



DEPARTMENT OF INSURANCE
STATE OF ARIZONA

Captive Insurance Division
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ARIZONA CAPTIVE INSURANCE COMPANIES
AUDITED FINANCIAL REPORT EXEMPTION STANDARDS AND FILING REQUIREMENTS

General Instructions

An insurer may qualify for an exemption from filing the annual audited financial report required pursuant to A.R.S. §20-1098.07(B) in one of three ways:

1. **Automatic Exemption.** An insurer having direct premiums written of less than \$1,000,000 in any calendar year, and less than 1,000 policyholders or certificateholders of directly written policies at the end of such calendar year, shall be automatically exempt from filing an audited financial report, except that insurers having assumed premiums pursuant to contracts and/or treaties of reinsurance of \$1,000,000 or more will not be so exempt. An insurer who qualifies for this automatic exemption is not required to make any application or execute an affidavit.
2. **Standardized Hardship Exemption.** An insurer not meeting the requirements for the automatic exemption above, may request a standardized hardship exemption if it meets the criteria in the attached Guidelines. If you believe you meet the criteria for the standardized hardship exemption, you must complete and file the attached Affidavit with your Annual Report. We will deem the standardized hardship exemption approved upon receipt. We will notify you only in the event we deny the exemption. We may withdraw or rescind approval of the requested exemption if you do not meet all requirements in the Guidelines.
3. **Non-standard Hardship Exemption.** An insurer not meeting the requirements for either the automatic or standardized hardship exemption may request a non-standard hardship exemption from the annual audited financial report requirement. You must apply for a non-standard exemption by sending a letter requesting non-standard hardship exemption, signed by one of your officers avowing to the facts creating the hardship. Non-standard hardship exemptions are subject to our review and approval. We will notify you of our decision to grant or deny the non-standard hardship exemption application.

Due Date

You must file requests for standardized or non-standard hardship exemptions with your Annual Report. Failure to request the exemption with your Annual Report will result in disapproval.

**GUIDELINES FOR
STANDARDIZED HARDSHIP EXEMPTION**

Arizona captive insurers must satisfy the following criteria to receive a standardized hardship exemption.

1. You are a pure captive insurer holding a certificate of authority in the State of Arizona; and,
2. You had direct premiums written of less than \$1,000,000 and assumed premiums pursuant to contracts and/or treaties of reinsurance of no more than \$5,000,000 for the calendar year of your application; and,
3. You comply with the provisions of items 4 through 6 with respect to each reinsurance contract and ceding insurer; and,
4. A trust account or custodial account is established with a qualified financial institution located in the United States which is organized under the laws of the United States or any State of the United States that has been granted authority to operate with fiduciary powers, in which assets equal to the net reserve credit taken by the ceding insurer for the business ceded are deposited or, in the alternative, the reinsurance agreement provides that funds will be withheld by the ceding insurer; and,
5. The trust account or custodial account requires only the ceding insurer's (direct writer's) signature in order to withdraw funds and/or to pay claims, provided however, that with the approval of the ceding insurer, funds may be withdrawn by the assuming reinsurer providing that, after the withdrawal, the market value of assets in the trust account or custodial account shall be no less than 102 percent of the net reserves for the business ceded; and,
6. You have obtained from the bank, as custodian or trustee, a verification and listing of assets held in a trust or custodial account as of the calendar year end for which the exemption is requested.

**ARIZONA CAPTIVE INSURANCE COMPANY
AUDITED FINANCIAL REPORT
STANDARDIZED HARDSHIP EXEMPTION**

AFFIDAVIT

State of _____)
County of _____) ss.

I, _____ (name) _____, being first duly sworn, upon my oath depose and say:

1. I am the _____ (title) _____ of _____ (Company Name) _____, and am duly authorized to execute this affidavit on its behalf; and,

2. _____ (Company Name) _____ is a pure captive insurer holding a certificate of authority in the State of Arizona that has direct premiums written of less than \$1,000,000 and assumed premiums pursuant to contracts and/or treaties of reinsurance of no more than \$5,000,000 for the calendar year of this application; and,

3. _____ (Company Name) _____ complies with the provisions of items 4 through 6 of this affidavit with respect to each reinsurance contract and ceding insurer; and,

4. A trust account or custodial account is established with a qualified financial institution located in the United States which is organized under the laws of the United States or any State of the United States that has been granted authority to operate with Fiduciary power, in which assets equal to the net reserve credit taken by the ceding insurer for the business ceded are deposited or, in the alternative, the reinsurance agreement provides that funds will be withheld by the ceding insurer; and,

5. The trust account or custodial account requires only the ceding insurer's (direct writer's) signature in order to withdraw funds and/or to pay claims, provided however, that with the approval of the ceding insurer, funds may be withdrawn by the assuming reinsurer providing that, after the withdrawal, the market value of assets in the trust account or custodial account shall be no less than 102 percent of the net reserves for the business ceded; and,

6. _____ (Company Name) _____ has obtained from the bank, as custodian or trustee, a verification and listing of assets held in a trust or custodial account as of the most recent calendar year end.

Further affiant sayeth not.

(Signature)

Subscribed and sworn to before me this _____ day of _____ (Month) _____, _____ (Year) _____

Stamp or seal

(Signature)

Notary Public

My commission expires:

(Date)