



**Captive Insurance Division
Arizona Department of Insurance**

100 North 15th Avenue, Suite 102, Phoenix, Arizona 85007-2624
Web: <https://insurance.az.gov> | Phone: (602) 364-4490

CERTIFICATE OF AUTHORITY APPLICATION FOR A CAPTIVE INSURANCE COMPANY

Before submitting the application, first follow the steps of the Application Process to Form a Captive Insurer as enumerated in our Reference Guide.

After reviewing your proposed program and participating in a pre-application meeting (if necessary), we will confirm with you that it is appropriate to move to the application phase.

Proceed as follows. Some steps should occur **before** the application is submitted to avoid delays and confusion.

- **Check name availability** for the captive with the Captive Division at captive@azinsurance.gov or directly with Captive Division staff (A.R.S. § 20-1098.02).
- **Submit the Articles of Incorporation** via e-mail to the Cary Cook, Chief Financial Compliance Officers, at ccook@azinsurance.gov. It is advisable to have us preview the draft and provide feedback before obtaining signatures. If acceptable, we will stamp the Articles and return them to you to file directly with the Arizona Corporation Commission (ACC). The ACC will not process insurance entity Articles without the DOI stamp. For ACC filing information, please go to <http://www.azcc.gov/Divisions/Corporations/forms/formsindex.asp>.
- Complete the application sections in a free-form narrative format to allow sufficient opportunity to fully explain your responses.
- Read and follow all of the directions below. It is helpful to 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 also specifying why the question, heading, or section is not applicable. Contact us if a question or request for information is unclear and/or you have special circumstances.
- **Submit the original and one duplicate** of all information and supporting documents in separate binders formatted with appropriate indices and tabs for sections and subsections as described herein. In lieu of a printed copy, you may submit the duplicate as an electronic copy via e-mail if desired.
- An **application to redomesticate** a licensed captive to Arizona requires additional items and may also change the nature and content of your response to some items in the application. See the current Reference Guide for captives on our website or contact us for more information.

- Incomplete, unclear, and/or inconsistent submissions cause inefficiencies and unnecessary delays in the application review process.
- References have been made in the application to specific Arizona Statutes germane to particular questions or items requested. This serves to more explicitly address some of the statutory aspects of the application and also provides some indication of the purpose of the item. When compliance with Statute is not self-evident in the application, provide clarifying explanation.
- Note that, if approved, the effective date of the captive insurer license will be the date of the Director's formal approval of the application. A request for a later effective date may be granted.
- Forward all of the forms and documents in one package to:

Arizona Department of Insurance
Captive Insurance Division
100 N. 15th Ave., Suite 102
Phoenix, Arizona 85007-2624

SECTION A: GENERAL INFORMATION

1. Formal name of proposed captive (A.R.S. § 20-1098.02).
2. Principal office address in Arizona of the proposed captive (A.R.S. § 20-1098.01.E.2.).
3. Arizona address where captive books and records will be maintained, if different (A.R.S. § 20-1098.16).
4. Name, address and phone number of the contact person for this application.
5. Name and address of Statutory Agent for service of process (A.R.S. § 20-1098.01.E.3.).
6. Parent(s) of proposed captive (A.R.S. § 20-1098.01.G.7.):
 - a) Name and address of parent(s).
 - b) US Census NAICS (or OSHA SIC) Industry Group category and two-digit and expanded codes of the organization's primary industry (A.R.S. § 20-1098.23.A.6(d)).
7. Name(s) and addresses of the beneficial and/or ultimate owners of the proposed captive (A.R.S. § 20-1098.01.G.7.).
 - a) Specify percent of ownership.
 - b) Explain relationships among all owners.
8. Provide an organizational chart or charts and a brief narrative explanation of the nature of each affiliated (or relevant non-affiliated) entity's business or role, its organization type, the relationships between the parents, the captive and any other parties to be insured by the captive, and the transaction description(s) and flow(s) among the entities.
9. Provide the financial statements of the parent(s) (A.R.S. § 20-1098.01.G.7.).
 - a) Provide recent 10K, audited, or personal financial statements of the entities or individuals. If audited financials are not prepared, then provide unaudited. You may provide us a specific web address link to satisfy this requirement, if available.
 - b) If the direct parent is a new entity, a holding company, and/or financially small, provide financial statements for at least the next substantive upstream company.
10. Identify type of proposed captive (pure, risk retention group, industry group, association, agency, protected cell). For each protected cell, complete a supplemental application form (A.R.S. § 20-1098, 20-1098.01, 20-1098.03, 20-1098.04).
11. Organizational form of proposed captive (stock, mutual, reciprocal, non-profit)(A.R.S. § 20-1098.01.F, 20-1098.04.).

