

NORTH CAROLINA DEPARTMENT OF INSURANCE
Form C-200 Captive Annual Report Form Instructions
(All captive insurers except association captive insurers and risk retention groups)

A. GENERAL INSTRUCTIONS

This North Carolina Captive Annual Report Form (CARF) is an Excel spreadsheet for use by all pure, protected cell, incorporated cell, special purpose, branch, and industrial insured captive insurers to file their annual reports required pursuant to North Carolina General Statute (G.S.) 58-10-405 (unless otherwise instructed by the North Carolina Department of Insurance (Department)). Prior to March 15 of each year, each captive must file its CARF with the Department. *Along with the CARF, protected cell/incorporated cell captives must submit a consolidating Excel worksheet that provides a Balance Sheet and Statement of Income for each cell and the core, along with a total column that reconciles to the CARF.*

Pure, special purpose, and industrial insured captives that have a fiscal year-end other than December 31st may request an alternative reporting date pursuant to G.S. 58-10-405(c).

(Captive insurers may make written requests for extensions of the due date in 30-day increments pursuant to G.S. 58-10-405 (f), and those requests will be evaluated on a case-by-case basis. The extension requests are to be received by the Department no less than 10 days before the filing due date.)

The CARF must be supplemented by the following documents, which are due on or before June 30 for the prior calendar year or, for those captive insurers that have a fiscal year-end other than December 31st, no later than 180 days after the captive insurer's fiscal year-end:

- Statement of Actuarial Opinion as required per G.S. 58-10-415(e)
- Annual Audit Report and certified public accountant's affirmation per G.S. 58-10-415(d)(1) and (2)

(Captive insurers with less than \$1.2 million in written premium may request an exemption from the annual audit requirements pursuant to G.S. 58-10-415(c), and those requests will be evaluated on a case-by-case basis. The request is to be made at least 90 days prior to the insurer's fiscal year-end or as otherwise required by the Commissioner.)

Basis of Accounting: The CARF is to be prepared based on generally accepted accounting principles (GAAP) unless the Commissioner requires or allows reporting under another basis of accounting. When modifications to GAAP are included in the preparation of the CARF, the captive insurer must explain those modifications in response to Question #5 in the Questionnaire of the CARF.

Filings: An original hardcopy CARF and other required documents must be filed along with an electronic copy of the completed CARF.

Signatures: The original hardcopy CARF must be verified under oath by affixing original wet signatures on the Jurat Page by two executive officers. The signatures must be notarized.

Entering Data: The preparer of the CARF must enter the captive insurer's full name in row 6 and the captive insurer's fiscal year-end in row 9 of the first sheet of the CARF spreadsheet titled "COVER AND TABLE," and its name, fiscal year-end, and prior fiscal year-end will then populate the remaining sheets of the CARF. Financial data entry may begin from any location subsequent to completing this procedure.

Printing the CARF: The user may print the CARF using the Excel print function.

Spreadsheet Protection: The spreadsheet in the CARF has been password protected to prevent unauthorized modifications. It is important not to modify the spreadsheet's form or content as this information will be electronically extracted by the Department for financial analysis of captive insurers. If you encounter problems in entering data on the spreadsheet, please contact us for assistance.

B. STATEMENT OF ACTUARIAL OPINION

A Statement of Actuarial Opinion on the adequacy of the captive insurer's loss and loss expense reserves is a required component of the filings, which must be prepared by a Fellow of the Casualty Actuarial Society, a member in good standing of the American Academy of Actuaries or an individual who, in advance, has demonstrated a level of competence in loss reserve evaluation satisfactory to the Commissioner. Refer to North Carolina General Statute 58-10-415(e) for instructions on the preparation of the Statement of Actuarial Opinion.

For protected cell captive insurance companies: Each protected cell captive insurance company and its incorporated or protected cells may file separate Statements of Actuarial Opinion on or before June 30th of each year. As an alternative to the filing of separate opinions, each protected cell captive insurance company may file a combined Statement of Actuarial Opinion, which certifies the adequacy of loss reserves and loss expense reserves of each cell and the protected cell captive insurance company's core, if applicable. Each combined actuarial certification must include a supplemental schedule showing the loss and loss expense reserves for each cell and the protected cell captive insurer's core, if applicable. The loss and loss expense reserve reported in the supplemental schedule must equal the loss and loss expense reserve amount reported in the combined audited financial statement. In addition, the reserves reported in the supplemental schedule must agree to the reserves reported in the audited financial statements filed for the protected cell captive insurance company and its cells.

