A Guide to the QFC Captive Insurance Regime

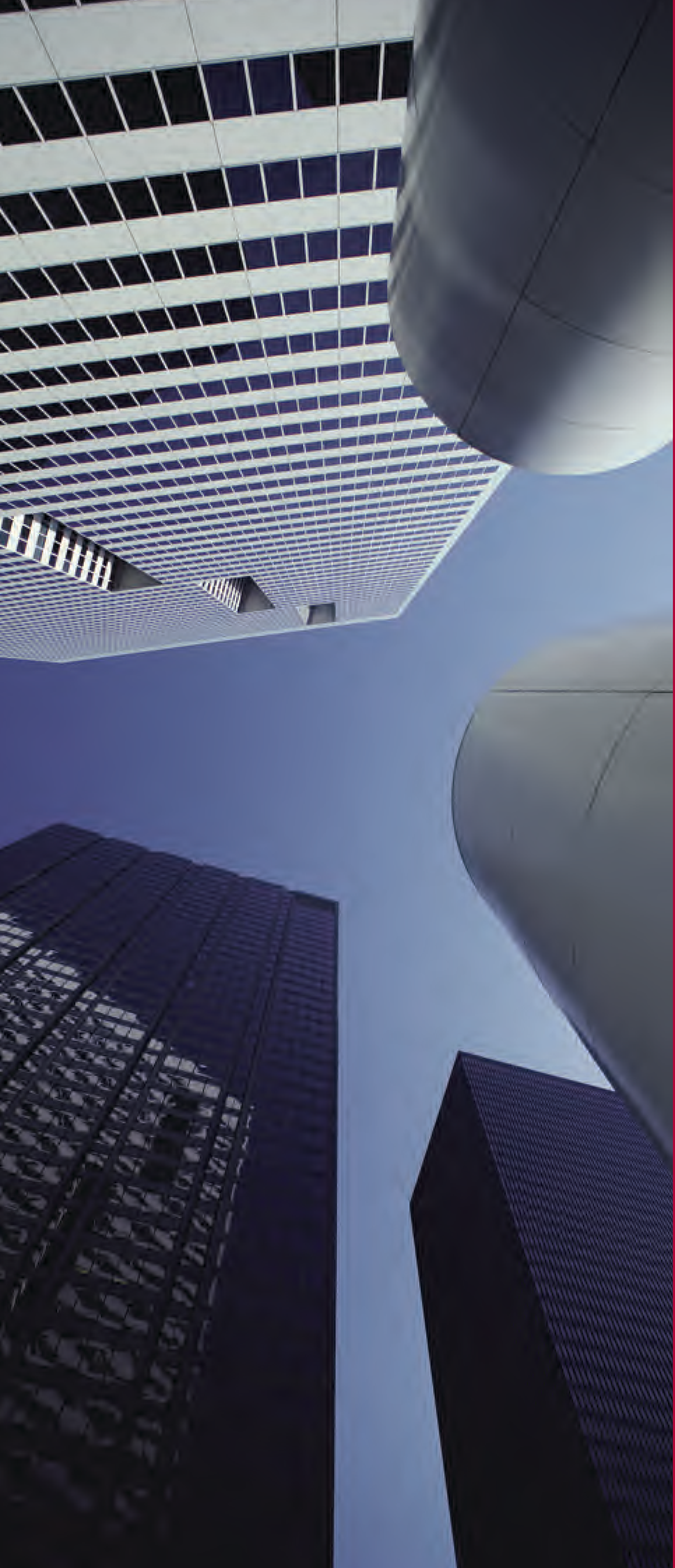
QATAR FINANCIAL CENTRE
REGULATORY AUTHORITY

For captive insurers and captive insurance managers

Risk Management

Captive Insurance

Captive Management



Disclaimer

The goal of the Qatar Financial Centre Regulatory Authority ("Regulatory Authority") in producing this document is to provide a guide to the QFC captive insurance regime, its framework, legislation and policies, including the application, authorisation, licensing and registration requirements to carry on captive insurance business in or from the QFC.

The Regulatory Authority does not make any warranty or assume any legal liability for the accuracy or completeness of the information as it may apply to the particular circumstances of an individual or a firm. The information in this guide does not constitute legal advice and it is provided for information purposes only.

This guide should be read in conjunction with the Captive Insurance Business Rules 2011, Insurance Mediation Business Rules 2011, the Financial Services Regulations, the Regulatory Authority Rulebooks and any other relevant material. This material may be amended by the Regulatory Authority from time to time.

Please log on to www.qfcra.com to read the full text of the QFC Law, Regulations and Rules that apply to firms carrying on business in or from the QFC.

