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The Captive Insurance Opportunity in Alberta: Drivers of Success in Captive Domiciles

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EXECUTIVE SUMMARY

The annual economic impact from captive insurance companies in Alberta could range as high as C$139 million, but changes to the province's current policies are necessary for the industry ideally to grow to 210 captives by 2033, up from the 20 licensed captives as of July 2024.

Alberta's *Captive Insurance Companies Act* came into force in July 2022, making it the second province after British Columbia to permit captive insurance companies. Diversifying Alberta's economy and building the province's financial sector are important parts of the rationale behind Alberta's captive insurance legislation, but much remains to be done.

To determine how Alberta can build on its early success, this paper extracts lessons from studies on captive insurance in Bermuda, Delaware, North and South Carolina, Vermont and Hawaii that measured captives' economic benefits. Economic impact estimates per captive are as high as C$564,400 annually, demonstrating how a healthy captive market positively impacts a domicile. For example, in 2016, Delaware's 1,081 captives generated US$360 million in economic activity, US$109 million in labour income and 2,573 jobs.

Alberta already has a sound foundation for success. The province's speed of licensing means companies' applications are approved within six weeks of being submitted. Alberta allows limited partnerships as a corporate structure for captives as well as the ability for companies to insure risks in other provinces. Being located in Alberta means time and cost savings for captives that can then avoid the expense of offshore travel for setup, board meetings and administration, aided by easy access to the regulator. Allowing for non-resident captive managers has proved attractive to companies from other domiciles, but fine-tuning these and other regulations is key if the industry is to flourish in Alberta.

For example, while four of Alberta's 20 captives have established operations in the province, if Alberta were to require captive managers to be based in the province, this would generate a higher impact from employment and greater economic benefits.

To successfully compete with Barbados and Bermuda, Alberta needs to lower its minimum capital requirements for captives — $250,000 for pure captives and $500,000 for association and sophisticated insured captives. The Alberta government should also permit inter-company loans as an acceptable form of capital, as Bermuda and Barbados already do.

Alberta needs to expand its policy of not requiring collateral for reinsurance so that Alberta's captives can access the Bermuda and Swiss reinsurance markets, which account for 27 per cent of the global property and casualty reinsurance industry.

Successful domiciles for captive insurance also allow for protected cell captives (PCC), which attract smaller entities because their operating costs can be up to 50 per cent lower than pure single-parent captives and the cells can be set up in days. The domiciles examined in this paper also have no insurance premium tax (IPT), engage with regulators and the industry via trade associations and hire experienced captive regulators — something it could take years for Alberta to achieve unless managers are recruited from elsewhere.

Alberta needs PCC legislation targeted at captive insurers, while examining the feasibility of creating an annual dollar IPT maximum and lowering IPT rates for captives. The province ought to also encourage the creation of an industry association whose members would engage with government on legislation and hire senior regulators to bring their expertise to the province.

By learning from the experiences of other domiciles and implementing their best practices, Alberta can quickly begin benefiting economically from the growth and vitality of the captive insurance industry.

INTRODUCTION

Captive insurance has become an increasingly important risk management strategy for corporations and organizations over the last two decades. The competition among captive domiciles has also increased as jurisdictions attempt to capitalize on the economic benefits of a thriving captive domicile.

In 2020, the Alberta Premier's Economic Recovery Council was formed to consult and advise on strategies for long-term recovery from the economic crisis stemming from the COVID-19 pandemic and the collapse in energy prices, including efforts to accelerate diversification of Alberta's economy.

Following the council's advice, the Alberta government enacted the *Captive Insurance Companies Act*, which came into force in July 2022. This made Alberta the second Canadian province, after British Columbia, to permit captive insurance companies. As of July 1, 2024, Alberta had licensed 20 captives, with two of these captives having redomiciled from outside the province to take advantage of Alberta's new captive legislation (Jain 2024).

In our 2022 paper, "Alberta: Considerations in Establishing a New Captive Jurisdiction," we provided recommendations on how the Alberta government could position the province as a leading captive domicile for Canadian-owned captives (Johnson and Kleffner 2022). With nearly two years having passed since Alberta's captive legislation came into force, this policy brief offers a range of economic-impact scenarios to gauge the potential economic benefits to the province from a thriving captive industry. We also provide policy recommendations on how to refine the captive framework to support Alberta becoming the leading captive domicile for Canadian entities to reap the most economic benefits for the province.

