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WORLD **DOMICILE** UPDATE

Captive Review's World Domicile Update, sponsored by Liptz & Associates, provides a comprehensive breakdown of how many captives are active today, the new captives licensed in 2016 and where they are domiciled

Global Captive Number at 31/12/2016: 6,618

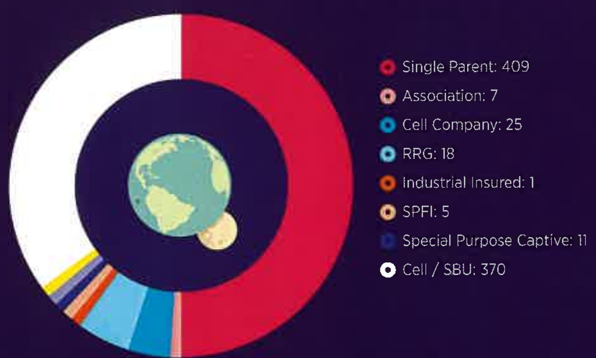
BREAKDOWN BY REGION OF GLOBAL CAPTIVES

BREAKDOWN BY TYPE OF GLOBAL CAPTIVES

NORTH AMERICA

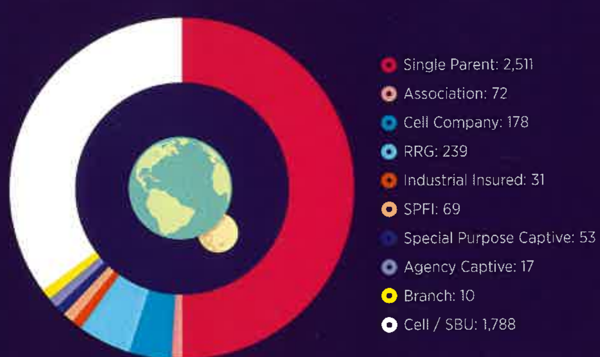
New captives licensed in 2016	478
Captive licences surrendered in 2016	212
Net difference during 2016:	266
New cells / SBUs licensed in 2016:	370

Breakdown of new RBEs in 2016:



Active captives at 31/12/2016:	3,212
Cells / SBUs at 31/12/2016:	1,788

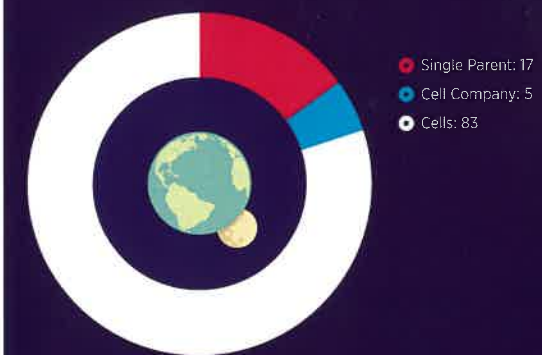
Breakdown of active RBEs at 31/12/2016:



EUROPE

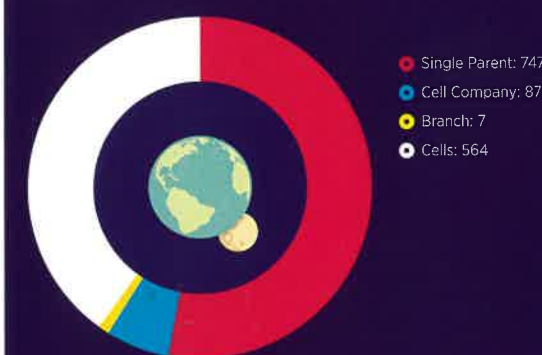
New captives licensed in 2016:	22
Captive licences surrendered in 2016:	43
Net difference during 2016:	-21
Cells licensed in 2016:	83

Breakdown of new RBEs in 2016:



Active captives at 31/12/2016:	841
Cells at 31/12/2016:	564

Breakdown of active RBEs at 31/12/2016:



North America has led the charge in new captive formations once again, but the offshore Bermuda and Caribbean region was the only one to licence more in 2016 than in 2015.