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Introduction to the Qatar Financial Centre

The Qatar Financial Centre ("QFC") is the financial and business centre established by the Government of Qatar. The QFC has been designed to attract international financial services companies and major multinational corporations, and to encourage participation in the growing market for financial services in Qatar and elsewhere in the region. A key part of this strategy is to establish Qatar as a thriving captive insurance hub and to create an attractive environment for a broader range of insurance related activities in the Gulf region.

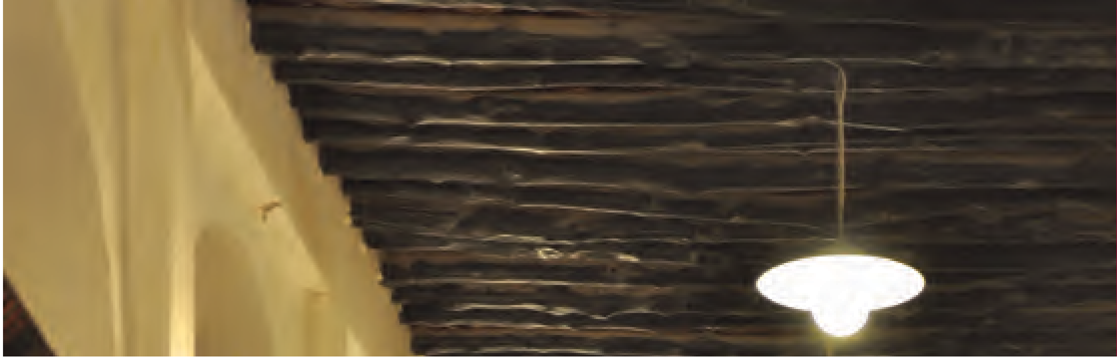
The QFC operates to international standards and provides a world class legal and business infrastructure for those doing business within the centre. The QFC's commercial and regulatory environment conforms to international best practices. The business standards and the legal environment will be familiar to businesses currently operating in major financial centres around the world.

The QFC has attracted more than 100 new businesses to Qatar and it continues to attract the world's leading financial institutions to participate in the Qatari market. As of the 2010 year-end, there were 104 licensed firms in the QFC of which 59 provide regulated activities. Regulated firms include financial institutions from a broad range of jurisdictions, carrying on banking, insurance and asset management business. Insurers and reinsurers operating from the QFC wrote nearly 40% of Qatar's total insurance premiums in 2010.

The Regulatory Authority is the independent financial regulator of the QFC, established to authorise and regulate firms and individuals conducting financial services in or from the centre. It applies a principles-based regulatory approach to meet its objectives. The Regulatory Authority is responsible for the authorisation and ongoing supervision of any captive insurer or captive insurance manager authorised to operate within the QFC.

Other important bodies of the QFC are the QFC Authority, the QFC Tribunal, and the QFC Civil and Commercial Court. The Authority is responsible for the commercial strategy and business development of the centre, as well as the Companies Registration Office that manages the process of incorporation of firms in the QFC. The Tribunal considers appeals of regulatory decisions by the Regulatory Authority and the Civil and Commercial Court administers and enforces the commercial laws of the QFC.

The Regulatory Authority, the Tribunal and the Civil and Commercial Court are designed to operate transparently, objectively and fairly. Their decision-making, financing and operations are structured to ensure transparent and robust independence, whilst being fully supported by the Government of Qatar.



Introduction to the QFC captive insurance regime

The QFC operates a world class regulatory framework that allows authorised firms to conduct a wide range of activities related to captive insurance business. To further develop the QFC as a captive insurance hub, the Regulatory Authority has undertaken a thorough review of the regulatory framework applicable to captive insurance companies ("captives") and to those who typically manage captives; i.e. captive insurance managers ("captive managers"). This review led to the creation of a new regulatory regime for captive insurance that commenced on 1 July 2011. The captives regime is set out in the Captive Insurance Business Rules 2011 ("CAPI") and the captive managers regime is set out in the Insurance Mediation Business Rules 2011 ("IMEB").

What is a captive?

A captive is an insurance company that is formed to insure or reinsure the risks of its parents or affiliates of the parent. The captive is primarily used as a risk management vehicle by the parent to either cover risks that cannot be insured in the market or to manage the parent's insurable risks in a more cost-effective manner. On occasions, captives insure unrelated third party risks. In the QFC, captives that insure unrelated third parties are expected to only underwrite risks arising from business or operations that are closely linked to the operations of the parent or group of companies to which the captive belongs. The QFC can accommodate captives that derive most of their income from unrelated third party business, but these vehicles are assessed on a case-by-case basis and are typically subject to stricter prudential requirements.