ALBERTA'S SUCCESS TO DATE

Alberta has licensed mostly pure captives and two association captives (Merriman 2024). It has been reported that four captive managers have established operations in Alberta to service the province's growing captive industry. Captive experts note that "especially for companies with solely Canadian operations, Alberta provides a new onshore option that can afford advantages over other jurisdictions — particularly offshore domiciles" (Ferguson 2024).

Alberta's captive regulator and press coverage suggest that the key drivers of success to date include:

- **Speed of Licensing**: Licences are reviewed and approved within six weeks of applications being submitted (Jain 2024). "Now that companies are seeing that the Alberta regulator is consistently meeting a five-week deadline, they can feel confident they will be licensed by a specific date" (Ferguson 2024);
- **Limited Partnerships**: Allowing limited partnerships as a form of corporate structure for captives is attractive (Jain 2024). "Being able to structure a limited partnership in Alberta permits owners with associations of particular interest to limit their exposures, which is similar to a segregated cell structure available in other captive jurisdictions" (Ferguson 2024);
- **Location**: The time and cost savings of an Alberta captive avoid offshore travel for setup, board meetings and ongoing administration (Jain 2024). "It is easier for a company to convince the board of directors and the C-suite to set up a captive in a Canadian province" (Ferguson 2024);
- **Insuring Non-Alberta Risks**: The ability to insure risks in other Canadian provinces from Alberta is attractive for some entities (Jain 2024);
- **Regulatory Ease**: Alberta's captive regulator is reported to be easily accessible and receptive to industry and applicant feedback (Jain 2024). "Although Alberta's regulatory authorities are relatively new to overseeing captive insurance, they have shown a willingness to work collaboratively with captive managers and applicants and are tailoring their approach to meet the unique requirements of each entity" (Gangcuangco 2024); and
- **Non-Resident Captive Managers**: Alberta does not require captive managers to be licensed or resident in Alberta (Jain 2024), meaning captive management can be undertaken outside of Alberta where there is a larger pool of captive expertise (e.g., Bermuda, Barbados). "One driver behind Alberta's captive activity is the legislation allowing companies to maintain most of their operations outside the province" (Harrison 2023b).

Alberta is positioned to likely have more captives in short order than British Columbia, a province that has had captive legislation for over 35 years (*Captive Insurance Times* 2024). Alberta's key captive domicile competitors are also taking note of what is happening in the province. The president of the Barbados International Business Association said that domiciles are "… looking for chinks in our armour and actively executing strategies such as the passage of the Captive Insurance Act passed in Alberta, Canada last year to convince their captives to redomicile …" (Madden 2023).

ECONOMIC IMPACT OF CAPTIVES

An important part of the rationale for enacting captive insurance legislation in Alberta relates to the underlying need to diversify the Alberta economy and the desire to build the financial sector. We are not aware of published assessments of the economic impact on Alberta's economy from captives being incorporated in the province. However, Bermuda (Bermuda Business Development Agency 2017), Vermont (Economic and Policy Resources 2019), Delaware (Delaware Department of Insurance 2016), North Carolina (*Insurance Journal* 2016), South Carolina (Holmes 2019) and Hawaii (Kurata, Towle and Shimamoto 2023) conducted studies between 2015 and 2022 that measure the economic benefits of captives to their economies. Below is a summary of the total (direct and indirect) economic impact per captive, adjusted to 2023 Canadian dollars for each domicile.

Table 1. Economic Impact Per Captive — C$[1]