There were 616 new captives licensed in 2016, according to the 55 domiciles that sent data to *Captive Review* for the World Domicile Update, sponsored by Liptz & Associates. Of those, 78% were domiciled in United States jurisdictions (British Columbia is also included in the North America region, but no new captives were licensed there in 2016).

Despite the Bermuda and Caribbean continuing to see a high turnover of cap-

Written by
Richard Cutcher

tives – at least 149 captive licences were surrendered across the region during 2016 – it also added 108 new captives. That figure compares to 103 in 2015.

"Mature domiciles with good infrastructure and regulators are always going to attract captives," Jason Flaxbeard, captive practice leader at Beecher Carlson, tells *Captive Review*. "Bermuda and the Cayman Islands are great places to do business and Bermuda still features in every feasibility study and domicile review I do for prospective clients."

Ellen Charnley, global sales leader and a managing director at Marsh USA, agrees that Bermuda and Cayman Islands are still attractive for certain types of structures but says they do face challenges.

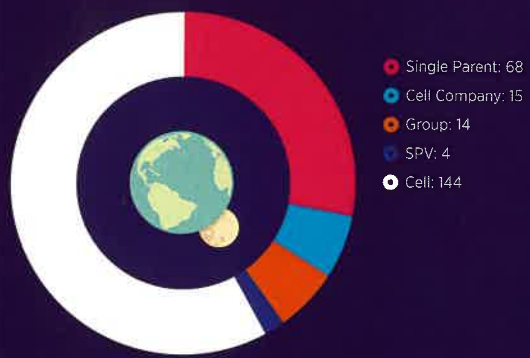
"In Cayman we are seeing interest from Bermuda Class Three-type reinsurers that are often corporate-owned captives that are writing third-party business," she says. "They are US-based, but do not want to be under the Solvency II equivalence regulation.

"There is activity is Bermuda, but it does not tend to be from traditional US

BERMUDA & THE CARIBBEAN

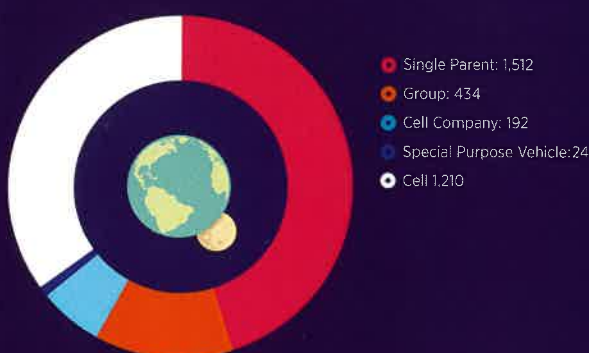
Captives licensed in 2016:	108
Captive licences surrendered in 2016:	149
Net difference during 2016:	-41
Cells licensed in 2016:	144

Breakdown of new RBEs in 2016:



Active captives at 31/12/2016:	2,417
Reported cells at 31/12/2016:	1,210

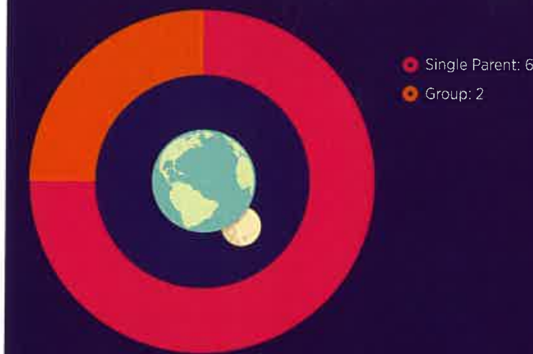
Breakdown of active RBEs at 31/12/2016:



