

Setting Expectations: How to Make Sure Your Captive has Proper Governance in Place

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Agenda



Introductions



Who Is Responsible for Governance?



Corporate Governance vs. Enterprise Risk Management



Captive Governance



Risk Retention Group Governance



Best Practices



Q&A

Who is Responsible?

- Ultimately, it is the responsibility of the captive owner(s) to provide appropriate governance.



Corporate Governance

Corporate Governance vs. Enterprise Risk Management

Corporate Governance - a system specifying the division of duties, rights, and responsibilities among various participants in a corporation, such as the board of directors, the various committees within the board of directors, operating managers, and shareholders.

Source: IRMI

Corporate Governance vs. Enterprise Risk Management

Enterprise Risk Management – a holistic approach to identifying, defining, quantifying, and treating all of the risks facing an organization, whether insurable or not.

Source: IRMI

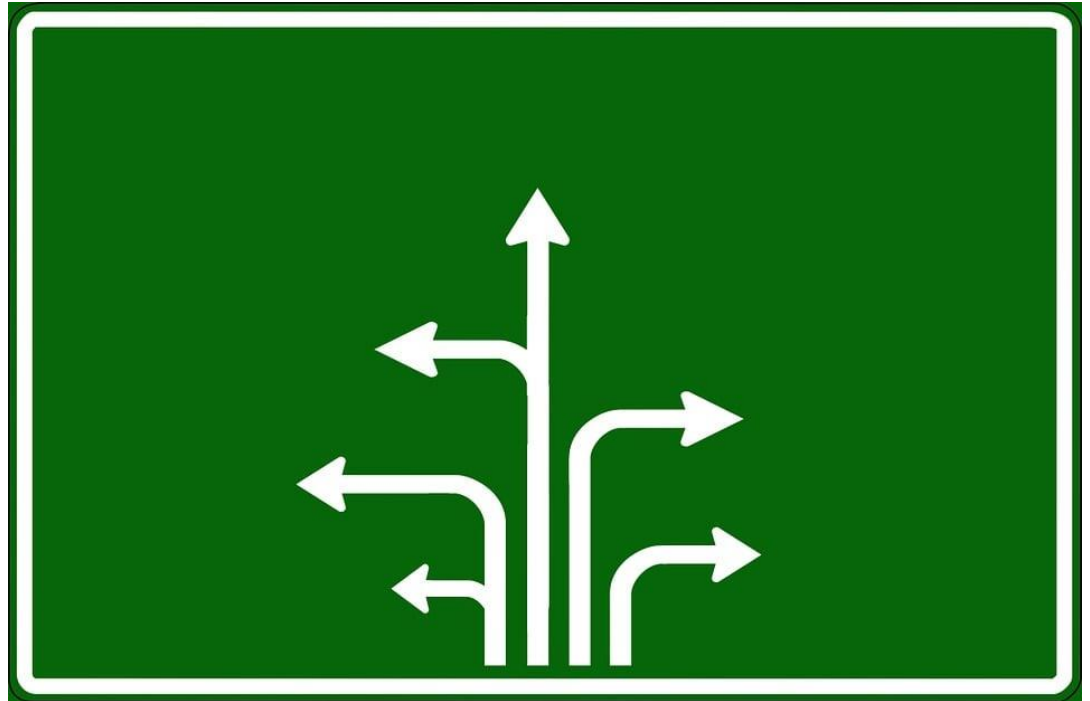
Captive Governance

Responsibilities of the Board of Directors and Chairperson

- Provide oversight of the captive
- Appoint service providers
- Review and approve objectives/operating plan
- Ensure compliance with applicable laws and regulations
- Ensure the board meets its duties and responsibilities
- Oversee the board's committees
- Assign tasks to board members

Board Direction

- Articles of Incorporation, Articles of Organization, Operating Agreement, or Bylaws.
- Includes: number of directors, nomination of directors, number of director meetings each year, director compensation, director committees, etc.
- Committees: investment, audit, underwriting, claims, financial reporting, strategic, internal auditing, etc.



Communication



- What structure is in place to ensure the board is aware of current issues, risks, and prospective risks?
 - What does the board do with this information?
- Is the board knowledgeable of expectations and goals for the company?
- How often does the board meet?

Governance



- Accountability
- Committees
- Compensation
- Board selection
- Succession planning
- Education and Training

Fiduciary Duties

- **Duty of loyalty** – independent or disclosure of conflicts of interest.
- **Duty of care** – ask questions when necessary.
- **Duty of candor** – information provided should not contain misstatements of fact.

All Captive Governance

Captive Governance Requirements

- **Independence** – independent director
- **Accountability** – ownership of risks and rewards related to established goals
- **Fairness** – impartial to all stakeholders
- **Responsibility** – take control of consequences
- **Transparency** – provide full disclosure

RRG Governance

RRG Governance Requirements

- A process by which the members elect directors
- Director qualifications, responsibilities, and compensation
- Director orientation and continuing education requirements
- A process allowing the board access to management and, as necessary and appropriate, independent advisors
- Policies and procedures for management succession
- Policies and procedures providing for an annual performance evaluation of the board

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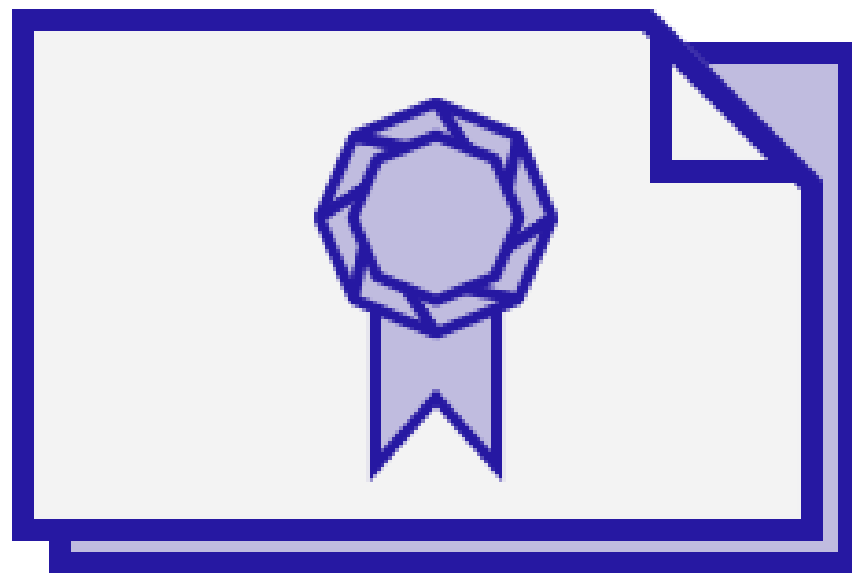
- At least annually, the board should review and approve:
 - Goals and objectives relevant to the compensation of officers and service providers.
 - Performance of officers and service providers as measured against the RRG's goals and objectives.
 - Continued engagement of officers and material service providers.

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- The board must adopt a code of business conduct and ethics applicable to the RRGs directors, officers, and employees. It must include:
 - Conflicts of interest, confidentiality, fair dealing
 - Matters covered under the corporate opportunities doctrine of the state of domicile
 - Protection and proper use of RRG assets
 - Standards for complying with applicable laws, rules, and regulations
 - Mandatory reporting of illegal or unethical behavior affecting the operation of the group

Best Practices

- Education/train board members
- Interact with other captive or RRG owners
- Approach your captive and provide time and attention similar to your operations



Questions