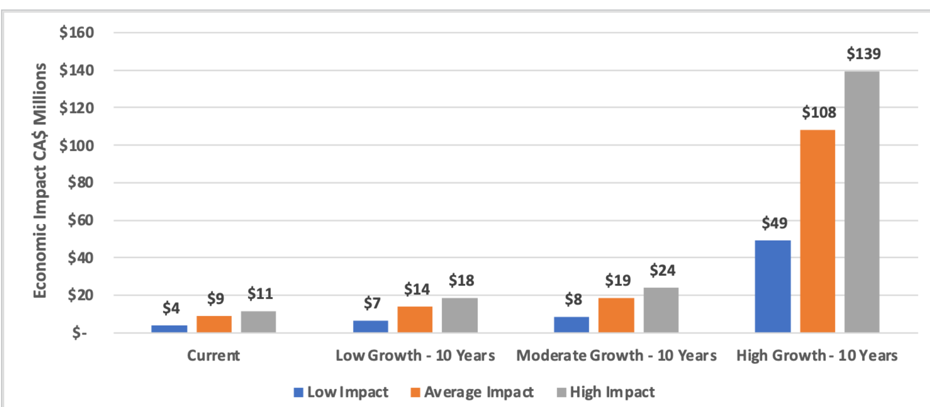
Jurisdiction	Economic Impact Per Captive
Hawaii	C$200,256
North Carolina	C$275,776
Bermuda	C$340,700
Vermont	C$435,806
South Carolina	C$546,412
Delaware	C$564,400
All Jurisdictions	
Average (Average Impact)	C$438,028
Minimum (Low Impact)	C$200,256
Maximum (High Impact)	C$564,400

Methodology: Calculations by the author. See footnote for methodology.

While the range of economic impact estimates per captive range from C$200,256 to C$564,400, the evidence is clear: the economic impact on the domicile of a healthy captive market is material. For instance, in 2016 it was estimated that Delaware's 1,081 captives generated US$360 million in economic activity, US$109 million in labour income and 2,573 jobs (Delaware Department of Insurance 2016).

Using this analysis, we looked at possible ranges of growth rates. We relied on data from the U.S. domiciles that saw the most absolute growth in captives between 2013 and 2022 (see Table 2) and the economic impact estimates above.

Chart 1. Potential Economic Impact of Captives in Alberta[2]



Methodology: Calculations by the author. See footnote for methodology.

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1 The total economic impact and number of captives as at the date analyzed were used to devise the economic impact per captive (total economic impact/number of captives) for the year the data were reported (Bermuda 2016, Vermont 2018, Delaware 2016, South Carolina 2018, Hawaii 2022 and North Carolina 2015). To make this analysis consistent, 2023 national inflation rates were used to adjust values to 2023 price levels. Finally, the data were converted into Canadian dollars using the 2023 annual average US dollar to Canadian dollar exchange rate.

2 The data were sorted in descending order by the difference in the number of captives from 2013 to 2022, calculating the percentage change in the number of captives from 2013–2022 for the top two, five and 10 domiciles with the most absolute growth in captives. Using these growth rates, we took the 17 current Alberta captives using the top 10 domiciles as an assumption for the low growth, top five as moderate growth and top two as high growth assumptions in terms of the number of captives in 10 years. We then used the analysis from Table 1 to develop possible ranges of economic impact.

While the estimated economic impact to Alberta based on its existing 20 captives is low, if the province can grow the number of captives at a rate as fast as the two U.S. domiciles that grew the most in terms of the absolute number of captives between 2013 and 2022, Alberta could have 210 captives by 2033. This would require Alberta to focus its growth efforts on attracting new captives as well as redomiciliations, as it is estimated that about 200 Canadian entities own captives (Johnson and Kleffner 2022). The economic impact on Alberta could range from C$49 million to C$139 million. However, because Alberta does not currently require captive managers to be based in Alberta (unique among the domiciles reviewed), the employment and economic spin-off benefits (e.g., legal, accounting, actuarial) are unlikely to be at the high-impact range. Alberta may want to consider future requirements for captive managers to be based and regulated in Alberta should the province want to increase the captives' impact on the provincial economy.

INCREMENTAL CHANGES TO ALBERTA'S CURRENT CAPTIVE REGIME

The competitive captive landscape globally requires that captive domiciles proactively adapt to improve and maintain the attractiveness of their jurisdictions. Based on Alberta's current captive regulation, we identified three key areas where changes by the government could improve Alberta's appeal for prospective captive owners. Here we focus on aspects that are not covered elsewhere in this brief:

1. **Minimum Capitalization**: Alberta has set minimum capital requirements for pure captives at C$250,000 and C$500,000 for association and sophisticated insured captives (Alberta Government 2024). These are higher levels than Alberta's key competitors for Canadian-owned captives (i.e., Barbados and Bermuda) (Johnson and Kleffner 2022). Prospective captive owners conduct initial high-level assessments to create short lists of domiciles for deeper consideration (looking at minimum capitalization, solvency, number of captives and taxation). With Alberta having few captives and higher taxes than Barbados and Bermuda, competitive minimum capitalization should assist Alberta in being short-listed more frequently by prospective captive owners. For each type of captive, we recommend that Alberta revise minimum capitalization levels to be marginally lower than those in Bermuda and Barbados.

