



COMMISSIONER OF SECURITIES AND INSURANCE

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Office of the
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Captive Insurance: A Potential Solution for Daycare Facilities

What is a Captive? A captive insurance company (a “Captive”) is a specialized company established primarily to insure the risks of a parent company or members of an association. A Captive serves the insurance needs of the parent organization or association without the uncertainties of commercial market availability. A Captive can provide an insurance alternative for businesses and organizations, which is particularly important when the traditional insurance market hardens or when business enterprises are seeking alternative risk transfer options. The 2001 Legislature passed the enabling legislation allowing captive insurance companies to operate in Montana.

A Captive does not interact with insurance consumers in the same fashion as traditional multi-line companies; therefore, the Commissioner of Securities & Insurance (CSI) has created a streamlined regulatory environment.

Restrictions: Montana captive insurers must “stay in their own lane” by insuring only the Captive’s parent and affiliated companies, or association members. In other words, a Captive may not write insurance to third-party members of the public. Further, a Captive insurer may not write direct insurance for personal lines coverages (homeowners or personal auto), nor may it write direct workers’ compensation insurance.

Premium Tax: A captive insurer pays a .4% premium tax to the state of Montana on all direct premiums written.

Formation: Daycare facilities could consider forming an Association Captive to insure the risks of in-state (Montana) association members. No Daycare facilities could be insured across state lines, as that would require a different license. To carry out the day-to-day functions of the Captive (policy issuance, claims administration, reinsurance coordination, accounting, and financial reporting), a Captive contracts with a service provider called a “Captive Management Firm.”

Where to Start? The association would meet with the CSI and/or a Captive consultant to determine whether a Captive would be a good fit for the association members. The consultant can arrange a study to be conducted by an actuary with the goal of determining the financial feasibility of a Captive.