

Captive 101

2025 Client Symposium

Presenters



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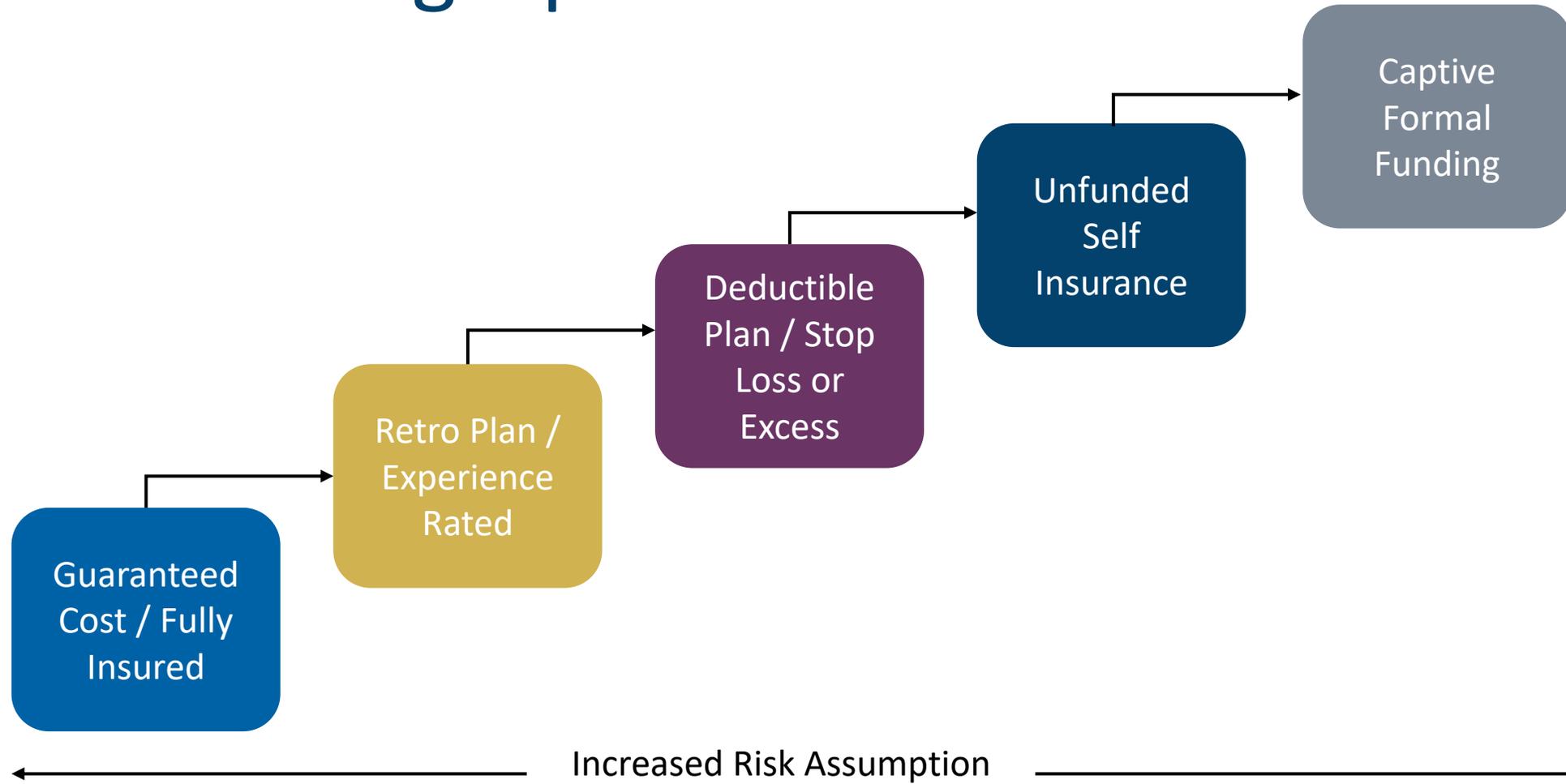
Discussion Points

- Captive Introduction
- Captive Types
- Feasibility & Development
- Daily Operations
- Insurance Investment Solutions

Captive Insurance Definition

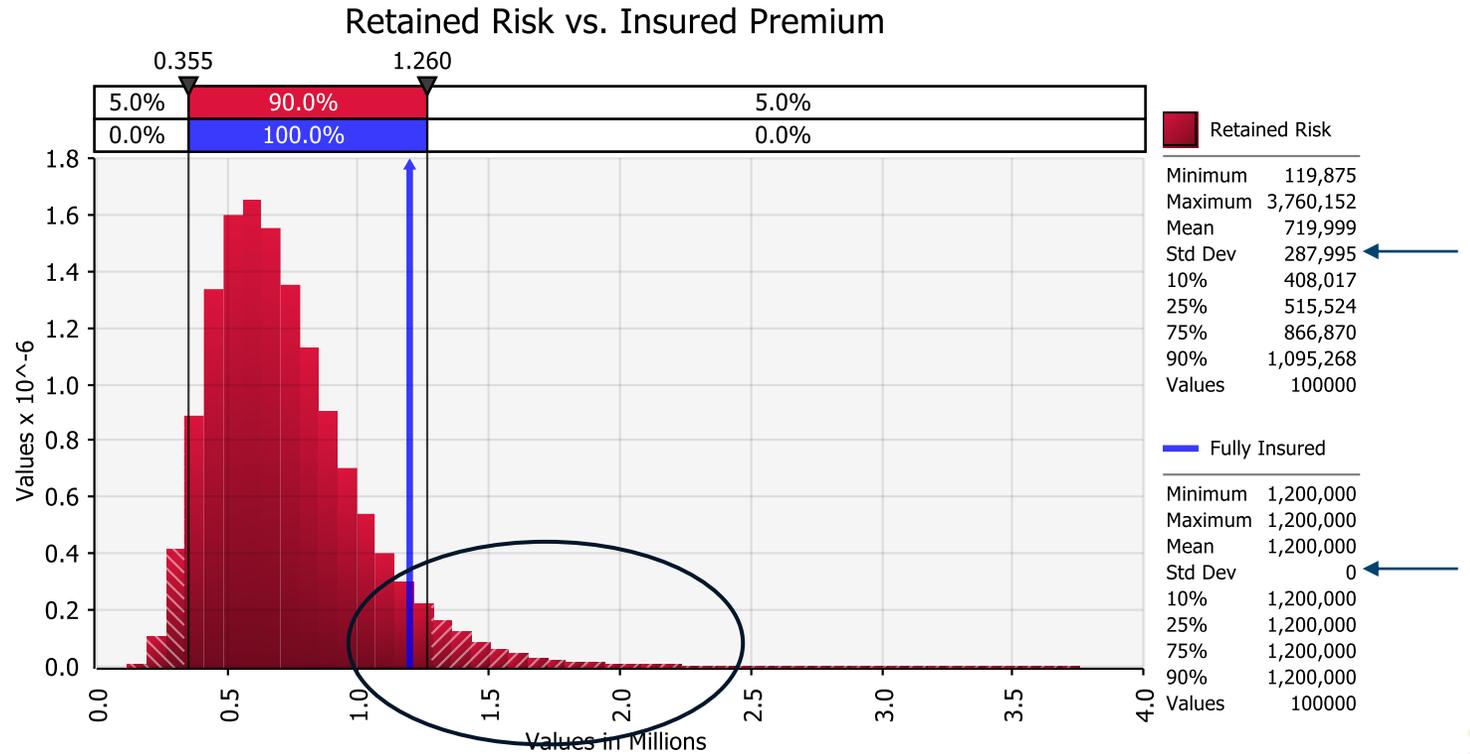
- A licensed insurance company owned by one or more non-insurance entities for the primary purpose of providing insurance coverage to the owner or affiliated entities.
 - Separate legal entity
 - Insurance company license
- Regulated under special (less stringent) state (Vermont/Utah) or country (Bermuda/Cayman) legislation regulating captives.
- Can be standalone or within a cell facility, single, or group.

