

# COMMISSIONER OF SECURITIES & INSURANCE

MONICA J. LINDEEN  
COMMISSIONER



OFFICE OF THE MONTANA  
STATE AUDITOR

January 13, 2015

## NOTICE

TO: All Captive Managers

FROM: Steve Matthews  
Captive Coordinator  
Office of the Commissioner of Securities & Insurance (CSI)

SUBJECT: 2014 Reporting Instructions  
Montana-domiciled Risk Retention Groups

### 1. Unaudited Financial Statements (Annual Statement or Annual Report):

On or before March 1 of each year, a captive risk retention group shall submit to the Commissioner, on a form prescribed by the Commissioner, a report of its financial condition. Each captive insurer shall report using generally accepted accounting principles (GAAP). Modifications or adaptations to standard GAAP accounting may be used only with the prior written approval of the Commissioner. Statutory accounting principles (SAP) may be used only when required by the Commissioner or when requested by the captive insurer and approved by the Commissioner.

The Commissioner has proscribed that all Montana-domiciled risk retention groups ("RRGs") are required to file GAAP or SAP based annual and quarterly statements with the CSI and with the NAIC using the NAIC Property & Casualty Annual and Quarterly Statement Blanks and Instructions.

Recognizing that the yellow blank has been designed for use with SAP, the following modifying instructions and guidance are provided to allow use of the yellow blank with GAAP accounting.

a.) The CSI prefers reporting loss reserves and unearned premium net of ceded amounts as is done on a SAP basis. However, some CPA firms require reporting on a gross basis when filing in accordance with GAAP. If loss reserves and unearned premium are reported on a gross basis, certain GAAP assets and liabilities shall be reflected separately on the respective lines in the yellow blank as follows:

GAAP Classification	Yellow Blank
Deferred Acquisition Costs	Page 2 – Line 25 – Aggregate write-in for other than invested assets as a separate item.
Prepaid Reinsurance (i.e. ceded unearned premium)	Page 2 – Line 25 – Aggregate write-in for other than invested assets as a separate item.
Reinsurance recoverable on <u>paid</u> losses and loss adjustment expenses	Page 2 – Line 16.1 – Amounts recoverable from reinsurers.
Reinsurance recoverable on <u>unpaid</u> losses and loss adjustment expenses	Page 2 – Line 16.3 – Other amounts receivable under reinsurance contracts.
CSI approved Letters of Credit (LOC) reported as an asset	Page 2 – Line 25 – Aggregate write-in for other than invested assets as a separate line item.
CSI approved Surplus Notes	Page 3 – Line 33 – Surplus Notes

b.) A GAAP to SAP reconciliation must be included in the Notes to Financial Statements.

c.) Please be advised that the reporting requirements may result in the following NAIC cross-check errors:

1. Page 3 – Line 1 – Column 1 -- no longer agrees to Part 2A – Line 35 – Column 8 (pertains to ceded loss reserves).
2. Page 3 – Line 1 – Column 1 -- no longer agrees to Schedule P – Part 1 – Summary – Line 12 – Column 35 (pertains to ceded loss reserves).
3. Page 3 – Line 9 – column 1 -- no longer agrees to Part 1A – Line 38 – Column 5 (pertains to UPR).
4. Page 3 – Line 9 – parenthetical amount -- no longer agrees to Schedule F – Part 3 – Column 13 (pertains to ceded UPR).
5. Additional cross-check errors not noted above also may result.

To satisfy the “cross-check” process and successfully file the annual statement using the NAIC reporting software, CSI instructs all Montana-domiciled RRGs to provide the following explanation where applicable:

“Cross-check error is a result of differences between GAAP reporting and SAP reporting. GAAP reporting is required by the State of Montana pertaining to all domestic captive risk retention groups.”

The CSI has notified the NAIC that all Montana-domiciled RRGs will be using the aforementioned explanation regarding cross-check errors.

## 2. Audited Financial Statements:

The audited financial report for RRGs is due June 1 for the year ending December 31 immediately preceding.

The annual CPA audit report shall be considered part of the captive insurer's annual report of financial condition except with respect to the date by which it must be filed. RRGs shall follow the requirements of Mont. Admin. R. 6.6.6811.

The annual CPA audit shall consist of the following:

- a) Financial statements furnished pursuant to this section shall be examined by an independent certified public accountant in accordance with generally accepted auditing standards as determined by the American Institute of Certified Public Accountants.
- b) The opinion of the independent certified public accountant shall cover all the years presented.
- c) The opinion shall be addressed to the captive insurance company on stationery of the accountant showing the address of issuance, shall bear original manual signatures, and shall be dated.