ASIA PACIFIC

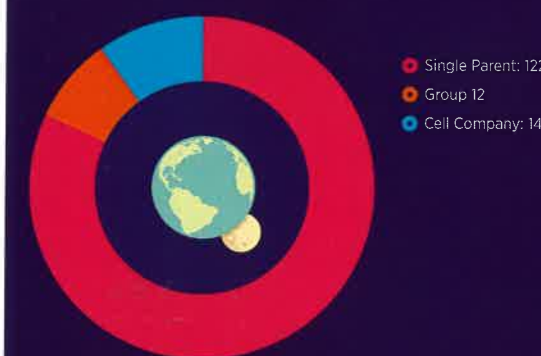
Captives licensed in 2016:	8
Captive licences surrendered in 2016:	3
Net difference during 2016:	5
Cells licensed in 2016:	ND

Breakdown of new RBEs in 2016:



Active captives at 31/12/2016:	148
Cells at 31/12/2016:	ND

Breakdown of active RBEs at 31/12/2016:



KEY AND ANALYSIS CAVEATS

- The term 'surrendered licences' encapsulates captive closures, re-domestications and captive mergers.
- Cells are not included in the captive figures, but are included in the breakdown of risk bearing entities (RBEs)
- The total number of cells is understated because a number of domiciles do not provide this data to *Captive Review*. For example, it is estimated Bermuda has more than 10,000 cells in the jurisdiction but there is no accurate data to reflect this.
- ND = Not Disclosed

captive owners. The growth is coming from special purpose vehicles which is a trend we have witnessed for some years. In Cayman, the challenge remains the merger and acquisition activity in the US healthcare industry."

With 776 at year-end, Bermuda remains the largest domicile by captive number, but its statistics remain hard to break down by type.

While its 225 Class One captives can confidently be identified as single parents, its 280 Class Two and 255 Class Three captives could be single parent, group or segregated account companies (SACs). The Bermuda Monetary Authority (BMA) does not organise its statistics this way and is also unable to report its number of active cells.

Barbados (+12), Nevis (+11) and Puerto Rico (+3) were the only jurisdictions in the region to report a positive net difference during the calendar year, although Nevis also saw a high turnover. It licensed 37 new captives and had 26 surrender their licence.

In Europe, there were 22 new captives licensed in 2016 compared to 36 in 2015. Eleven of the new formations were contributed by Guernsey, while there were five new licences in Luxembourg and two in Switzerland.

William Thomas-Ferrand, strategy and operations leader for Europe, Middle East,

ALABAMA

New 2016 Licences:	14
Surrendered 2016 Licences:	3
Net Difference:	11
Total captive count at 31/12/2016:	48
Single Parent:	41
Cell Company	4
Individual cell:	14

ARIZONA

New 2016 Licences:	7
Surrendered 2016 Licences:	4
Net Difference:	3
Total captive count at 31/12/2016:	113
Single Parent:	94
Association:	6
RRG:	10

ARKANSAS

New 2016 Licences:	2
Surrendered 2016 Licences:	0
Net Difference:	2
Total captive count at 31/12/2016:	3
Single Parent:	2
Branch:	1

BRITISH COLUMBIA

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Total captive count at 31/12/2016:	20
Single Parent:	16
Group:	4

CONNECTICUT

New 2016 Licences:	4
Surrendered 2016 Licences:	0
Net Difference:	4
Total captive count at 31/12/2016:	14
Single Parent:	10
Sponsored:	3

DELAWARE

New 2016 Licences:	76
Surrendered 2016 Licences:	ND
Total captive count at 31/12/2016:	385
Single Parent:	325
Cell Company / Series Core:	41
Cell/Series	670

DISTRICT OF COLUMBIA

New 2016 Licences:	8
Surrendered 2016 Licences:	6
Net Difference:	2
Total captive count at 31/12/2016:	100
Single Parent:	36
Association:	11
Rental:	6
Individual cell:	36