Risk Financing Options



Risk Profile Change Case Study

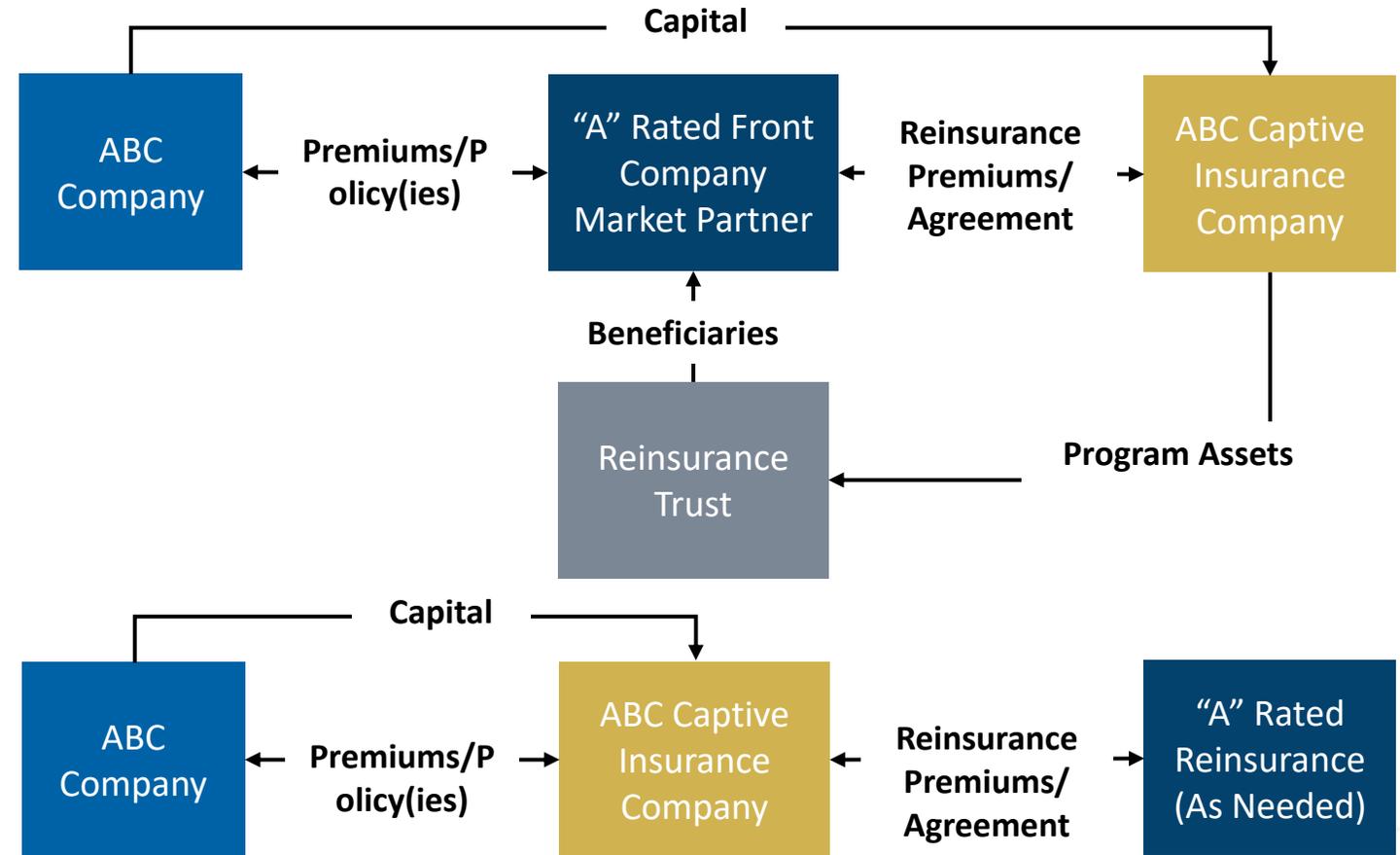
- Changed risk profile
- Need to focus on loss control