The annual CPA audit report shall include an evaluation of the internal controls of the captive insurer relating to the methods and procedures used in the securing of assets and the reliability of the financial records, including but not limited to such controls as the system of authorization and approval and the separation of duties.

The accountant shall furnish the company, for inclusion in the filing of the audited financial report, a letter stating:

- a) That it is independent with respect to the captive insurance company and conforms to the standards of the profession, as contained in the Code of Professional Ethics and pronouncements of the American Institute of Certified Public Accountants and pronouncements of the Financial Accounting Standards Board.
- b) The general background and experience of the staff engaged in the audit including the experience in auditing captives or other insurance companies.
- c) That the accountant understands that the audited annual report and the accountant's opinion thereon will be filed with the CSI.
- d) That the accountant consents to the requirements of Mont. Admin. R. 6.6.6819.
- e) That the accountant is properly licensed by the appropriate state licensing authority and is a member in good standing with the American Institute of Certified Public Accountants.

The annual CPA audit shall include the following financial statements:

- a) Balance sheet;
- b) Statement of operations;
- c) Statement of changes in financial position;
- d) Statement of changes in paid up, gross paid in and contributed surplus and unassigned funds (surplus); and
- e) Notes to financial statements, which shall include those that are required by GAAP, including:
  - 1. A reconciliation of differences, if any, between the audited financial report and the statement or form filed with the Commissioner (i.e., unaudited statement);
  - 2. A summary of ownership and relationship of the company and all affiliated corporations or companies insured by the captive.

### 3. Actuarial Opinion:

Pursuant to Mont. Admin. R. 6.6.6816, the annual CPA audit shall include an opinion as to the adequacy of the captive insurer's loss reserves and loss expense reserves. The individual who certifies as to the adequacy of the reserves shall be approved by the Commissioner and shall be a member of the Casualty Actuarial Society, a member in good standing of the Academy of Actuaries, or an individual who has demonstrated competence in loss reserve evaluation to the Commissioner.

The required opinion must accompany the yellow blank due on or before March 1. The RRG is also required to submit an actuarial opinion summary on or before March 15. The opinion and summary must comply with the NAIC Annual Statement Instructions. [Mont. Code Ann. § 33-28-107(4)(a)]

### 4. Filing Instructions:

One hard copy of the annual statement and one copy of quarterly statements should be filed with the CSI. Additionally, one hard copy of all other financial filings is required. See the attached "Montana Filing Checklist for Captive Insurers" for further filing requirements and instructions.

### 5. Premium Tax Returns:

All Montana-domiciled captive insurers are required to file a Montana Premium Tax Return no later than March 1 of each year. Please note that Mont. Code Ann. § 33-28-201 allows a quarterly proration of the minimum premium tax for those captive insurers who were newly licensed during the tax year being filed.

Premium tax remittance checks should be made payable to: Commissioner of Insurance.

## 6. Certificate of Authority Renewal:

Pursuant to Mont. Code Ann. § 33-28-102(4)(b), all licensed captive insurers shall pay a Certificate of Authority (license) renewal fee of \$300. The renewal fee is incorporated into the Montana Premium Tax Return and payment should be remitted therewith. The Commissioner may suspend or revoke a captive's Certificate of Authority if the renewal fee is not paid by March 1.

## 7. Additional RRG Requirements and Filings:

a.) Each RRG is required to maintain a fidelity bond issued by an authorized corporate surety in favor of the RRG. The Commissioner shall consider the captive insurer's exposure, total assets, and total income in determining the bond amount. To determine the required bond amount, refer to the calculation at Mont. Admin. R. 6.6.6601, available at the following link:

<http://www.mtrules.org/gateway/ruleno.asp?RN=6%2E6%2E6601>

b.) RRGs that write medical malpractice insurance are required to complete the MONTANA MEDICAL MALPRACTICE PROFESSIONAL LIABILITY EXPERIENCE REPORT (attached).

c.) Mont. Code Ann. § 33-28-207(4)(b) requires RRGs to submit a Risk-Based Capital Report to the Commissioner on or before each March 1 filing date.

d.) Pursuant to Mont. Code Ann. § 33-28-207(4)(c), an RRG that is part of a holding company system shall file with the Commissioner on or before April 30 each year, Forms B and C, as required in Mont. Code Ann. § 33-2-1111, available at the following link: <http://csi.mt.gov/captives/FORM%20B%20Holding%20Company.pdf>