2. **Treatment of Inter-Company Loans**: Alberta's key captive domicile competitors — Bermuda and Barbados — allow inter-company loans to be included in regulatory solvency capital when approved by the regulator (Johnson and Kleffner 2022). Alberta's Capital Guideline for Captive Insurance Companies does not include inter-company loans as an acceptable form of capital (Alberta Government 2024). We recommend that Alberta permit the use of inter-company loans with regulatory approval. When considering the approval of an inter-company loan for regulatory capital, regulators should consider the captive's ability to call the loan on short notice, the collateral that the loan is secured against and the loan recipient's financial standing.

3. **Solvency Credit for Reinsurance**: Alberta requires collateral to be held when a captive uses certain reinsurance companies and does not always recognize the full benefit of the reinsurance when calculating solvency capital (e.g., some foreign reinsurers or those with lower credit ratings) (Alberta Government 2024). However, Alberta does not require collateral for reinsurance to federally or provincially licensed reinsurers, as well as entities in the U.S., U.K. or European Union included under agreements with regulators from those jurisdictions (Alberta Government 2024). These regulations are beneficial but could be expanded to include entities regulated and domiciled in Bermuda (fourth largest) and Switzerland (third largest), which account for 27 per cent of the global property and casualty reinsurance

industry (London Market Group 2023). The U.S. National Association of Insurance Commissioners (NAIC) has drafted and shared a model law for states to use to enable certain reinsurance ceded to Bermuda (NAIC 2019a) to be categorized as eligible for full credit for solvency purposes as well as a report into similar provisions for Switzerland (NAIC 2019b). We recommend that Alberta review this model law and adopt a similar approach, enabling Alberta's captives to efficiently access the large Bermuda and Swiss reinsurance markets.

By making these incremental changes to Alberta's captive regulatory framework, we believe that Alberta will be more successful in attracting existing Canadian-based captives to redomicile to the province as well as being considered a competitive domicile for Canadian entities looking to establish new captives.

LEARNING FROM SUCCESSFUL DOMICILES

Alberta has had reasonable success to date in licensing new captives. To grow the market and for Alberta to position itself to be home to more than 200 captives by 2033, we identified several key strategies deployed by the largest and fastest growing U.S. captive domiciles (Utah, Delaware, North Carolina, Tennessee and Vermont).

Table 2. Five Largest or Fastest Growing U.S. Captive Domiciles (by number of captives)

U.S. Captive Domiciles	No. of Captives (2022)	Captives' Rank (2022)	Captive Growth (2013–2022)	Captive Growth Rank (2013–2022)
Vermont	639	1	51	9
Delaware	330	3	32	12
Utah	419	2	77	3
Tennessee	150	9	118	2
North Carolina	294	4	290	1

Methodology: Calculations by the author.

Five key strategies and tactics are deployed that have been identified as vital to the success of these domiciles and are prevalent among most of them:

1. **Protected Cell Captives (PCC)**: All five domiciles have PCC legislation. According to Marsh Captive Solutions, PCCs represent nearly 25 per cent of their new captive formations globally. PCCs and similar captive structures can be more attractive to smaller entities as Marsh reports that:

   - Their operating costs are up to 50 per cent lower than pure single-parent captives;
   - Capitalization requirements for cells are usually 50 per cent less than single-parent pure captives;
   - Cells within PCCs can be established in days rather than months;
   - They benefit from the services and economies of scale of the PCC manager; and
   - They can achieve the same financial advantages of pure single-parent captives (Marsh 2023).

   It has been reported that the "advantages of domiciling in Barbados over domestic Canadian states (*sic*) include the permission of segregated cell captives, which is currently not permitted in either Alberta or BC" (*Captive Insurance Times* 2024). The ability to use limited partnerships in Alberta for captives is reported to have been used to mimic some of the benefits of PCCs

(Da Costa 2023). PCCs are a well-known captive structure internationally, while the use of limited partnerships is less common. Having PCC legislation will bring Alberta in line with key competitors, facilitate the re-domiciliation of PCC cells currently offshore and encourage large captive managers who typically sponsor and manage PCCs, to establish PCCs in Alberta to support their clients.