Captive Types

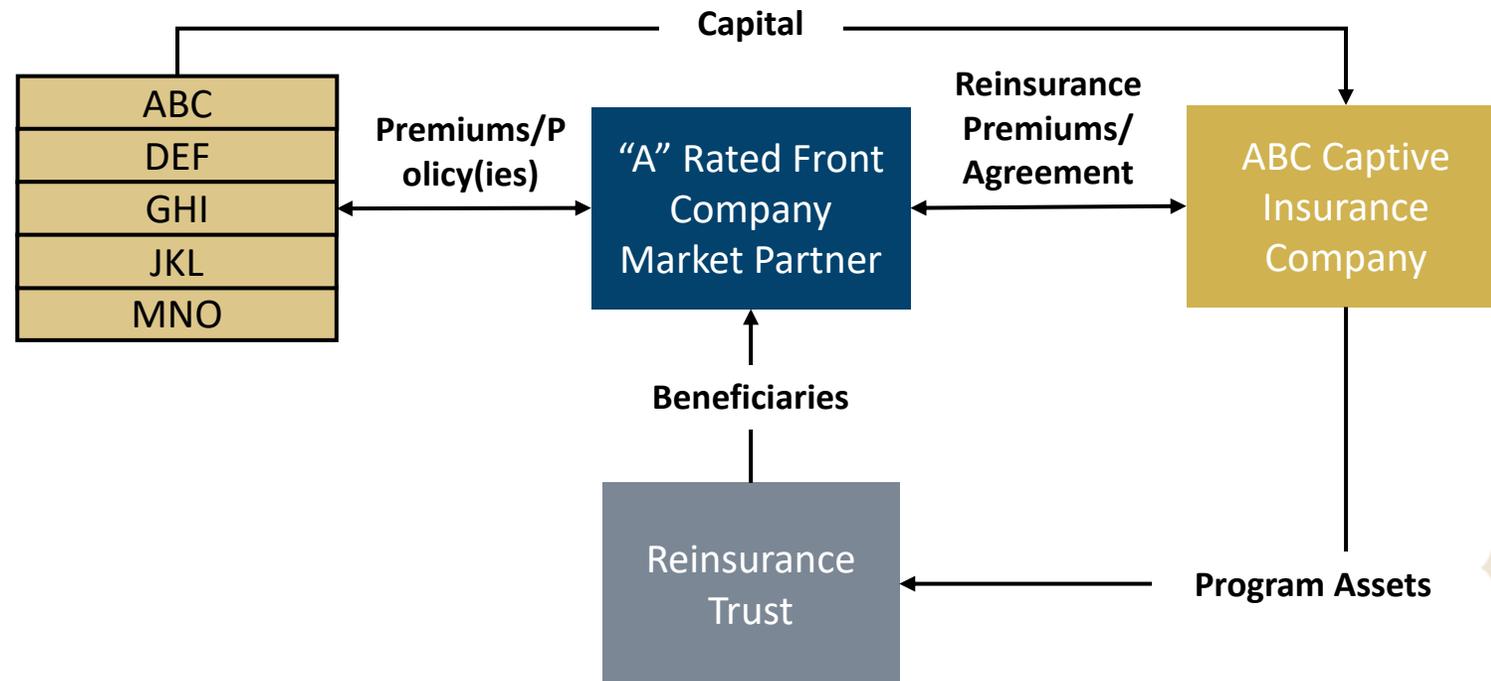
Single Parent Captive

- Wholly owned by one parent company
- Formed primarily to insure or reinsure the risks of the corporate parent or (un)related parties of their choosing



Group Captive

- Owned by two or more companies, often affiliated through a trade association or group of companies in the same industry (“homogenous group captive”)
- Formed to insure or reinsure the risks of the group
- Alternative risk-sharing structures known as Risk Retention Groups—a special form of captive limited to underwriting liability risks directly in the US—are also common

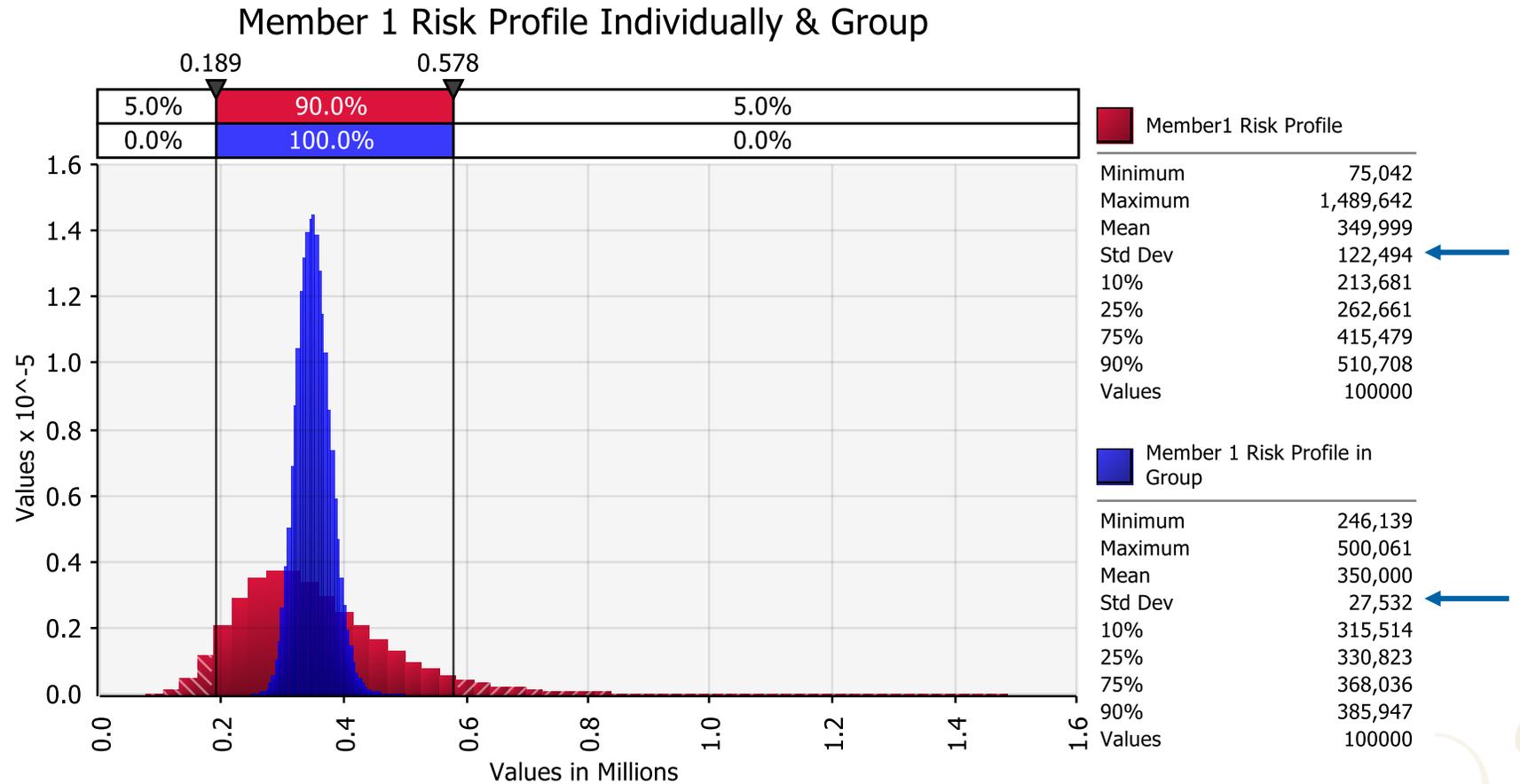


Group Captive/RRG Comparison

Placement	Reinsurance	Direct
Coverage Lines	All lines	Liability only
Admitted Carrier	No – (through front partner)	Yes
Rated Carrier	Yes – through front partner	Not at inception, should be focus
NAIC Filings	No	Yes
Front Fees	Yes	No
Collateral	Yes	No
Catastrophic Coverage	Usually through front partner	Usually through reinsurance
Administrative Expense	Lower	Higher due to increased regulatory requirements
Capital Efficiency	Less efficient due to need for stacking collateral	More efficient due to lack of collateral, can be impacted by domicile, RBC requirements

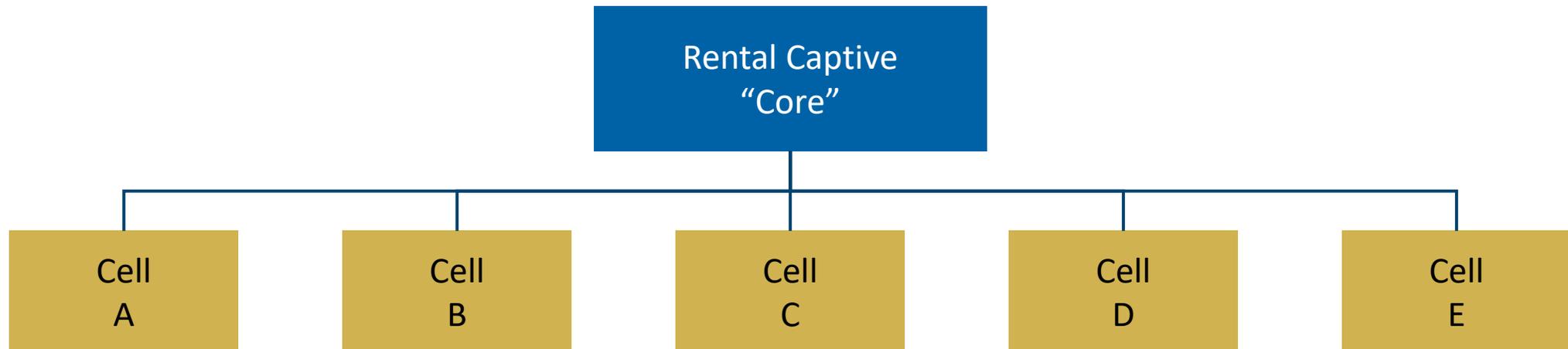
Group Captive Case Study

- Risk stability through diversification.



