



Written By Karrie Hyatt

EMERGING CAPTIVE MARKETS ARE THE NEXT BIG THING FOR INTERNATIONAL DOMICILES

WITH THE PROLIFERATION OF CAPTIVE DOMICILES AVAILABLE IN THE U.S., INTERNATIONAL DOMICILES ARE LOOKING OUTSIDE THE U.S. TO EXPAND THEIR CAPTIVE PROGRAMS

Until recently, the primary market for captive domiciles has been the United States, followed closely by Europe. However, that is changing as the abundance of U.S. domiciles is taking a larger share of captive business domestically. International captive domiciles are looking to emerging economic markets for new captive business, just as more countries and territories are looking to be captive domiciles.

At the end of 2018 (the last year for which complete data is available), fewer international domiciles appeared in the top ten rankings by number of captives. At the end of 2015, the top domiciles in the world were: Bermuda, Cayman Islands, Vermont, Utah, Delaware, Guernsey, Anguilla, Nevis, Barbados, and Luxembourg. The U.S. had only three state domiciles in the top ten list. By 2018, North Carolina and Hawaii had both made it to the top ten and more U.S. state domiciles will likely be added to the list in the next few years, as domestic captives continue to grow.

While Bermuda and the Cayman Islands remain the top two domiciles in the world, they are facing major competition, not only from U.S. domiciles, but also emerging domiciles from around the world eager to get into the captive sector.

EMERGING MARKETS

The growth of captives since the 1980s has been primarily among business in North America and Europe, with a scattering of captives from businesses in the rest of the world. Even with the explosive growth of captives in the last ten years, there are still very few captives in Asia, Latin America, comparatively. There has not been much exposure to either risk management or captives in those regions. Captive professionals and captive associations have been working to change that.

Another reason that captives may not be on the radar of businesses in these regions is that the extended soft market has kept capacity open in the traditional market, allowing businesses to grow without feeling the pinch of large premium increases. This is changing as the global insurance market is firming with an impending hard market to follow.

With or without the hard market, as the economies of countries in these regions grow, interest in captives is picking up. The most significant emerging region is Asia. Japan and China are the two

powerhouse economies in Asia and Japan-based companies have already found the benefits of forming captives—many of them domiciled in Hawaii. China, with its much more recent economic growth, is just realizing how captives can benefit businesses. Its insurance market is relatively new, so alternative risk transfer vehicles will likely grow hand-in-hand with their insurance sector.

There are several other economies in the region showing large growth, including Indonesia, Malaysia, and Vietnam. These countries will be the focus of captive growth in the coming years.

Another region that is emerging as a captive market is Latin America—countries in the Western Hemisphere that speak primarily Spanish and Portuguese, including Mexico and Puerto Rico. Captives have been slow to take a foothold in this region, despite large, and growing, economies in Argentina, Brazil, and Peru.

The lack of captive growth in Latin America is partially due, again, to lack of information about the advantages of the captive structure. However, many countries in the region have an additional legislative hurdle to jump when forming a captive.

In many countries in this region, captives that are not approved to conduct business—meaning that they are domiciled outside the jurisdiction in which they are going to operate—will have to use both a local insurance carrier and a local reinsurer in order



to do business—rather than just one fronting carrier. This is known as double fronting and can cost captives two to six percent of premiums. Some countries, such as Argentina, are working to rectify this issue to create more captive business opportunities.

EMERGING DOMICILES

According to an A.M. Best market segment report published last May titled “Asia-Pacific Captive Domiciles Poised for Growth,” in 2018 there was estimated to be 6,337 captives worldwide. Fifty-one percent of those captives were domiciled in the U.S. and 34.9% were domiciled in offshore domiciles located in the North

Atlantic and Caribbean (Bermuda, Cayman Islands, etc.). “The remainder consists of captive insurers domiciled in Europe (11.2%), Asia-Pacific (2.8%), and Canada (0.3%). Although Asia-Pacific is home to massive economies such as China and Japan, the region’s captive insurance market remains small.”

Singapore is currently the largest domicile in Asia, but Labuan is growing rapidly. Singapore established captive law in 1983, making it the grandparent of captive domiciles in Asia, and had 72 captives in 2019. Labuan, an island off the coast of Malaysia that has established a special economic zone, established captive law in 2010 and has grown steadily since, with 48 captives at the end of 2018.

Last year, it took home the award for Best Captive Domicile in Asia given by Asia Captive Review. Its captive legislation allows for a wide range of captives, including cell captives, which makes it attractive to many types of companies.



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Karrie Hyatt is a freelance writer who has been involved in the captive industry for more than ten years. More information about her work can be found at: www.karriehyatt.com.

The Federated States of Micronesia based its regulatory standards on Bermuda and Hawaii and has attracted a number of Japanese captives—25 as of May 2018. The number of captives in Hong Kong and China are both in the single digits, but with companies in China maturing and beginning to take a closer look at risk management, the number is expected to grow quickly.

While Asia is considered an emerging market for both captives and captive domiciles, Latin America is only seen as an emerging market for captives. There are only two captive domiciles in the region—Panama and Puerto Rico—and neither of them have distinguished themselves at this point. Cayman Islands, Bermuda, and other North Atlantic domiciles have their sights set on Latin America. British Columbia, Canada's only captive domicile, is also looking to expand into that region.

The desire to be a captive domicile is spreading to the far reaches of the world. In the Middle East, Bahrain and Dubai are the only currently active domiciles. However, Abu Dhabi is working to set itself up as the next captive domicile in the region. Both Abu Dhabi and Dubai are in the United Arab Emirate and operate as independent financial centers.

A first in central Asia, Kazakhstan has entered the captive sector after instituting captive law. Located between Georgia and Mongolia, the former Soviet Republic acquired its first captive in early 2020. Kazakhstan Energy Reinsurance Company, redomiciled to its home country from Bermuda, where it was formed in 2004. ■