2. **Insurance Premium Tax (IPT)**: All the domiciles reviewed have no IPT rates (Utah); maximum dollar thresholds for IPT (e.g., $100,000 to $200,000 a year (Vermont, Delaware and North Carolina); and/or IPT holidays for captives that redomicile back to the home state of their parent entity (Tennessee, North Carolina). "If Alberta decides, 'We're going to do the same as Vermont and say it's a 0.4% premium tax instead of 4%,' that $10-million premium that's being spent in Barbados — and that's paying $400,000 in premium tax in Alberta — is more likely going to move because they're going to pay $40,000 and save $360,000 in premium tax right off the bat" (Porado 2023).

3. **Regulator and Industry Engagement**: All five domiciles reviewed have trade associations that represent the interests of captive owners and the captive industry to local government and regulators. This engagement can include captive trade association involvement in annual captive legislation and regulation reviews, bringing industry expertise regularly into policy development.

4. **Experienced Captive Regulators**: Each domicile reviewed is recognized as having skilled and experienced captive professionals within the regulator. Our research found that the captive industry values experienced and consistent captive regulators as it fosters trusted engagement and speed of issue resolution. It has also been noted that "it could take years for Alberta to reach the same level of domestic knowledge and expertise" (*Captive Insurance Times* 2024) as British Columbia, which could hinder captive growth. Some newer captive domiciles have recruited experienced captive regulators from successful domiciles to support their entry in the captive market (Johnson and Kleffner 2022).

5. **Marketing**: Most of the regulators/governments of the domiciles reviewed partner with captive trade associations and attend key conferences to promote the benefits of their domiciles to attract new captives, host captive conferences locally and advertise the benefits of their domiciles in relevant trade publications. These domiciles also issue press releases and follow-up interviews in the captive trade press announcing the establishment of new captives to publicize their domiciles.

Learning from the experience of the fastest growing and largest U.S. captive domiciles, Alberta can encourage more captive owners to choose Alberta and increase the economic benefits to the province:

- To encourage the creation of new captives in Alberta, particularly sponsored by smaller entities, Alberta should enact PCC legislation specifically targeted at captive insurers;
- To address some tax disadvantages compared to Barbados- and Bermuda-based captives, Alberta should conduct an analysis to consider the feasibility and competitive advantage to be gained by creating an annual dollar IPT maximum for captives and lowering IPT rates for captives, as well as an IPT holiday for captives owned by Alberta-based entities that redomicile to Alberta;
- The government could encourage the creation of an Alberta captive industry association by recognizing in legislation and/or regulation that the captive regulator commits to at least annual engagement with an Alberta-incorporated trade association of captive owners and/or captive

managers serving Alberta captives. The aim of this engagement would be to seek feedback and guidance on possible changes to Alberta's captive regulation and legislation. The regulator's formal commitment to engage with industry trade bodies is likely to incentivize industry to co-operate to create captive industry trade associations;

- To quickly gain captive insurance regulatory expertise, particularly around PCCs, and enhance its profile with global captive managers, Alberta should ensure that it has a team of experienced captive regulators. This could include recruiting senior regulators from successful U.S. captive domiciles;
- Alberta could consider requiring captives to be managed by Alberta-based and regulated captive managers (unless the captive is self-managed), within a fixed period of years from a captive's formation. This would enable captives to benefit from the expertise of non-Alberta captive managers in the medium term, while a robust ecosystem of captive expertise is developed in Alberta (Johnson and Kleffner 2022). It would also enable Alberta to attract a higher level of economic activity to the province; and
- Alberta hosted its first captive conference in April 2024, sponsored by a captive manager and the southern and northern Alberta chapters of the Risk & Insurance Management Society (RIMS Northern Alberta Chapter n.d.). The regulator also presented or attended several other captive, insurance and finance conferences to promote Alberta as a captive domicile in 2024 (Merriman 2024). Building on this, Alberta's captive regulator should make funding available to support an annual Alberta captive conference in partnership with Alberta's captive industry (and ideally trade association), participate at key trade events such as Canada's Risk & Insurance Management Society's annual conference and regularly publicize in key Canadian trade publications.

These approaches will require financial investment by the Alberta government; however, by employing high-level cost/benefit analysis based on economic impact estimates from other domiciles, Alberta can determine which strategies to prioritize based on its unique circumstances.

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