Protected Cell/Rental Captive

- The Core owner takes responsibility for regulatory minimum capital and co-ordinates services to the cells.
- Each cell can be owned by a separate party, with assets and liabilities of each ring fenced from one-another.
- Individual cells operate under the core's license.



Cell/Rental Captives

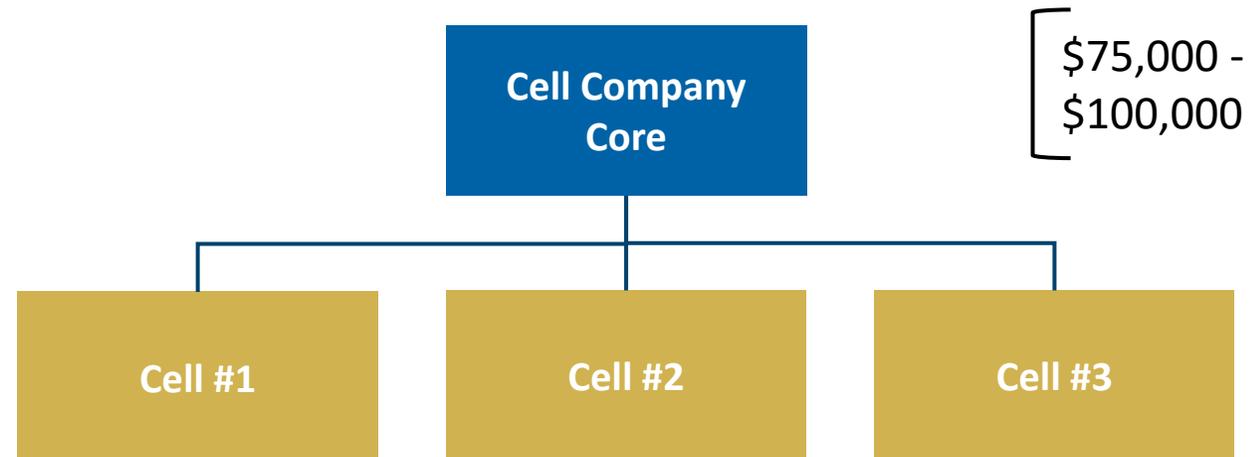
- Key differences:

Category	Standalone Captive	Cell Captive
Cost	Slightly More	Slightly Less
Capital	Statutory Capital Needed	No Statutory Capital
Control	Complete Control	Less Control
Confidentiality	Increased	Less – Due to Core
Commitment (Time)	Slightly More	Slightly Less

- Once operational, user experience should be similar.
- Cell rental fee will offset some of the cost difference.

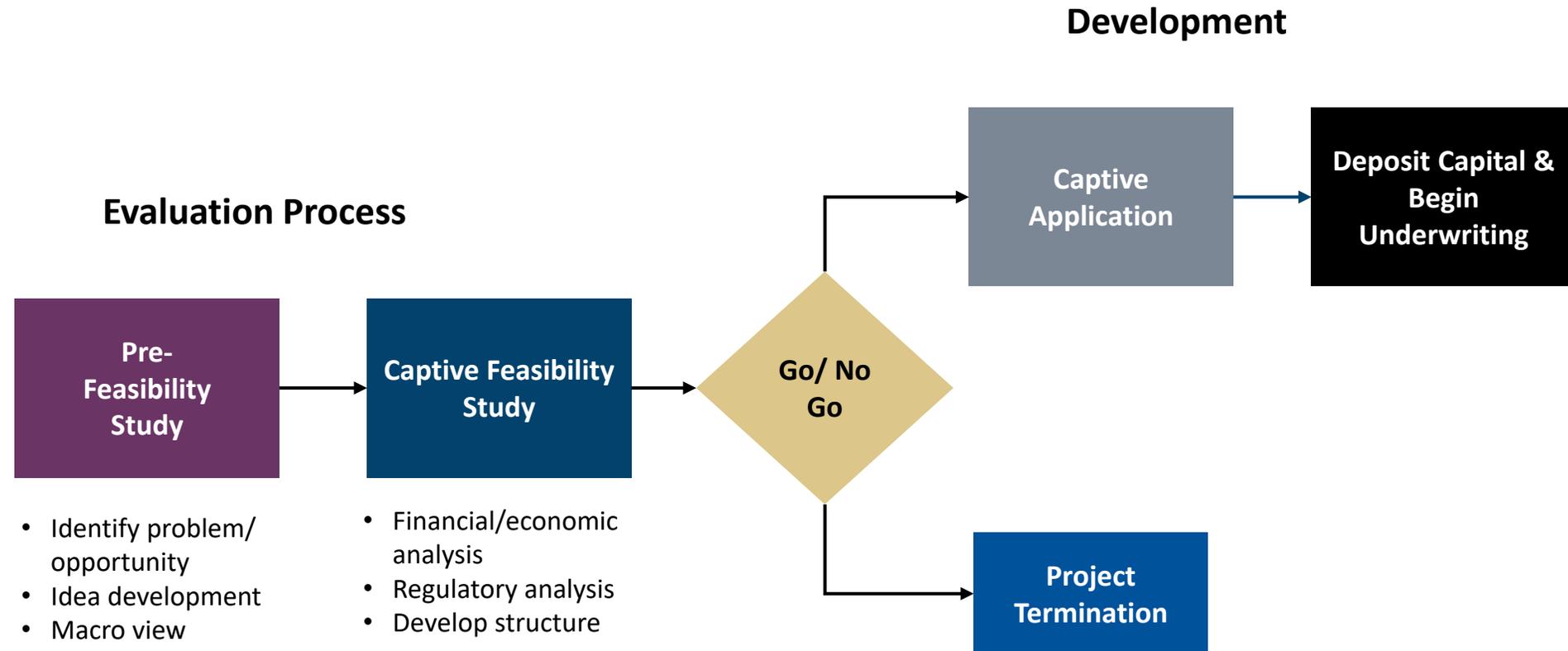
Cell/Rental Captive Case Study

- Cell facilities are increasingly being developed by insureds to own and control the overall facility.
- The core capital was once \$500,000 to \$1,000,000 but has been reduced by domiciles to become more competitive.
- Some examples below:
 - Connecticut - \$75,000
 - North Carolina - \$100,000
 - Vermont - \$100,000

