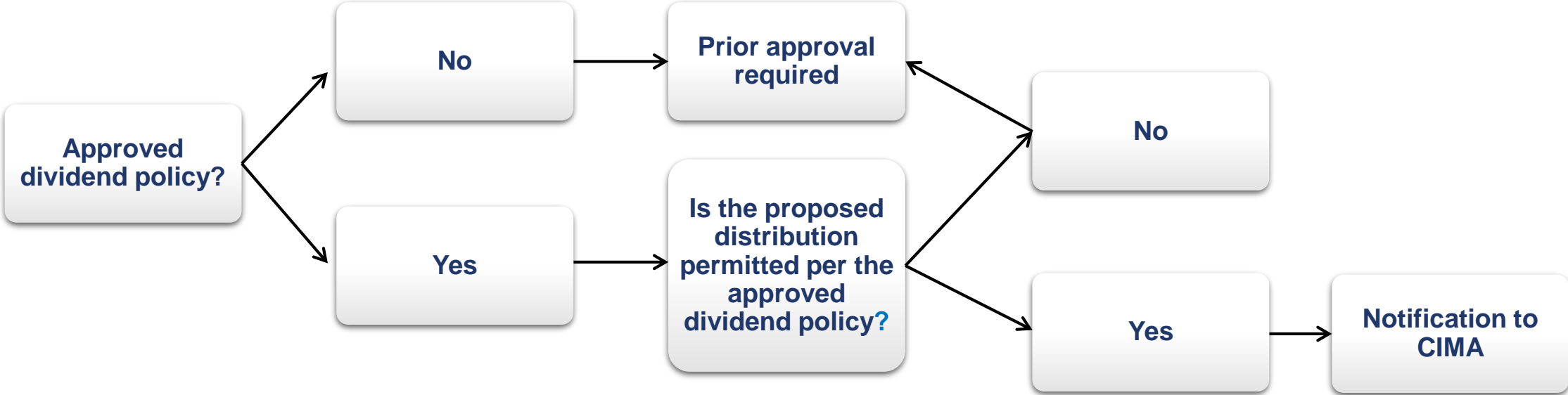
WHAT IS THE PROCESS?

- Determine the amount of the distribution
- Weigh the timing & tax impacts*
- Select the form of distribution
- Request regulatory approval (as required)
- Obtain approval from the Board
- Memorialize distribution appropriately in captive documents
- Process the distribution accordingly



* Consider recent changes in U.S. tax code, as tax ramifications will differ by type of structure, ownership & distribution.

REGULATORY REQUIREMENTS



REGULATORY REQUIREMENTS

- 1) **Prior approval for changes to the dividend policy:**
 - a) Reason for the change
 - b) Funding and the loss reserving policy
 - c) Latest management accounts

- 2) **Prior approval for a dividend payment where there isn't an approved dividend policy:**
 - a) Proposed amount
 - b) Intended timing of distribution
 - c) Latest management accounts

- 3) **Prior notification only (where a dividend policy has previously been approved and the dividend is within the scope of the dividend policy):**
 - a) Confirmation that the dividend is in accordance with the policy
 - b) Proposed amount
 - c) Intended timing of distribution
 - d) Latest management accounts

RAMIFICATIONS OF IMPROPER DISTRIBUTIONS



KEY TAKEAWAYS



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THANK YOU!

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