The risk management characteristics of captives can give rise to numerous financial benefits. Placed within a broader enterprise risk management framework, a captive can help reduce the cost of its owners' insurance programmes. Sometimes the coverage offered by a captive is simply not available in the commercial insurance market, or is available at prohibitive prices. Additionally, a captive can provide its owners with access to international reinsurance markets at a discount and help achieve tax planning advantages.

While captives operate successfully in a number of financial centres, they are currently not commonly established in the Middle East. The flexibility of the QFC captives regime is expected to foster new captive formation and help create an environment for innovation in insurance risk management in Qatar and, more broadly, in the Gulf region.

Types of captives in the QFC

The QFC regime sets out four categories of captives, which are outlined in Table 1. In order to conduct captive insurance business a captive must be incorporated in the QFC (i.e. branches of captives are not permitted in the QFC).

Table 1 **Types of captives in the QFC**

	Class 1	Class 2	Class 3	Class 4
Description	Single-owner captive that insures only the risks of its parent or affiliates.	Captive where up to 20% of its gross written premiums are related to third party risks.	Multi-owned captive that insures only the risks of its owners or affiliates.	A broad type of captives class that undertakes other types of captive insurance.
May underwrite unrelated third-party risks?	NO	YES	NO	YES

Captives falling into classes 1, 2 or 3 would be standard captives that involve low or nil levels of unrelated third party business. Class 4 provides the Regulatory Authority with flexibility to assess more innovative captive insurance structures on a case-by-case basis. In considering applications for a class 4 captive, the Regulatory Authority will take into account the following factors:

- the business rationale for making the entity a captive;
- the manner in which the entity is used as a risk management tool;
- the nature of the interests of the shareholders or members of the entity and whether they are aligned, or have some commonality with, the policyholder;
- any unique or expert knowledge of the shareholders or members of the entity about the risks to be insured;
- the appropriateness of the structure for the proposed activities or whether the business is more akin to a commercial insurer.

Minimum capital requirement and eligible capital

The Regulatory Authority has designed prudential requirements for captives that are akin to those used in other leading captive jurisdictions. The framework has two main components:

- a base capital requirement; and
- a risk-based capital requirement that consists of a premium risk component and a technical provision risk component.

A captive's minimum capital requirement is the higher of (a) the base capital requirement, (b) the premium risk component or (c) the technical provision risk component. Table 2 illustrates how the minimum capital would be established for a captive conducting general insurance business.

Table 2 **Example of a minimum capital calculation**

Capital requirement is the <u>HIGHER OF</u>:	Class 1	Class 2	Class 3	Class 4
a) Base capital requirement (USD)	$150,000	$400,000*	$250,000	$1,000,000*
b) Premium charge on first $5 million of net written premium,	20%	20%	20%	20%
PLUS charge on net written premium in excess of $5 million	15%	15%	15%	15%
c) Claims charge on net claims reserve on property insurance,	5%	5%	5%	5%
PLUS claims charge on net claims reserve on liability insurance	15%	15%	15%	15%

* Unless the Regulatory Authority determines another amount appropriate in the circumstances having conducted its assessment of the captive proposal.

The prudential requirements are adapted to the risk profile of the underlying business of the captive. Captives that insure unrelated third parties would typically carry higher risks and therefore would need to meet more stringent prudential and business conduct requirements. Captives that write liability insurance would require higher capital buffers due to the possible long-tail nature of the risks and higher uncertainty in the claim payouts. The ultimate beneficiaries involved in this type of insurance business may also require appropriate regulatory protection.

