

Hitting new highs

As Tennessee reaches its 200th captive milestone, Jennifer Stalvey discusses what the state looks like under new leadership, the plans to continue its captive growth and the impacts of COVID-19

Stats box:

200 captives writing \$1.5 billion in premiums in 2019, up from \$1.2 billion in 2018

Current year annual premium taxes and fees paid by the captives to the state of Tennessee is \$3.1 million

Total premium taxes and fees paid by the captives to the state of Tennessee since inception is \$16 million

Total premiums written since the state revised its statute in 2011 is \$6.5 billion

What does the captive market currently look like in Tennessee?

Tennessee continues to grow at a steady pace since we revised our statute nine years ago. We are extremely fortunate to have the full support of our current governor Bill Lee and commissioner Hodgen Mainda, along with our previous governor Bill Haslam and former insurance commissioner Julie Mix McPeak. This support, past and present, allowed Tennessee to become one of the best domiciles in the world. Governor Lee and commissioner Mainda continue the great work of their predecessors by advancing our captive section's ability to support the captive market in Tennessee. Our statute allows for a variety of formations, such as protected cell structures, associations, risk retention groups, and pure captives, and offers wide-ranging, flexible tools that serve the captive industry's needs. As a result, the Tennessee captive market is one of the most diverse in the industry. Our captive insurance companies are owned by all types of companies in a variety of industries – from large multinational Fortune 100 manufacturers to a small group of doctors. The mix of businesses and industries we serve provides the Tennessee captive regulators with a depth of experience to assist any prospective owner considering the formation of a captive company.

Do you think captive figures will continue to increase?

Our projections are moderately conservative in that we generally expect to license about 15 new companies a year. However, we consistently plan for flexibility should the insurance market shift and new formations increase as a result, as we have done since we revised our statute in 2011. Given the current challenges in the insurance market with hardening property coverage and now with the current COVID-19 pandemic, we are prepared to be flexible and use our

resources to meet the needs of the captive market and our existing customers.

What trends are you seeing in Tennessee's captive insurance sector?

The growth of our Tennessee companies varies based on the needs and experience of each insurer. Overall, our captive premium grew 23.8 percent, from \$1.229 billion in 2018 to \$1.5 billion in 2019, indicating our captives are growing in size. In 2018, the average premium written by our active companies was approximately \$9 million. In 2019, the average premium written grew to \$10.9 million. Many captives are expanding their existing captive risk programmes with their positive underwriting results. We are also seeing the redomestication of existing captives owned by large Tennessee-based businesses as they move their captive domicile back home to Tennessee. Businesses located outside Tennessee are also redomesticating to Tennessee for a number of reasons, including our central geographic location (captive owners can fly in and out of Nashville for all of their captive meetings in a day), our knowledgeable and experienced staff of certified public accountant (CPA) analysts, and our streamlined processes for efficient, meaningful regulation.

What challenges is the captive industry facing in Tennessee?

The challenges the captive industry face are the same in Tennessee as elsewhere. Risk is ever-changing, and like all captive domiciles, Tennessee must continue to be flexible, proactive and responsive to our captives' needs, just as the captives themselves are continually updating their business plans and risk management programmes as they face ongoing challenges. The most obvious current challenge is the COVID-19 outbreak. The Tennessee regulatory team is

working closely with captive managers to understand the unique impact of the pandemic on both the captive companies and the parent businesses, and we are preparing to assist as the captive companies support their parent businesses during this challenging time.

Is there any new legislation for captive insurance in the works in Tennessee?

We do not have any proposed legislation for this year. Our most recent statutory changes include allowing for captives to write premiums and pay claims in foreign currencies, which eliminates most foreign currency exchange risk in their captive programmes. We continue to see companies utilising our tax holiday legislation when redomesticating their alien captive company to Tennessee, which offsets the cost to move a captive company from its current offshore domicile back onshore to Tennessee. Our state is known for its business-friendly culture, so it is natural and important to us to continue to actively listen to the captive community and recommend statutory changes to address current and future needs.

How do you expect the market to progress in 2020?

We expect to see property and healthcare coverages continue to grow, as well as other traditional low-frequency, high-severity coverages such as business interruption risks. As companies face all types of risks in an ever-changing world, they will need to continually assess what financial risks they face and address those needs through the tools available to them – both in the traditional insurance marketplace and through alternative risk mechanisms such as captive insurance. Existing captive companies may expand their writing based upon their capital and surplus capacity, and businesses that have been considering a captive



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Jennifer Stalvey
Director of captive insurance
State of Tennessee

programme may see this as the right time to form a captive. As regulators, we review captive industry news and trends daily so that we are prepared to best assist the needs of businesses that decide to utilise a captive structure.

Looking at the implication of COVID-19 and the possibility of businesses looking into captive insurance - what does Tennessee have to offer these potential captives?

There is no doubt that companies will be impacted by the pandemic in ways they already expect.

However, companies may also discover the risks they face for which they are not currently protected with their existing policies and coverages. Captive insurance has always offered an alternative risk solution to businesses to better manage some of their risks. Enterprise risk captives, in particular, can help a company mitigate business interruption risks that

pose a significant financial threat to their operations, such as supply chain interruptions or the loss of key customers.

Tennessee offers a flexible statute, a fully electronic approval process for responsive turnaround times, a business-friendly environment and a wide range of industry service providers, including captive managers, actuaries, CPAs, attorneys and bankers, on the ground to assist businesses considering the formation of a captive solution. ■