C. ANNUAL AUDIT REPORT AND CERTIFIED PUBLIC ACCOUNTANT'S AFFIRMATION

An independent certified public accountant must perform an annual audit of the captive insurer's financial statement. The annual audit report is due on or before June 30 for the prior calendar year or, if approved by the Commissioner, within 180 days after the captive insurer's fiscal year-end. Refer to G.S. 58-10-395 for instructions regarding changes in the captive insurer's independent certified public accountant and G.S. 58-10-415 regarding the preparation and filing of the annual audit report and the certified public accountant's affirmation.

D. GENERAL FINANCIAL STATEMENT INSTRUCTIONS

Page 1 - JURAT PAGE

The Jurat Page must be:

1. completed in its entirety;
2. submitted with original (not copied) signatures by two executive officers; and
3. certified by a notary public with original stamp.

Officers and directors that have been newly elected during the year must have a “#” sign next to their names. Pursuant to G.S. 58-10-385(a), the Department requires that every captive insurer report to the Commissioner within 30 days any change in its executive officers or directors, and such report must include a biographical affidavit (Form C-101) for each new officer or director.

The designated *Annual Report Contact Person* must be the individual that actually prepared the CARF.

Page 2 – BALANCE SHEET - ASSETS PAGE

Assets reported on Page 2 must be valued in accordance with GAAP unless otherwise allowed by the Department. Appropriate valuation reserves must be established for any amounts where collection may be doubtful. Space has been provided for write-ins of miscellaneous assets for *Other Invested Assets* and *Other Assets*. If space is insufficient for the captive insurer’s miscellaneous assets, contact the Department for assistance.

Cash and Invested Assets: Invested assets must be valued and reported in accordance with GAAP. Do not include loans and other advances to affiliates on these lines. Pure captive insurance companies, industrial insured captive insurance companies, protected cell captive insurance companies, incorporated cell captive insurance companies, special purpose captive insurance companies, and special purpose financial captive insurance companies filing on this form are generally exempt from North Carolina investment limitation statutes unless otherwise directed by the Department. Amounts reported for *Cash and Cash Equivalents*, *Investments in Fixed-Maturity Securities* and *Investments in Equity Securities* must reconcile with amounts reported on Schedule 1.

Premium Receivables: This line item must include uncollected premium balances, bills receivable for premiums and any amounts due from agents or brokers.

Reinsurance Recoverable: Reinsurance recoverable must include amounts recoverable from ceded reinsurance on paid loss and loss adjustment expenses. In accordance with GAAP, also include unearned premiums and amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses. This line item must reconcile with the total reinsurance recoverable reported on Schedule 3 – Part 2.

Funds Held by Ceding Reinsurers: The amount reported on this line represents funds due and withheld from the captive insurer by its fronting insurers and must agree to the amounts reported on Schedule 3 – Part 1.

Investments in and Advances to Affiliates: Bonds, stocks, or other investments in the Captive insurer’s parent or affiliates must have received prior written approval from the Department and are reported as non-invested assets under this caption.

Prepaid Reinsurance Premiums: Include all premiums forwarded to reinsurers on policies that are not yet in effect or due. If amounts advanced to reinsurers are material assets, details of the advances must be discussed in an attachment.

Letters of Credit: Include the value of any outstanding LOCs that have been issued as part of the capitalization of the captive insurer that are held by the Department with the Commissioner of Insurance as the beneficiary. Other LOCs are inadmissible as assets in the CARF.

Other Assets: Include any other admissible assets that are not included under any other account in the balance sheet.

Page 3 – BALANCE SHEET - LIABILITIES, CAPITAL AND SURPLUS PAGE

Loss and Loss Adjustment Expense Reserves: Loss and LAE reserves are to be reported gross of ceded reinsurance. The current year outstanding loss reserves must agree with the sum of amounts reported on Schedule 4 – Part 1 – Unpaid Loss and Loss Adjustment Reserves, columns 1 and 3. The current year outstanding LAE reserves must agree with the sum of amounts reported on Schedule 4 – Part 1 – Unpaid Loss and Loss Adjustment Reserves, columns 6 and 8.

Unearned Premiums: Unearned premiums are reported net of amounts ceded under reinsurance agreements and must agree with the total reported for the current year on Schedule 2 - Premiums.

Reinsurance Payable: Include amounts currently payable to reinsurers, and this amount must reconcile to Schedule 3 – Part 2 – Reinsurance Ceded.

Funds Held under Reinsurance Ceded: Include reinsurance premiums withheld by the captive insurer as specified in the reinsurance contract or advances to the captive insurer for the payment of losses. This amount must agree with Schedule 3 – Part 2 – Reinsurance Ceded.

Loans and Notes Payable: The captive insurer must report all loans and notes outstanding at year end. When discussing loans and notes payable, the captive insurer must provide details on loan terms, maturity dates and any collateral provided to secure payment if such information was not previously provided to the Department.

