



Extra domiciles could cause slip in regulatory standards Chicago | 16 September 2013

According to a new report by Fitch ratings, domiciles might sacrifice practical regulatory oversight to attract and maintain a minimum number of captive registrations, as the number of active captive locations rises.

Fitch believes that some jurisdictions may not be successful domiciles if they are unable to achieve the scale necessary to support a captive insurance regulatory infrastructure.

There is also a risk that the proliferation of captive domiciles may strain the regulatory infrastructure, as currently there are a limited number of individuals possessing experience in regulating captive insurance.

To date, two additional US states have enacted captive insurance legislation in 2013. This brings the total number of US states with captive legislation to 32, including the District of Columbia.

This represents an increase of approximately 50 percent in the number of US captive domiciles in the past 10 years. Nine domiciles license 100 or more captives but half of the current US domiciles license five or fewer captives.

“Some states view captive growth as an important potential source of revenue and some are very actively courting the captive market,” said Don Thorpe, senior director at Fitch. “States will need to carefully manage the potential conflict of interest between rapid growth in captive registrations and prudent captive oversight.”

Keith Buckley, managing director at Fitch, added: “While some captives will manage themselves with prudence regardless of the regulatory flexibility afforded them, Fitch suspects many would weaken their risk management if allowed by weak regulation.”

Despite the risks, Fitch thinks that the proliferation of captive domiciles also potentially provides captive sponsors with a number of benefits by keeping taxes and fees to reasonable levels; by streamlining the review and approval process; and by allowing sponsors to innovate new structures and uses for captive insurance.

To read the report in its entirety visit the [Fitch Ratings](#) website.

Author: Jenna Jones