



Department of Insurance
State of Arizona
Captive Insurance Division
Telephone: (602) 364-4490
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JANICE K. BREWER
Governor

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CHRISTINA URIAS
Director of Insurance

APPLICATION INSTRUCTIONS FOR FORMING A CAPTIVE INSURANCE PROGRAM (Including Risk Retention Groups)

BEFORE submitting the application, please complete the following:

- ◆ Check name availability for the captive with Ms. Maidene Scheiner, Administrative Assistant, at (602) 364-4490.
- ◆ Submit the original and two copies of the Articles of Incorporation to Maidene Scheiner, Administrative Assistant. If acceptable, the Department will stamp the Articles and return them to you to file directly with the Arizona Corporation Commission (ACC). For ACC filing information, please go to www.cc.state.az.us/corp/filings/forms.

*Upon completion of the above items,
please furnish the following required information.*

- **IMPORTANT**: Complete the application in a free-form narrative format to allow sufficient opportunity for full explanation of your responses.
- Follow the directions below. Repeat all the application headings, titles and alpha/numeric format identified below, when creating the sections and sub-sections of the application binders you submit with your application.
- Respond to all questions or requests for information. Do not indicate "N/A" without specifying why the question, heading, or section is inapplicable.
- When the application is complete, please submit the **ORIGINAL AND THREE COPIES** of all information and supporting documents in four separate three-ring binders formatted with appropriate indices and tabs tracking the sections and subsections as described herein. Failure to adhere to these guidelines will delay processing and may result in rejection of your application materials.

SECTION A: GENERAL INFORMATION

- 1) Name of proposed captive.
- 2) Principal office address of proposed captive.
- 3) Name, address and phone number of the contact person for this application.
- 4) Name & address of Statutory Agent for service of process.
- 5) Parent(s) of proposed captive.
 - a) Name(s) of parent(s).

- b) Net worth of parents(s).
- c) Address(es) of parent(s).
- 6) Name(s) and addresses of the beneficial owners of the proposed captive.
 - a) Specify percent of ownership.
 - b) Explain relationship among all owners.
- 7) Provide an organizational chart and a narrative explanation of the relationships between the parents, the captive and any other parties to be insured by the captive.
- 8) Provide the Annual Report of the parent(s), if applicable.
 - a) If individuals formed a Holding Company that will be the captive's parent, provide dated and CPA certified 10K or personal financial statements of the individuals forming the Holding Company.
- 9) Identify type of proposed captive (pure, risk retention group, industry group, association, agency, protected cell). For protected cell, please complete Supplemental Application, Captive Form 120, for each cell.
- 10) Organizational form of proposed captive (stock, mutual, reciprocal, non-profit).
- 11) Indicate whether the captive will write business directly, or as a reinsurer.
- 12) Identify proposed coverages and/or lines of business for the captive.
- 13) Submit Biographical Affidavits (see Captive Form 101A) for each Director of the proposed captive.
- 14) Submit Biographical Affidavits (see Captive Form 101A) for the President, Vice President, Secretary and Treasurer of the proposed captive.
- 15) **Has ANY domicile declined, suspended, revoked, or taken administrative action on or against an application for ANY kind of insurance entity, ANY company or ANY individual associated with, or involved in this captive formation? If so, describe in detail the circumstances of the action and provide all related documentation (e.g. order of revocation, letter declining to accept application).**
- 16) Proposed start-up date (should be no less than 45 days from submission of application).
- 17) Proposed fiscal year for the captive.

SECTION B: BUSINESS PLAN & SUPPORTING INFORMATION

BUSINESS PLAN

- 1) Please provide a *concise, but comprehensive, overview* of the purpose of the captive, its structure, ownership, financing, etc. Do NOT rely on the attachments and exhibits to act as your vehicle for providing clarity to the Department's review and approval process.
- 2) Applications for risk retention groups (RRGs) should clearly *explain the reasons for the proposed program and how its structure conforms and complies with the Liability Risk Retention Act, for example:*
 - a) All owners must be insured and all insureds must be owners.
 - b) Owners must ordinarily have some financial interest in the program over and above the premium and the owners should participate in the management and control of the RRG through participation in the Board of Directors and officer positions.
- 3) This application section should contain narrative, data or exhibits, including the following, even if the information may be duplicative of that provided in other sections of your application:
 - a) If the applicant is an association, provide its history, purpose and size of membership.
 - b) Identify each line of coverage to be insured and, for each line, answer the following:
 - i) Indicate whether the captive will write directly, or as a reinsurer.
 - ii) Expected gross annual premium by line of coverage.
 - iii) Expected net annual premium by line of coverage.
 - c) Furnish copies of in-force Declaration Page(s) for both primary and excess/umbrella coverages equal to the proposed coverage limits for the captive.

- d) Provide hard copies of Claims & Loss Exhibits from insurance carriers for the past three years. Describe all claims in excess of \$100,000 and the corrective action taken to avoid future occurrences.
- e) Three-year financial projections (Pro-forma) showing expected and worst case scenarios.
- f) The amount of retained risk proposed—per loss and annual aggregates.
- g) Outline reinsurance plans, whether ceded or assumed, including fronting arrangements. Use Captive Form 104 as necessary.
- h) Rates or pricing guidelines.
- i) Underwriting guidelines and procedures.
- j) Outline any notable or extraordinary loss control or safety programs.
- k) Specify the investment policy and the terms and conditions of any anticipated loan-backs (pure captives only).
- l) Plans for dividend (or other funds) distributions apart from ordinary operating expenses.
- m) Furnish copies of all proposed coverage forms—even if you intend to use ISO forms.