## 8. CSI Contacts for Questions Regarding Filings:

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# Montana Filing Checklist for Risk Retention Groups

	<i>Due Date</i>	<i>RRG</i>
<b>UNAUDITED FINANCIAL STATEMENTS</b>		
Annual Financial Statement: RRG	3/1	
	5/15	
	8/15	
Quarterly Financial Statement: RRG	11/15	
<b>AUDITED FINANCIAL STATEMENTS</b>		
Audited Financial Statements: RRG	6/1	
Report of Evaluation of Internal Controls: RRG	6/1	
Accountants Letter: RRG	6/1	
<b>ACTUARIAL OPINION</b>		
Statement of Actuarial Opinion: RRG	3/1	
Actuarial Opinion Summary: RRG	3/15	
<b>OTHER REQUIRED FILINGS</b>		
Premium Tax Return	3/1	
Certificate of Authority Renewal Fee	3/1	
Medical Malpractice Experience Report	3/1	
Risk-Based Capital Report	3/1	
Management's Discussion & Analysis	4/1	
Holding Company Filing	4/30	

Denotes required filing.



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**2014 PREMIUM TAX STATEMENT-CAPTIVE INSURANCE COMPANIES**

*Due on or before March 1st*

**For Captives Filing the Annual Report on the NAIC Yellow Blank**

<b>Insurer Name (Attach list if necessary)</b>			<b>FEIN</b>
<b>Mailing Address</b>	<b>City</b>	<b>State</b>	<b>Zip Code</b>
<b>Administrative Office E-mail Address</b>	<b>Contact Person Telephone Number</b>		

INSTRUCTIONS: A reinsurance premium tax does not apply to premiums for risks or portions of risks that are subject to Montana taxation on a direct basis.

**SCHEDULE A – TAX ON DIRECT PREMIUMS WRITTEN**

1. Gross Direct Premiums (Annual Report, Page 8, Line 35, Col. 1) \$ \_\_\_\_\_ [01]
2. Less return premiums \$ \_\_\_\_\_ [02]
3. Other deductions (provide explanation by attachment) \$ \_\_\_\_\_ [03]
4. Premiums subject to tax (line 1 minus line 2 minus line 3) \$ \_\_\_\_\_ [04]
5. First \$20 million of line 4 x .4% \$ \_\_\_\_\_ [05]
6. Each subsequent dollar of line 4 x .3% \$ \_\_\_\_\_ [06]
7. Total (sum of lines 5 and 6) \$ \_\_\_\_\_ [07]

**SCHEDULE B – TAX ON ASSUMED REINSURANCE PREMIUMS**

8. Gross Assumed Reinsurance (Annual Report, Pg 8, Line 35, Cols 2+3) \$ \_\_\_\_\_ [08]
9. First \$20 million of reinsurance premiums on line 8 x .225% \$ \_\_\_\_\_ [09]
10. Next \$20 million of reinsurance premiums on line 8 x .150% \$ \_\_\_\_\_ [10]
11. Each subsequent dollar of reinsurance on line 8 x .050% \$ \_\_\_\_\_ [11]
12. Total (sum of lines 9 through 11) \$ \_\_\_\_\_ [12]

**SCHEDULE C – CALCULATION OF TOTAL AMOUNT DUE**

13. Total Premium Tax (sum of lines 7 and 12 but no more than \$100,000) \$ \_\_\_\_\_ [13]
14. Captives licensed during 2014, the minimum tax is prorated using date licensed. (1<sup>st</sup> qtr \$5,000; 2<sup>nd</sup> qtr \$3,750; 3<sup>rd</sup> qtr \$2,500; 4<sup>th</sup> qtr \$1,250) \$ \_\_\_\_\_ [14]
15. Captives licensed prior to 2014, the minimum tax is \$5,000 \$ \_\_\_\_\_ [15]
16. Minimum Tax per § 33-28-201(3), MCA (line 14 or 15) \$ \_\_\_\_\_ [16]
17. Tax Due (greater of line 13 or line 16) \$ \_\_\_\_\_ [17]
18. Annual License Renewal Fee of \$300 per § 33-28-102(4)(b), MCA \$ 300.00 [18]
19. Total due to: Commissioner of Insurance (sum of lines 17 and 18) \$ \_\_\_\_\_ [19]

<p><i>This is a true report of premiums written in the past calendar year and complies with the requirements of applicable law.</i></p> <p>_____</p> <p><i>Signature of Officer</i> <span style="float: right;"><i>Date</i></span></p>	<p><i>Name of Officer (Type or Print)</i></p>	
	<p><i>Title of Officer</i></p>	