FLORIDA

New 2016 Licences:	1
Surrendered 2016 Licences:	0
Net Difference:	1
Total captive count at 31/12/2016:	4
Single Parent:	1
Industrial Insured:	3

GEORGIA

New 2016 Licences:	12
Surrendered 2016 Licences:	0
Net Difference:	12
Total captive count at 31/12/2016:	28
Single Parent:	19
Association:	9

HAWAII

New 2016 Licences:	16
Surrendered 2016 Licences:	5
Net Difference:	11
Total captive count at 31/12/2016:	208
Single Parent:	182
RRG:	15
Agency:	6
Cell Company:	5
Individual Cell:	5

KENTUCKY

New 2016 Licences:	2
Surrendered 2016 Licences:	9
Net Difference:	-7
Total captive count at 31/12/2016:	84
Single Parent:	73
Association:	8
RRG:	3

Africa and Asia Pacific at Marsh Captive Solutions, says although the licence numbers on the continent are down, feasibility study activity has picked up over the past 12 months.

"There had been a slowdown in new formations inside the European Union in the last five years, but in 2016 we saw many more enquiries coming through," he tells *Captive Review*.

"Previously, risk managers found it hard to present a captive solution to their CFO or CEO because they were unsure of the capital requirements and whether they would be able to meet the governance requirements of the regulator under Solvency II.

"There is more certainty now. A captive licence application inside the EU does take time, however, so some of those projects we were working on in 2016 have continued into 2017."

> "There had been a slowdown in new formations inside the EU in the last five years, but in 2016 we saw many more enquiries coming through"

Concerning Guernsey and the Isle of Man, Thomas-Ferrand said they remain go-to jurisdictions for UK firms as well as continuing to attract interest from emerging markets such as Africa and Asia.

"They both benefitted a little from Solvency II in the early days, but that has probably gone away as companies and managers have become more comfortable with it," he adds.

Guernsey again produced an impressive number of new individual cells (82) during the calendar year. "Cells continue to be a

MICHIGAN

New 2016 Licences:	4
Surrendered 2016 Licences:	8
Net Difference:	-4
Total captive count at 31/12/2016:	20

MISSOURI

New 2016 Licences:	4
Surrendered 2016 Licences:	4
Net Difference:	0
Total captive count at 31/12/2016:	48
Single Parent:	37
SPFI:	1

MONTANA

New 2016 Licences:	20
Surrendered 2016 Licences:	27
Net Difference:	-7
Total captive count at 31/12/2016:	183
Single Parent:	151
Cell Company / Series LCC:	19
RRG:	10
Individual Cell / SBU	148

NEVADA

New 2016 Licences:	30
Surrendered 2016 Licences:	23
Net Difference:	7
Total captive count at 31/12/2016:	203
Single Parent:	169
RRG:	15
Association:	9

NEW JERSEY

New 2016 Licences:	1
Surrendered 2016 Licences:	0
Net Difference:	1
Total captive count at 31/12/2016:	22
Single Parent:	20
Cell Company:	2
Cell:	5

NEW YORK

New 2016 Licences:	2
Surrendered 2016 Licences:	2
Net Difference:	0
Total captive count at 31/12/2016:	62
Single Parent:	62

NORTH CAROLINA

New 2016 Licences:	97
Surrendered 2016 Licences:	1
Net Difference:	96
Total captive count at 31/12/2016:	189
Single Parent:	149
Cell Company:	23
Special Purpose:	12
Individual Cell:	364

OHIO

New 2016 Licences:	1
Surrendered 2016 Licences:	0
Net Difference:	1
Total captive count at 31/12/2016:	3
Single Parent:	1
Special Purpose:	2
Individual Cell:	11

OKLAHOMA

New 2016 Licences:	17
Surrendered 2016 Licences:	15
Net Difference:	2
Total captive count at 31/12/2016:	75
Single Parent:	69
Special Purpose:	5
Association:	1

SOUTH CAROLINA

New 2016 Licences:	15
Surrendered 2016 Licences:	19
Net Difference:	-4
Total captive count at 31/12/2016:	163
Single Parent:	71
RRG:	35
Special Purpose:	29
Individual Cell:	12

very viable alternative, but some of them are not what you would term traditional captive business. They do often get included in the captive figures, however."

