



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Captive Insurance Company

CORPORATE GOVERNANCE GUIDANCE

The Insurance Department of the State of Connecticut is committed to consistency and fairness in its review, regulation and examination of captive insurance companies domiciled in the state. The Department and its Captive Division are also committed to ensuring that best management practices in the areas of risk and corporate governance are part of all domestic captives.

Every captive insurance company formed in Connecticut must establish and maintain an effective structure and processes for management and governance, with a foundation of best practices. Evidence of sound corporate governance includes a commitment by the captive to principles of corporate discipline, accountability, responsibility, compliance with laws and regulations and appropriate oversight.

The approach taken by captive ownership with respect to corporate governance will be an integral part of both the application and examination processes. Risk management and governance processes will be assessed as part of:

- The Application process, as part of the Business Plan; and
- The Examination process, utilizing a risk-focused format.
 - The risk-focused examination process places increased emphasis on the captive insurance company's risk management culture, corporate governance, risk assessment programs, and the control environment. This examination approach not only focuses on the current situation, but also takes a prospective view of the ability of the captive to identify, assess and manage the risks of its operations and business. Rather than the examination being a discrete event or process, it supports a continuous regulatory and operational improvement processes.
 - Specific details of the risk-focused examination process are available from the Captive Division of the State of Connecticut Insurance Department.

The Board of Directors

The ultimate responsibility for sound and prudent management of the captive insurance company rests with its board of directors ("board"). The board is the embodied agent for the management of the captive.

The board is responsible for ensuring that corporate governance policies and practices are developed and applied as part of a comprehensive approach to management. The key to effective corporate governance is a commitment by the board to ensure that the business of their company is effectively directed, conducted and managed in a sound and prudent manner.

The board must define expectations with respect integrity, ethical values, expectations and control activities – establishing the "tone at the top". This applies to board members, as well as the business and functional leadership of the captive entity, and service providers. Delegation of authority by the board to sub-committees, executive leadership and management or to external service providers, such

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as captive managers, actuaries or other parties does not absolve the board from its ultimate responsibilities.

To this end, governance and management must be done by competent individuals with integrity, due diligence and care who utilize appropriate professional skills. The officers, managers and service providers of the captive insurance company must be fully accountable to the board of directors.

Therefore, it is the responsibility of the board to ensure that processes to define, assess and document the competency of its members, controllers, and officers are in place. At the same time, the board must also take into account that conflicts, or potential conflicts of interest, may, on occasion, preclude the involvement of specific individual members on particular issues or decisions and potentially disqualify a board member or candidate.

Board membership should include appropriate number of resident, “independent”, non-executive, and non-conflicted directors.

For a captive insurance company, formed as a corporation in the State of Connecticut, at least one member of the board of directors shall be a resident of this state. (Sec. 38a-91ff).

“Independent” is a relative term. The identification and selection of independent and non-conflicted individuals for board membership is dependent of the type and structure of the captive insurance company.

A “pure” or single-parent captive, for example, may select “independent” board members who are individuals who are part of the parent or owner’s leadership, in addition to key captive operating executive managers and officers. Group captive entities will need an appropriate number of directors from outside the captive insurance company organization.

The board is responsible for establishing and leading a corporate governance structure that includes setting appropriate strategies and policies, and for providing prudent oversight of the captive insurer’s risk management and internal controls framework, regardless of the extent to which associated activities and functions are delegated or outsourced.

All board members must be able to function in an informed and objective manner. All board members must be able to demonstrate sufficient knowledge of the captive insurer’s business to ensure that appropriate policies and procedures are implemented and monitored by the insurer.

The following represent some of some of the key attributes and actions needed to evidence the required commitment to sound corporate governance:

- Sound and effective **corporate governance at the board of directors level and throughout** the organization
- Active **operational oversight** of responsibilities of senior management
- Adequate **risk monitoring** and reliable **risk management processes**
- **Open communication**; objective reporting of findings

- Clear **documentation and regular review** of processes regarding the roles and responsibilities of the board, the chief and senior executives, and key staff overseeing execution of corporate governance functions
- **Independent functions**, such as risk management, claim, investment, internal audit, actuarial, and compliance to assist in oversight responsibilities, have direct communication to the board and relevant committees. The board must interact and meet regularly with these committees to assess their performance and progress in leadership, operational excellence and strategy implementation.
- **Internal policies and procedures** to address potential issues arising from the business conduct and unethical or fraudulent actions by board members, chief and senior executives, and staff
- **Competency** of board members, controllers, officers, and third-party service providers, including insurance managers, auditors, actuaries, and the principal representative. In addition, the board must confirm that key staff members are adequately skilled, having the expertise in their relevant field and knowledge of policies and procedures to execute and discharge their duties
- **Board committees** to oversee key operational areas including underwriting and investments and key functions including risk management, investment, corporate governance, audit, and compliance
- Establish **strategic, operational and financial strategies** for the captive subsidiary, aligned with the owner's business(es)
- Access to **accurate, relevant, and timely information**, available to stakeholders participating in the corporate governance process
- Management of the **market conduct** of the captive insurance company, including relevant laws, regulations, codes of conduct, industry standards, etc.

Appropriate **information management systems**, maintenance of supporting records and documentation, data protection, safeguarding of information.

Questions and requests for information should be directed to the Captive Division:
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