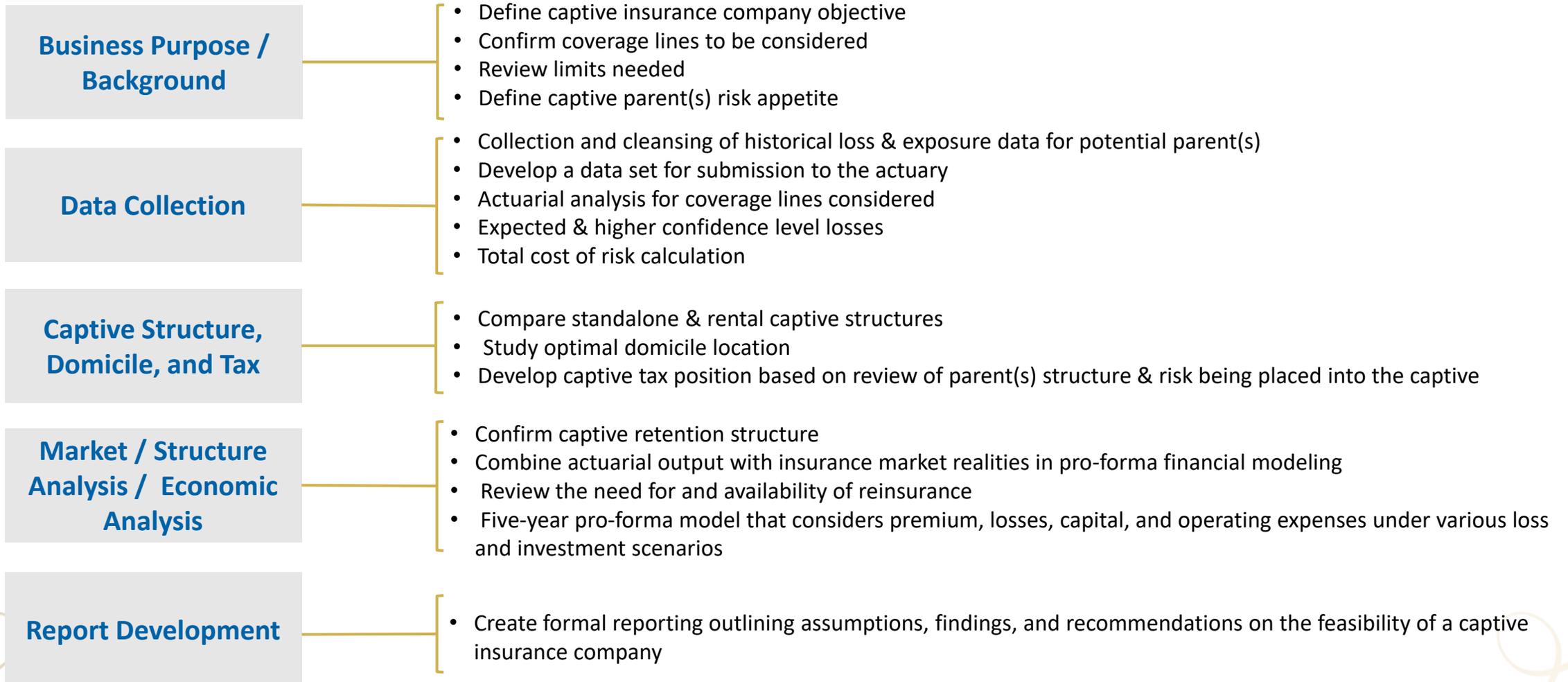


Feasibility & Development

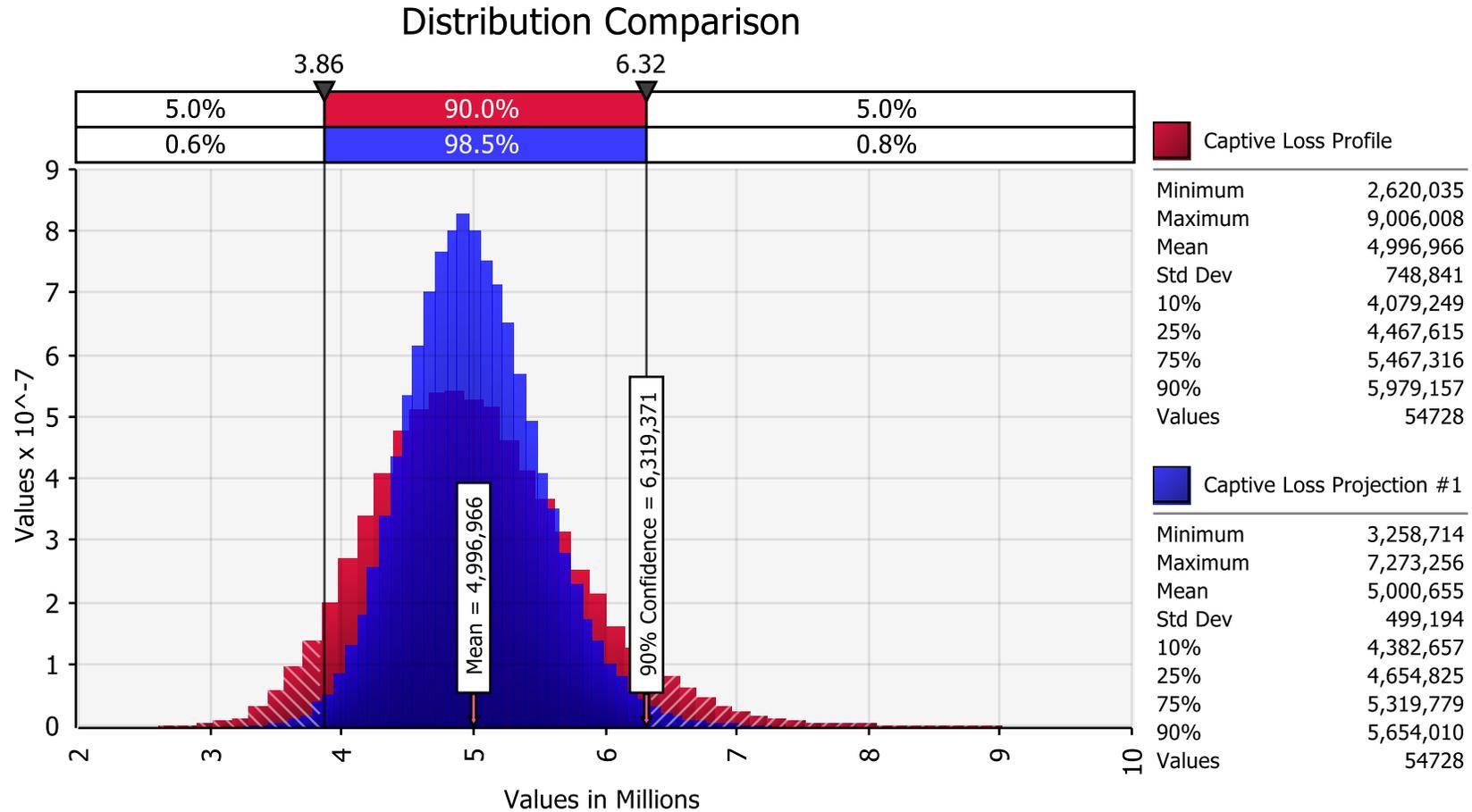
Feasibility & Development



Feasibility Study



Feasibility Study – How Much Capital?