Europe's total captive count dropped by 21 during 2016, after 43 captives surrendered their licence.

The majority of surrendered licences came from the more established domiciles of Luxembourg (15), Guernsey (9), Isle of Man (7) and Switzerland (5). This follows the trend also seen in North America and the large offshore centres, Thomas-Ferrand adds.

"We expect to see the most licences surrendered in the most mature domiciles," he says. "But the timing of that liquidation can skew the statistics massively because the captive could have been in an extended run-off period."

> "We expect to see the most licences surrendered in the most mature domiciles"

Despite the low formation numbers and net decline, Thomas-Ferrand does not buy into the argument that all companies that should have a European captive already have one in place.

"I don't think we will ever see the numbers that America does because the two economies are so different, but there is still a middle market and some larger companies in Europe that haven't set up a captive yet," he adds. "There are companies that are becoming more international and there has been a lot of merger and acquisitions in the last couple of years that creates a need for captives."

He says Marsh are also seeing employee benefit programmes driving captive formations, rather than being something companies are adding to an existing captive.

It is North America, however, that continues to attract the most attention. Its figures are so far out of line with the other three regions, it is necessary to consider what makes the captive environment in the US so different to the rest of the world.

TENNESSEE

New 2016 Licences:	37
Surrendered 2016 Licences:	12
Net Difference:	25
Total captive count at 31/12/2016:	159
Single Parent:	120
Cell Company:	29
RRG:	8
Individual Cell:	379

TEXAS

New 2016 Licences:	14
Surrendered 2016 Licences:	3
Net Difference:	11
Total captive count at 31/12/2016:	32
Single Parent:	32

UTAH

New 2016 Licences:	68
Surrendered 2016 Licences:	43
Net Difference:	25
Total captive count at 31/12/2016:	462
Single Parent:	455
Cell Company:	5
Indivudual Cell:	74

VERMONT

New 2016 Licences:	26
Surrendered 2016 Licences:	29
Net Difference:	-3
Total captive count at 31/12/2016:	584
Single Parent:	376
RRG:	93
SPFI:	45
Sponsored:	28

GERMANY

New 2016 Licences:	1
Surrendered 2016 Licences:	1
Net Difference:	0
Total captive count at 31/12/2016:	9
Single Parent:	9

GIBRALTAR

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Net Difference:	0
Total captive count at 31/12/2016:	7
Single Parent:	4
Cell Company:	3
Individual Cell:	35

GUERNSEY

New 2016 Licences:	11
Surrendered 2016 Licences:	9
Net Difference:	2
Total captive count at 31/12/2016:	321
Single Parent:	242
Cell Company:	79
Individual Cell:	516

IRELAND

New 2016 Licences:	1
Surrendered 2016 Licences	3
Net Difference:	-2
Total captive count at 31/12/2016:	83
Single Parent:	83

ISLE OF MAN

New 2016 Licences:	1
Surrendered 2016 Licences:	7
Net Difference:	-6
Single Parent:	108
Cell Company:	3

LIECHTENSTEIN

New 2016 Licences:	0
Surrendered 2016 Licences:	1
Net Difference:	-1
Total captive count at 31/12/2016:	10
Single Parent:	10

LUXEMBOURG

New 2016 Licences:	5
Surrendered 2016 Licences:	15
Net Difference:	-10
Total captive count at 31/12/2016:	207
Single Parent:	207

MALTA

New 2016 Licences:	1
Surrendered 2016 Licences:	0
Net Difference:	1
Total captive count at 31/12/2016:	10
Single Parent:	8
Cell Company:	2
Individual Cell:	13

Of the 478 new captives licensed in the US during 2016, 58% came from four domiciles – North Carolina (97), Delaware (76), Utah (68) and Tennessee (37). These domiciles also licensed a further 305 individual cells between them.