12. Submit Biographical Affidavits for each Director of the proposed captive (see CID form)(A.R.S. § 20-1098.01.G.2).
13. Submit Biographical Affidavits for each Officer of the proposed captive (see CID form)(A.R.S. § 20-1098.01.G.2).
14. Submit signed Conflict of Interest statements for each director and officer (see CID form) (A.R.S. § 20-1098.01.G.2).
15. Submit NAIC Company Code Application with submission (form available on our website). All captive insurers are assigned a NAIC Company Code.
16. If the application is for approval of redomestication of an existing licensed captive insurer, provide the following:
 - a) A written statement signed by the non-RRG captive's president and secretary that explains the reason(s) for the proposed redomestication to Arizona
 - b) Stockholder(s) and Board of Director redomestication resolutions
 - c) Documentation of the current domicile's approval of the redomesticationSee sections B & C for more requirements regarding redomestication.
17. 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).
18. Proposed start-up date (should be no less than 45 days from submission of application). Highlight the expected initial coverage period proposed, if known.
19. Proposed fiscal year for the captive.

SECTION B: BUSINESS PLAN AND SUPPORTING INFORMATION

Business Plan

1. Please provide a concise, but comprehensive, overview of the purpose(s) of the captive, its structure, ownership, financing, entities to be insured, lines of business, reinsurance program, etc. Do not rely on the attachments and exhibits to provide clarity to the Department's review and approval process (A.R.S. § 20-1098.01.G.3.). The reader should be able to understand the captive on at least a high level after reading the overview.
2. Applications for risk retention groups (RRGs) should **clearly explain the reasons for the proposed program and how its structure fully conforms and complies with the Liability Risk Retention Act** (A.R.S. § 20-1098.24, 20-2401-2413), 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. They should understand the legal and regulatory environment and requirements in forming and maintaining a RRG, including the Holding Company Act, corporate governance, etc.
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 the application:
 - a) If the applicant is an association, provide its history, purpose and size of membership (A.R.S. § 20-1098.4-5).
 - b) Identify each line of coverage to be insured and, for each line, answer the following:
 - i) Citing specific Statute(s), indicate how each complies with, or is permitted, under applicable Arizona Statutes (A.R.S. § 20-1098.01.A-D.). If the captive will write "controlled, unaffiliated business", clearly indicate how the business meets the definition (A.R.S. § 20-1098.11, 20-1098.01.A.)
 - ii) Indicate whether the captive will write directly, or as a reinsurer. Indicate clearly whether the coverage is related to a self-insured program, self-insured retention or deductible reimbursement (A.R.S. § 20-1098.01.B-C, 20-1098.11). If assuming reinsurance, identify the known or likely fronting company.
 - iii) If the program involves a government agency-approved self-insurance program, indicate which state and agency (A.R.S. § 20-1098.01.B). Provide current evidence of agency approval.
 - iv) Expected gross annual premium by line of coverage or meaningful sub-line.
 - v) Expected net annual premium by line of coverage or meaningful sub-line.

- vi) Indicate whether or not any existing exposures will be assumed or if only future risks are involved.
- c) Furnish copies of all proposed captive coverage forms or assumed reinsurance contracts. Also furnish relevant copies of in-force Declaration Page(s) for both primary and excess/umbrella commercial coverages equal, and/or complementary to, the proposed coverage limits for the captive.
- d) Provide hard copies of Claims and Loss Exhibits from insurance carriers or other sources for at least the past three years, preferably longer for long-tail lines. List and describe all claims in excess of \$100,000 and the corrective action taken to avoid future occurrences. If, based on the business plan, a higher or lower dollar threshold would clearly be more useful, use it instead. If loss data contains sensitive personal information, we can discuss options for managing the situation.
- e) Four-year financial projections (pro forma) showing expected and adverse case scenarios, noting key assumptions, if not obvious. Relevant ratio analysis may also be helpful, e.g. combined, liquidity, premium to surplus, reserves to surplus, retained limits to surplus, etc.
- f) The amount of retained risk proposed—per loss and annual aggregates. Provide a visual representation of the program limits, retentions by line of business in one or more exhibits.
- g) Outline reinsurance plans, if applicable. Visual aids in the form of bar charts or other exhibits showing retentions, limits, and other details by line of coverage may be helpful. If credit for reinsurance is anticipated, describe the manner in which it will qualify. (A.R.S. § 20-1098.11). Furnish proposed ceded reinsurance contracts as applicable. If no ceded reinsurance is planned, so state.
- h) Outline plans for development of rates, pricing, and underwriting guidelines and procedures.
- i) Outline any notable or extraordinary loss control or safety programs (A.R.S. § 20-1098.01.G.4.).
- j) Specify the investment policy and the terms and conditions of any anticipated loan-backs (only pure captives may make loan-backs, subject to pre-approval; other captive types have more investment restrictions generally). If no formal policy statement is proposed, so state, and describe the initial cash management and investment approach to maintain liquidity and manage investment risk, etc. (A.R.S. § 20-1098.10, 20-531 thru 20-562, 20-1098.01.G.1.).
- k) Describe any plans for dividend (or other) distributions.