Feasibility Study – How Much Capital?

Risk Profile #1

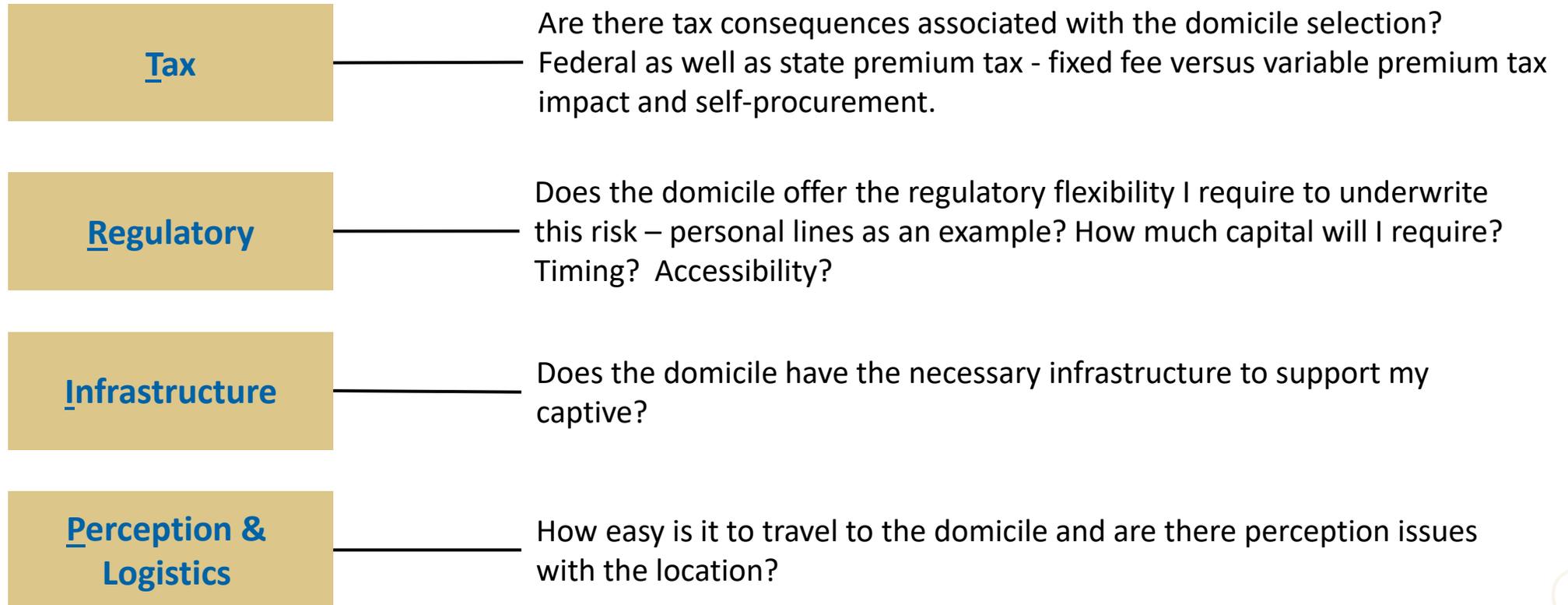
Mean/Premium Funding	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Capital	\$ 825,000	\$ 925,000	\$ 1,025,000	\$ 1,125,000	\$ 1,225,000	\$ 1,325,000	\$ 1,425,000	\$ 1,525,000
Total Funding	\$ 5,825,000	\$ 5,925,000	\$ 6,025,000	\$ 6,125,000	\$ 6,225,000	\$ 6,325,000	\$ 6,425,000	\$ 6,525,000
Premium to Capital	6.061 To 1	5.405 To 1	4.878 To 1	4.444 To 1	4.082 To 1	3.774 To 1	3.509 To 1	3.279 To 1
Confidence Level Funding	86.247%	88.574%	90.581%	92.081%	93.580%	95.044%	95.866%	96.688%

Risk Profile #2

Mean/Premium Funding	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Capital	\$ 825,000	\$ 925,000	\$ 1,025,000	\$ 1,125,000	\$ 1,225,000	\$ 1,325,000	\$ 1,425,000	\$ 1,525,000
Total Funding	\$ 5,825,000	\$ 5,925,000	\$ 6,025,000	\$ 6,125,000	\$ 6,225,000	\$ 6,325,000	\$ 6,425,000	\$ 6,525,000
Premium to Capital	6.061 To 1	5.405 To 1	4.878 To 1	4.444 To 1	4.082 To 1	3.774 To 1	3.509 To 1	3.279 To 1
Confidence Level Funding	80.73%	82.92%	85.09%	86.76%	88.43%	90.06%	91.12%	92.18%

Which Domicile?

There are four principal factors governing choice of domicile:



Development Needs

Business Plan

Application

Pro-Forma Financial Statement

Actuarial Study

Legal/Organizational Documents

Biographical Affidavits

Service Provider Engagement
Letters

Daily Operations

Daily Operations - Management

Regulatory & Compliance Oversight

Ensuring adherence to local insurance laws and regulations

Financial & Accounting Management

Overseeing financial statements, budgeting, and reporting

Risk Management & Underwriting

Advising on risk retention strategies and capital adequacy

Operational & Governance Support

Coordinating board meetings, governance policies, and reporting

Strategic Planning & Optimization

Advising on captive expansion, new coverages, and cost efficiencies



Daily Operations – Management Focus

Key management touchpoints:

Underwriting & Risk
Assessment

Claims Management

Regulatory &
Compliance Oversight

Finance & Investment
Management

Policy Administration &
Customer Service

Reinsurance & Risk
Transfer

Technology & Data
Analytics

Governance & Strategic
Planning

Insurance Investment Solutions

Captive Insurance Investment Process



WHEN: We manage each portfolio according to its cash flow needs. We also coordinate with your actuaries, domicile, third-party administrator (TPA), and bank partners when needed.

WHY: Primary objective – meet expected claims & maintain liquidity buffer for unexpected events
Secondary objective – grow capital prudently

HOW: We manage each portfolio according to its cash flow needs. We also coordinate with your actuaries, domicile, third-party administrator (TPA), and bank partners when needed.

WHO: Investment portfolios are integrated into each insurance program. Each portfolio is customized through coordination with your captive manager (SRS) and the captive's committee(s).

The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk, and there are no guarantees that these methods will be successful.

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Insurance Investment Process Steps

We Partner with SRS to Provide: Strategic asset allocation, portfolio management, and reporting aligned with your liquidity needs, forecasted liabilities, and regulatory structure.