It is the United States' middle market, encouraged by a plethora of new, closer-to-home domiciles and the expanded 831(b) tax election that has driven much of this growth.

> "The formation activity that we have been involved with has predominantly been in the middle market space"

"These statistics show there is something happening in the United States that isn't happening elsewhere, so that points towards more efficient regulation and the existence of the 831(b) tax election," Flaxbeard says.

"Beecher Carlson is focused on single parent captives and expanding the captives that are already under our management. That expansion is through the application of new risk management programmes, but also looking at profit opportunities within a captive."

Charnley says the United States is where Marsh Captive Solutions is seeing its biggest growth.

"The formation activity that we have been involved with has predominantly been in the middle market space," she adds. "It is a lot more cumbersome for a large organisation to get all the stakeholders aligned to form a captive and many of them have looked into it before.

"In a smaller company they are more nimble, exposed to newer risks and cyber and terrorism are high in their minds. It is

NORWAY

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Net Difference:	0
Total captive count at 31/12/2016:	11
Single Parent:	11

SWEDEN

New 2016 Licences:	0
Surrendered 2016 Licences:	2
Net Difference:	-2
Total captive count at 31/12/2016:	39
Single Parent:	39

SWITZERLAND

New 2016 Licences:	2
Surrendered 2016 Licences:	5
Net Difference:	-3
Total captive count at 31/12/2016:	33
Single Parent:	26
Branch:	7

ANGUILLA

New 2016 Licences:	ND
Surrendered 2016 Licences:	ND
Net Difference:	-53

Total captive count at 31/12/2016:	266
Single Parent:	266

BAHAMAS

New 2016 Licences:	1
Surrendered 2016 Licences:	4
Net Difference:	-3
Total captive count at 31/12/2016:	13
Single Parent:	9
Cell Company:	4
Individual Cell:	157

BARBADOS

New 2016 Licences:	13
Surrendered 2016 Licences:	1
Net Difference:	12
Total captive count at 31/12/2016:	266
Single Parent:	246
Cell Company:	20
Individual Cell:	41

BERMUDA

New 2016 Licences:	13
Surrendered 2016 Licences:	34
Net Difference:	-21
Total captive count at 31/12/2016:	776

BRITISH VIRGIN ISLANDS

New 2016 Licences:	1
Surrendered 2016 Licences:	6
Net Difference:	-5
Total captive count at 31/12/2016:	137
Single Parent:	105
Group:	20
Cell Company:	12

CAYMAN ISLANDS

New 2016 Licences:	39
Surrendered 2016 Licences:	74
Net Difference:	-35
Total captive count at 31/12/2016:	626
Single Parent:	334
Group:	121
Cell Company:	147
Individual Cell:	605

PUERTO RICO

New 2016 Licences:	3
Surrendered 2016 Licences:	0
Net Difference:	3
Total captive count at 31/12/2016:	12
Single Parent:	8
Cell Company:	4
Individual Cell:	390

NEVIS

New 2016 Licences:	37
Surrendered 2016 Licences:	26
Net Difference:	11
Total captive count at 31/12/2016:	277
Single Parent:	277

ST LUCIA

New 2016 Licences:	1
Surrendered 2016 Licences:	3
Net Difference:	-2
Total captive count at 31/12/2016:	40
Single Parent:	30
Group:	5
Cell Company:	5
Individual Cell:	17

easier for them to pull together how a captive will be of value to them."

Despite the United States' captive domiciles dominating the new formation numbers in 2016, its number of new captives is down 10 on the 2015 figure (488). There were also at least 212 captive licences surrendered across US domiciles last year.