Actuarial Feasibility Study

- 1) The feasibility study should adhere to the following guidelines:
 - a) Prepared on the actuary's letterhead and signed by the actuary.
 - b) Include a description of all materials the actuary reviewed and an explanation of how the feasibility study comports with the proposed business plan (e.g. capital levels, risks, coverages, retentions, and whether the captive will write directly, cede, or assume business).
 - c) The review should cover 3-5 years 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.
- 2) If the application is for the redomestication of an existing licensed captive insurer, the feasibility study may be tailored to the circumstances, particularly if the business plan is not changing.

SECTION C: LEGAL/ORGANIZATIONAL INFORMATION

- 1) Provide ACC-certified copies of the captive's Articles of Incorporation, Bylaws (certified by an officer of the corporation) and any other relevant organizational documents, including articles of organization or similar document. If formed as a reciprocal, see the relevant Statute for required documents (A.R.S. § 20-1098.01.E-F., 20-1098.04).
- 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. If located in Maricopa County or Pima County, such publication may not be required.
- 4) Provide copies of all material agreements between the captive and its manager, reinsurers and other service providers (e.g. accountant, attorney, actuary, claims administrator, broker). (A.R.S. § 20-1098.01.G.5-6.)
- 5) Provide Minutes of all meetings of incorporators, directors, shareholders and committees to date. If a long-running entity, ask us how far in the past to go.

SECTION D: FINANCIAL INFORMATION

1. Capitalization / Funding (if stock company, provide a copy of the Stockholder Register).
 - a) Amount of paid in capital and surplus (A.R.S. § 20-1098.03).
 - i) Indicate the statutory minimum for the proposed captive type, business plan, etc.
 - ii) Indicate the expected or intended additional (or total) initial and on-going minimum to be maintained, if different from the statutory minimum.
 - b) Type(s) and numbers of shares to be authorized.
 - c) Par Value of each share and selling price by type.
2. 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 (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 ARS § 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 the Captive Division's Irrevocable Letter of Credit form. Show the LOC amount as well as the name and address of the bank(s) or financial institution(s).
3. 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. (A.R.S. § 20-1098.01.F.1). If it is a new formation, this may simply be a summarized balance sheet showing the actual (or proposed) initial capitalization.
4. Indicate the proposed accounting method to be used by the captive, e.g. GAAP, SAP, modified GAAP, etc. If modified GAAP, specify how modified and expected effects.
5. If applicable, provide copies of most recent independent CPA certified financial statements.
6. Request from your bank a written confirmation of initial funding using the appropriate Captive Division form when funding is complete. The completed confirmation should be sent to us directly from the institution – email attachment transmittal is acceptable.

SECTION E: SERVICE PROVIDERS (A.R.S. § 20-1098.01.G.5-6.)

1. Captive Manager's name, address, phone number, contact person. Provide a complete management firm profile if this is the first Arizona captive for this proposed captive manager (form available on the website).
2. Attorney's name, address, phone number, and contact person.
3. Certified Public Accountant's name, address, phone number, and contact person.
4. Actuary's name, address, phone number, and contact person.
5. Financial Institution or bank's name, address, phone number, and contact person.
6. Fronting insurer's name, address, phone number, and contact person.
7. Claims Administrator's name, address, phone number, and contact person.
8. Reinsurance Broker's name, address, phone number, and contact person.

SECTION F: FEES

Type	Amount	Payable To
Articles of Incorporation	\$60.00	Arizona Corporation Commission
Charter Document (Bylaws)	\$75.00	Arizona Department of Insurance
Examiners' Revolving Fund	\$100.00	Arizona Department of Insurance
Initial Examination	\$Varies	Arizona Department of Insurance
License (1 st Year)	\$1,000	Arizona Department of Insurance
License (Renewal)	\$5,500	Arizona Department of Insurance
Ongoing Examinations	\$Varies	Arizona Department of Insurance

All fees are non-refundable regardless of whether the Department issues or declines a license (A.R.S. § 20-1098.01.J., 20-167, A.A.C. R20-6-2002).

Note: Assuming licensure, the first full license renewal fee, along with other captive annual filings, will be due after the captive insurer's first fiscal year-end regardless of the length of time licensed.

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	Title	Date
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Signature _____

Subscribed and 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 _____