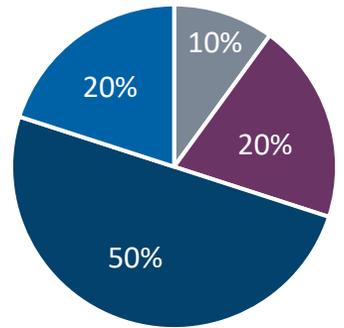
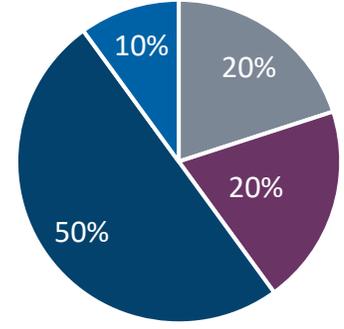
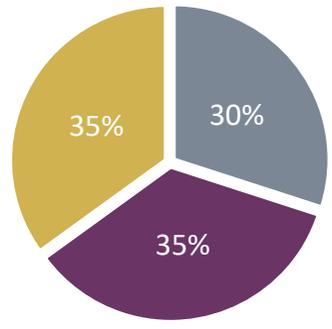
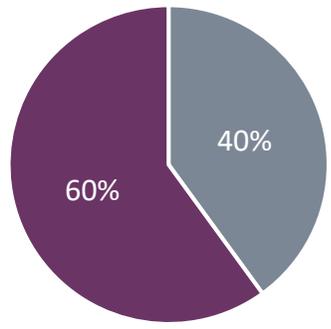
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Sample Investment Allocations for Each Stage of a Captive

Formation	Development	Expansion	Maturity
<ul style="list-style-type: none"> < 2 years old Premium payments are made & company seeks to understand future expected claims Development of investment policy 	<ul style="list-style-type: none"> 2-5 years old Established capital base & surplus assets Forecasting for future liabilities & cash flow cycle Track underwriting history & results vs. forecast 	<ul style="list-style-type: none"> 5-8 years old Surplus assets accumulated Detailed understanding of liability stream using actuarial data 	<ul style="list-style-type: none"> > 8 years old Optimization of capital & dividend program Continued diversification of investments to maximize long-term growth Claims continue to be paid from assets & growth of investment

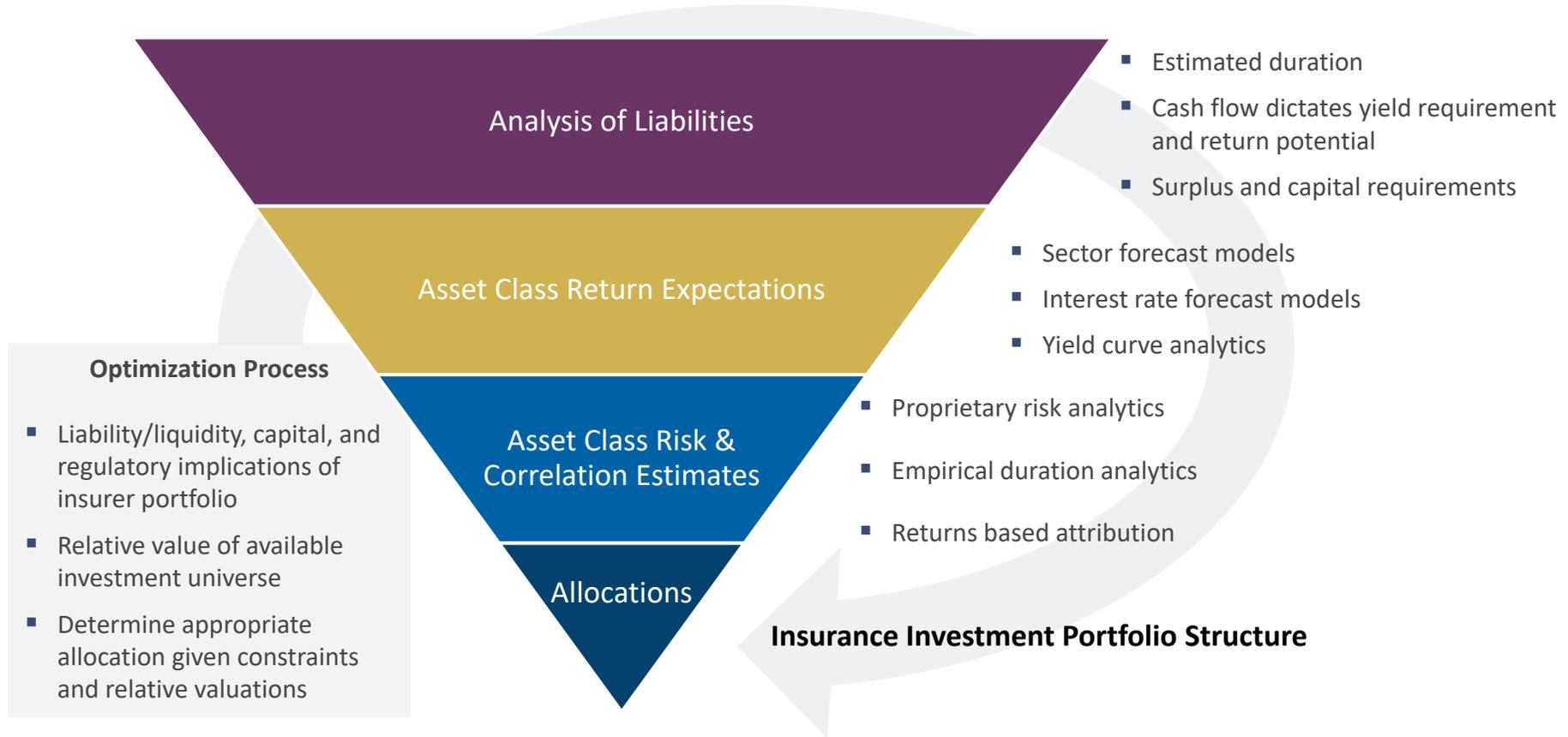
Sample Investment Allocations¹



Money Market Fund
 0-12M U.S. Treasury Index
 1-3Y Govt/Credit Index
 Intermediate Agg Index
 Equity