The high turnover can be put, in part, down to re-domestication activity but also the restructuring that took place in the enterprise risk captive (ERC) segment as owners and managers sought to comply with the PATH Act which changed the rules concerning the 831(b) tax election. The proliferation of cells is also being driven by the uptake in captives by the middle market.

> "It is easier for smaller companies to pull together how a captive will be of value to them"

"While our numbers may not evidence it, we were extremely busy during the last half of 2016," Russell Coy, Kentucky's captive coordinator, tells *Captive Review*.

"We had a number of companies making ownership changes and other adjustments to comply with the PATH Act restrictions. Also, the timing of many of our dissolutions were at least partially due to the changes, which caused a re-evaluation of the cost/benefit of continuing the captive (coupled with a soft market)."

David Liptz, of CPA firm Liptz & Associates, said: "We saw some managers and owners restructuring their captives, while others were liquidating existing captives and setting up new ones in their place."

Charnley also points to the ban on captives joining the Federal Home Loan Bank (FHLB) implemented in January 2016 as a

US VIRGIN ISLANDS

New 2016 Licences:	0
Surrendered 2016 Licences:	1
Net Difference:	-1
Total captive count at 31/12/2016:	4
Single Parent:	4

HONG KONG

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Total captive count at 31/12/2016:	3
Single Parent:	3

SINGAPORE

New 2016 Licences:	3
Surrendered 2016 Licences:	0
Net Difference:	3
Total captive count at 31/12/2016:	71
Single Parent:	71

LABUAN

New 2016 Licences:	2
Surrendered 2016 Licences:	3
Net Difference:	-1
Total captive count at 31/12/2016:	39
Single Parent:	29
Cell Company:	10

VANUATU

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Total captive count at 31/12/2016:	6
Single Parent:	5
Cell Company:	1

CHINA

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Total captive count at 31/12/2016:	2
Single Parent:	2

MICRONESIA

New 2016 Licences:	1
Net Difference:	1
Total captive count at 31/12/2016:	19
Single Parent:	6
Group:	10
Cell Company:	3

COOK ISLANDS

New 2016 Licences:	2
Surrendered 2016 Licences:	0
Net Difference:	2
Total captive count at 31/12/2016:	3
Single Parent:	1
Group:	2

NEW ZEALAND

New 2016 Licences:	0
Surrendered 2016 Licences:	0
Total captive count at 31/12/2016:	5
Single Parent:	5

SOUTH AFRICA

New 2016 Licences:	0
Surrendered 2016 Licences:	2
Net Difference:	-2
Total captive count at 31/12/2016:	20
Single Parent:	8

contributory factor to the 212 licences surrendered.

"There was such a high uptake from real estate investment trusts (REITs) in forming captives in the preceding years that the ban would have had an impact and prompted some of those to close," she adds.

Liptz works with managers and captives across US domiciles and in a handful of offshore jurisdictions and says the high turnover of captives across the regions is indicative of the value of good regulation.

> "It is extremely important that the regulators are open to dialogue with captive owners and their advisors. Especially when we go through examinations it helps the process"

In recent years Kentucky has haemorrhaged captives – although this year only nine surrendered their licence – while Anguilla continues to see its captive number drop dramatically – it is now down to 266, 53 less than the year before, while in 2015 it lost a further 50 captives.

Liptz says: "It is extremely important that the regulators are open to dialogue with captive owners and their advisors. Especially when we go through examinations it helps the process."

In Asia Pacific, captive growth has remained modest although Thomas-Ferrand says it is a healthy picture considering there are only 148 active captives in the region.

The region's eight recognised domiciles added eight new captives during 2016, although *Captive Review* understands the China Insurance Regulatory Commission did approve two captives but they have yet to be licensed.

"Singapore is still the dominant location in Asia," Thomas-Ferrand adds. "We still see interest from Australian companies wanting to set up in Singapore, while some companies choose Labuan and the Japanese lean towards Micronesia. When you take the overall population of captives in Asia, being five up is a good increase."