Amounts Due to Affiliates: The captive insurer must report all amounts due to parent or affiliates, including amounts due to asset sales and amounts due under management service agreements. Current agreements must be submitted to the Department, if they have not been previously filed.

Dividends Payable: Include on this line both unpaid policyholder and shareholder dividends declared by the board of directors and approved by the Department. All dividends must be approved by the Department prior to being declared and recorded as liabilities in the captive insurer's financial statements.

Taxes Payable: Taxes payable must include estimated amounts due to the Federal Government at year-end that have not been paid plus any deferred tax liability.

Other Liabilities: Space has been provided for the captive insurer to include all other liability items that are not included elsewhere. Please note that any material liabilities included as write-ins must be described in an attachment.

Capital and Surplus: *Paid-in Capital* must include any issued common and preferred stock at par value. *Paid-in Surplus* is any other amount paid into the captive insurer's capital. *Surplus Notes* are funds loaned to the captive and supported by a written document that is in compliance with North Carolina General Statute 58-10-340(43). Surplus note principal and interest may be repaid only with the written approval of the Commissioner. *Unassigned Surplus (Retained Earnings)* represents the cumulative earnings from operations and must agree with the "Changes in Capital and Surplus" section of Page 4.

Page 4 - STATEMENT OF INCOME

Premiums Earned: The current year earned premium amount must reconcile to the amount reported on Schedule 2 - Premiums.

Net Loss and Loss Adjustment Expense Incurred: The Net Loss and Loss Adjustment Expense Incurred equals the amounts paid during the current year plus any changes in reserves. Net Loss and Loss Adjustment Expense Incurred must agree with the amounts reported on Schedule 4 - Part 2 - Loss and LAE Incurred, columns 7 and 15.

Remaining Revenue and Expense Items: These items must be self-explanatory.

Page 6 – SCHEDULE 2 – PREMIUMS

Schedule 2 – Report information by line of business required to calculate net earned premiums. Net earned premiums must agree with the amount reported on the Statement of Income.

Pages 7 – SCHEDULE 3 – PART 1 REINSURANCE ASSUMED and PART 2 REINSURANCE CEDED

Schedule 3 Part 1 and Part 2 must disclose the breakdown of amounts ceded to and assumed from specific carriers and any amounts securing reserves for unauthorized insurers. The totals for premiums ceded and assumed must reconcile to the Schedule 2 - Premiums.

Page 8 – SCHEDULE 4 - PART 1 - UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES

Schedule 4 – Part 1 must disclose the breakdown of ending reserves, net of reinsurance, by line of business.

Ending Unpaid Loss Reserves columns 1 plus 3 and Unpaid LAE Reserves columns 6 plus 8 must agree with "Loss and Loss Adjustment Expense Reserves" reported on the Balance Sheet.

Page 9 – SCHEDULE 4 - PART 2 – LOSS AND LOSS ADJUSTMENT EXPENSE INCURRED

Schedule 4 - Part 2 - Loss and LAE Incurred, columns 7 and 15 must agree with the amounts reported on the Statement of Income.

Pages 10 – QUESTIONNAIRE

Dropdown menus are provided to respond to several of the requirements in this section. Generally the requirements have been designed such that the responses will be simply a "yes" or "no." "No" responses may represent concerns that the Department will focus on during its review of the filing. The captive insurer must review these matters carefully and address the

response in the space provided. If no space is provided on the questionnaire, please provide an attachment including the explanation.

Question #1: Indicate if the captive insurer had a board meeting in the State of North Carolina and the date of that meeting.

Question #2: If the charter, bylaws and/or organizational documents of the captive insurer were amended since the captive insurer was licensed, indicate whether or not Department approval was granted for those changes.

Question #3: Select the method of accounting utilized by the captive insurer: 1) GAAP; 2) modified GAAP; 3) SAP; or 4) Other basis.

If the method of accounting is different from that used previously, the captive insurer must provide an explanation of the nature and reason for the change.

If modified GAAP is utilized, the captive insurer must provide a brief description of the accounting that does not conform to GAAP.

Question #4: Indicate if the captive insurer has adopted a conflict of interest policy for its directors, officers, and key employees.

Question #5: Indicate whether or not the business plan of the captive insurer is the same in all material aspects with the one currently on file and approved by the Department.

Question #6: If the assets of the captive insurer are not free and clear of any collateral or other security interests, the captive insurer must provide an explanation.

Question #7: For those captive insurers recording loans or advances to its parent or affiliate on its Balance Sheet indicate if approval was obtained from the Department.

Page 12 – CROSSCHECK GUIDE

The Crosscheck Guide is intended to help the preparer and the Department to identify potential errors contained in the CARF. Disregard rounding errors, and ensure that a copy of the Crosscheck Guide is attached to the CARF when it is submitted to the Department.