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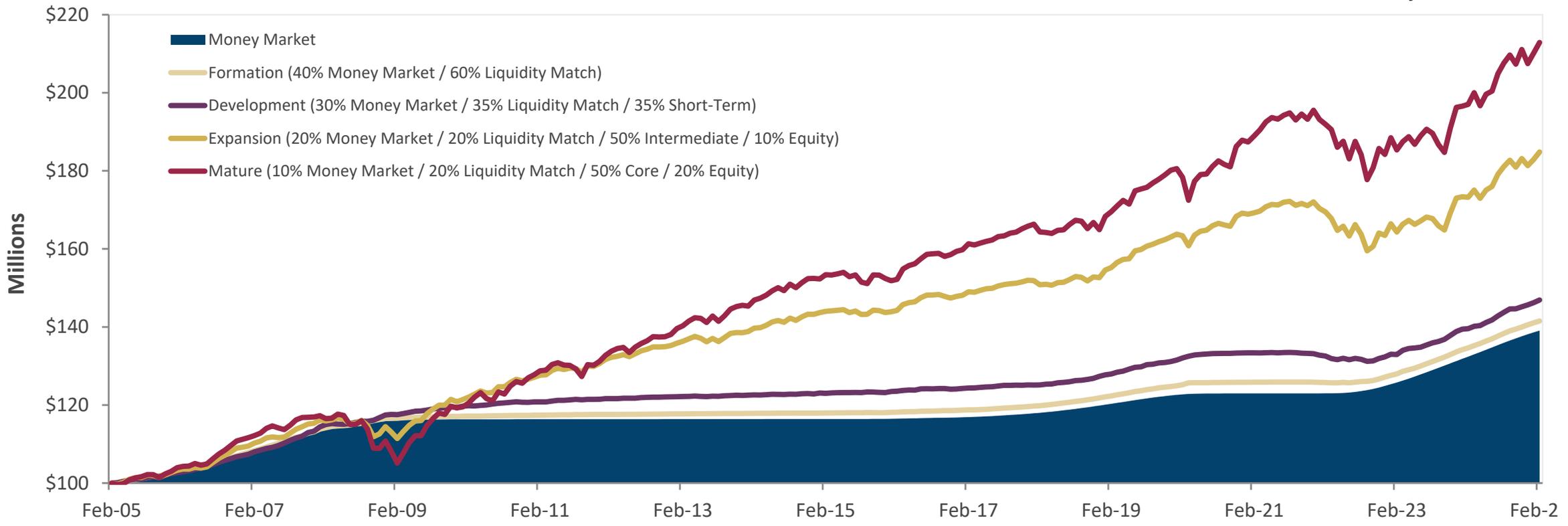
Insurance Investment Asset Allocation Process



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Sample Historical Performance for Each Stage of a Captive

Data is as of 02.28.2025.



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Sample Investment Asset Allocation Progression

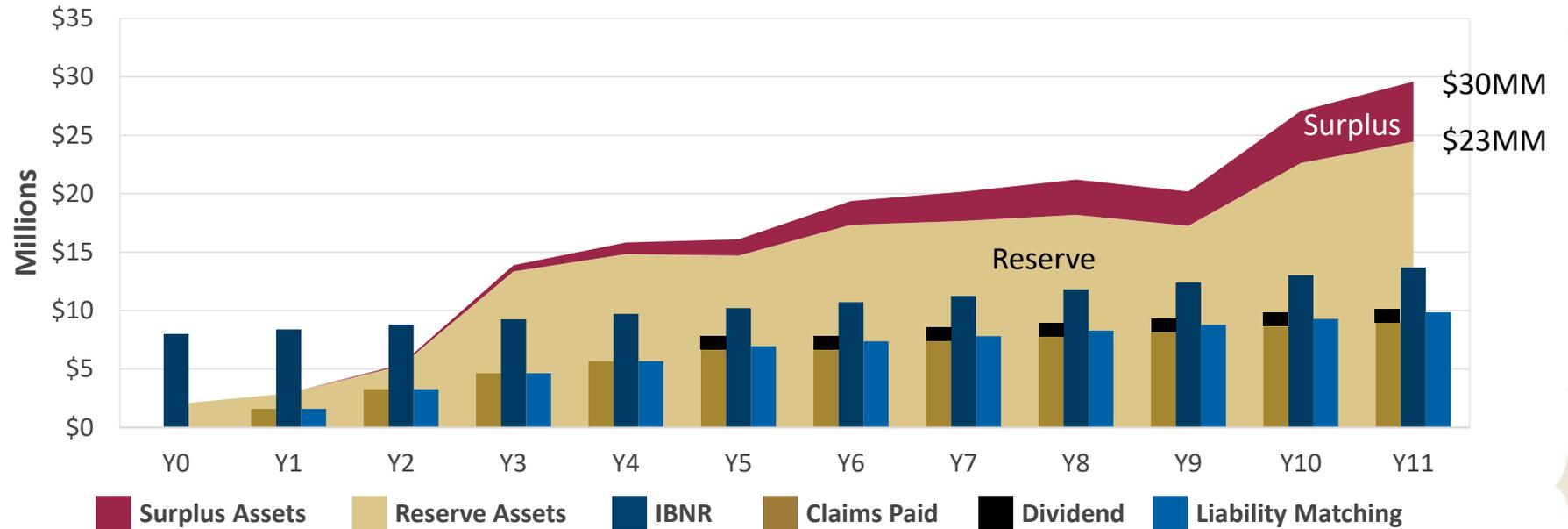
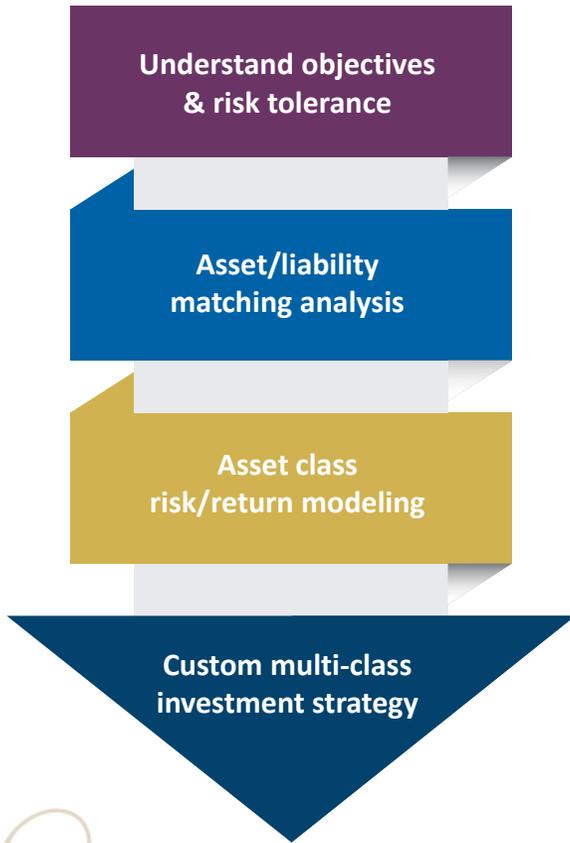
Captive Formation Assumptions	
Initial Capital Funding	\$2,000,000
Net Earned Premium	\$10,000,000
IBNR	\$8,000,000
Initial Invested Assets	\$2,000,000

Lifecycle of Captive	Years 0-2: Formation	Years 3-5: Development	Years 6-8: Expansion	Years 9 & Up: Maturity
Progression of Reserve Asset Allocation	40% Money Market 60% Liquidity Match	30% Money Market 35% Liquidity Match 35% Short-Term	20% Money Market 20% Liquidity Match 50% Intermediate 10% Equities	10% Money Market 20% Liquidity Match 50% Core 20% Equities
Progression of Surplus Asset Allocation	100% Liquidity Match	30% Liquidity Match 70% Short-Term	20% Liquidity Match 50% Intermediate 30% Equities	10% Liquidity Match 50% Core 30% Equities 10% Alternatives

Liquidity Match = 0-12 Month Bonds; Short-Term = 0-5 Year Bonds; Intermediate = 0-10 Year Bonds; Core = 0-20 Year Bonds.

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Results of an Integrated Insurance Investment Management Approach



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Thank You!

For questions, please reach out to
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