ACTUARIAL FEASIBILITY STUDY

- 1) The feasibility study should adhere to the following guidelines:
 - a) Prepared on the actuary's letterhead.
 - b) Include a description of all materials the actuary reviewed and an explanation of how the feasibility study comports with the Business Plan (e.g. risks, coverages, retentions, and whether the captive will write directly, cede, or assume business).
 - c) The review should cover 3-5 years worth of loss history, specific, if possible, to the insured and the Business Plan.
 - d) Describe the methodology used in preparing the feasibility study including confidence levels, credibility, expected results, worst and best case scenarios with premium and loss components.
 - e) Include conclusions on proper pricing.

SECTION C: LEGAL/ORGANIZATIONAL INFORMATION

- 1) Provide certified copies of the captive's Articles of Incorporation (certified by the Arizona Corporation Commission), Bylaws (certified by an officer of the corporation) and any other relevant organizational documents.**
- 2) Include a copy of the Arizona Corporation Commission's Disclosure Statement and a duplicate original of the Statutory Agent Appointment as attached thereto.
- 3) Furnish an Affidavit of Publication indicating publication of the Articles of Incorporation at least three (3) times in a newspaper having general circulation in the (Arizona) county of the corporation's intended place of business.
- 4) Provide copies of all agreements between the captive and its manager, reinsurers and ALL other service providers (accountant, lawyer, actuary, claims administrator, broker, etc.).
- 5) Provide Minutes of all meetings of incorporators, directors, shareholders and committees to date.

SECTION D: FINANCIAL INFORMATION

- 1) Capitalization (if stock company, provide a copy of the Stockholder Register).
 - a) Amount of paid in capital and surplus.
 - b) Type(s) and numbers of shares to be authorized.
 - c) Par Value of each share and selling price by type.
- 2) Funding (if Mutual or Reciprocal Company).

- a) Amount of Contributed Surplus to Policyholders.
- 3) If you intend to use a Letter of Credit (LOC) for capitalizing or funding the captive, you must provide an irrevocable and unconditional LOC containing an evergreen clause payable to the Arizona Director of Insurance, to be held in trust for the protection of all policyholders, ceding insurers and payment of related expenses. See A.R.S. § 20-1098.03(B). The LOC must meet the following requirements:
 - a) The LOC shall be issued or confirmed by a qualified United States financial institution as defined by A.R.S. § 20-261.03(A) and shall comply with the requirements prescribed by the Director.
 - b) The captive insurer shall not be directly or contingently liable for any LOC comprising its capital or surplus and the captive may not pledge its assets as security for the LOC.
 - c) Use Captive 103 Irrevocable Letter of Credit form. Show the LOC amount as well as the name and address of the bank(s) or financial institution(s).
- 4) Provide an initial financial statement showing assets, liabilities, sources and type of financial support, signed under oath by the captive insurer's president and secretary.
- 5) Provide copies of most recent independent CPA certified financial statements.
- 6) Complete and provide Bank Confirmation Form using Captive form 106.

SECTION E: SERVICE PROVIDERS

- 1) Captive Manager's name, address, phone number, fax number and contact person. Provide a complete management firm profile if this is the first Arizona captive for this proposed captive manager.
- 2) Attorney's name, address, phone number, fax number and contact person.
- 3) Certified Public Accountant's name, address, phone number, fax number and contact person.
- 4) Actuary's name, address, phone number, fax number and contact person.
- 5) Financial Institution or bank's name, address, phone number, fax number and contact person. Keep all operating funds in an Arizona bank or financial institution account.
- 6) Fronting insurer's name, address, phone number, fax number and contact person.
- 7) Claims Administrator name, address, phone number, fax number and contact person.
- 8) Reinsurance Broker name, address, phone number, fax number and contact person.

SECTION F: FEES

Type	Amount	Payable To
1. Articles of Incorporation	\$60.00	Arizona Corporation Commission
2. Charter Document (Bylaws)	\$75.00	Arizona Dept. of Insurance
3. Examiners' Revolving Fund	\$100.00	Arizona Dept. of Insurance
4. Initial Examination	\$Varies	Arizona Dept. of Insurance
5. License (1 st Year)	\$1,000.00	Arizona Dept. of Insurance
6. License (Renewal)	\$5,500.00	Arizona Dept. of Insurance
7. Ongoing Examinations	\$Varies	Arizona Dept. of Insurance

ALL OF THE ABOVE FEES ARE NON-REFUNDABLE REGARDLESS OF WHETHER THE DEPARTMENT ISSUES OR DECLINES A LICENSE.

SECTION G: CERTIFICATION

I certify that the information given in this application is true and correct and that all estimates given are true estimates based upon facts that have been carefully considered and assessed. Furthermore, I affirm that pursuant to A.R.S. 20-1098.01, the proposed captive insurer will notify the Arizona Director of Insurance within thirty days of any material change in the information filed with this application.

If applicant is a Protected Cell Captive Insurer, I further acknowledge pursuant to A.R.S. 20-1098.01(H)(2) that all financial records of the Protected Cell Captive Insurer, including records pertaining to protected cells, shall be available for inspection or examination by the Director or the Director's designee.

Name _____ Date _____

Signature _____
(Director)

Subscribed & sworn to before me this _____ day of _____, 20_____

Signature of Notary Public _____

NOTARY SEAL: Notary Public authorized by law of the State of _____

My commission expires on _____

Forward all of the forms and documents in one package to:
Stephanie Lefkowski
Captive Insurance Division
Arizona Department of Insurance
2910 N. 44th St., Suite 210
Phoenix, Arizona 85018-7269