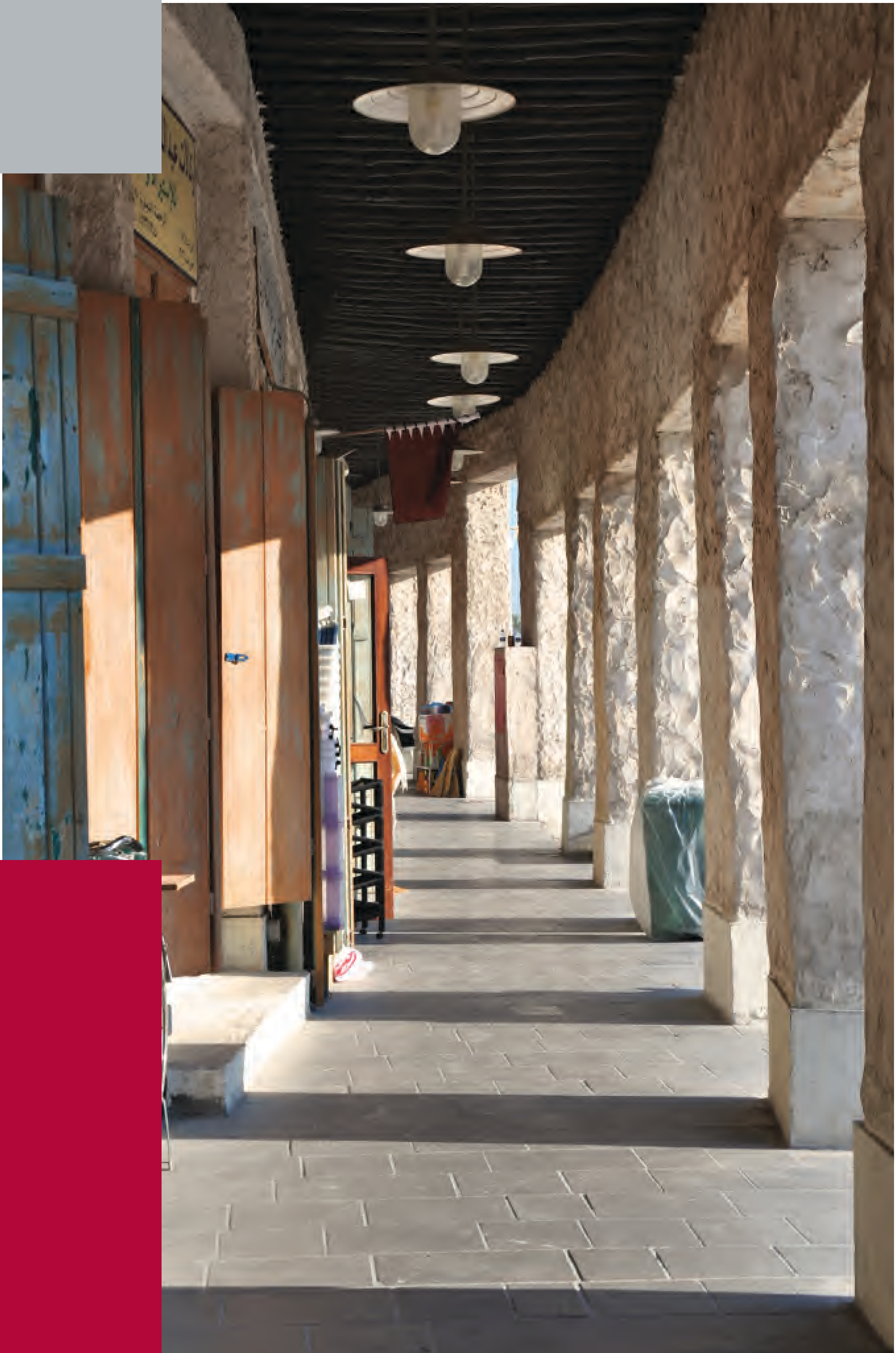
The CAPI rules set out the financial instruments that are eligible to meet the captive's minimum capital requirement. In addition to the more conventional instruments such as permanent share capital and retained earnings, the Regulatory Authority will consider other financial instruments such as a qualifying letter of credit, provided specific regulatory requirements are met.

Protected cell companies

A protected cell company ("PCC") is a legal entity that is separated into legally distinct portions or cells and can be established under the QFC Companies Regulations 2005. The captives regime is designed to allow a PCC to be established to conduct captive insurance business. A PCC would normally be a class 4 captive because it insures the risks of unrelated third parties. Typically, the Regulatory Authority will assess each PCC application on a case-by-case basis.

While a PCC is likely to be a class 4 captive, individual cells may fall into any of the classes shown in Table 1 depending on the ownership structure and type of business being conducted within the cell. An individual cell cannot simultaneously conduct general and life insurance business, and a PCC must obtain the consent of the Regulatory Authority before it establishes each cell.

A PCC must hold minimum non-cellular capital of at least USD 50,000. The non-cellular eligible capital required by the Regulatory Authority will increase if the cells have recourse to the PCC's non-cellular assets. An individual cell's minimum capital requirement is the higher of the premium risk component or the technical provision risk component (i.e. only the risk-based capital requirements).



What are captive managers?

Captive managers are companies that undertake the administration and execution of managerial functions for a captive, including the administration of contracts of insurance for the captive. The IMEB rules establish captive insurance management as a regulated activity in the QFC. Only captive managers authorised in the QFC are permitted to manage a QFC captive or PCC.

Captive managers in the QFC must maintain a minimum paid-up share capital of USD 50,000 and a net asset value (defined as tangible and liquid assets minus liabilities) of at least half of the minimum paid-up share capital (see Table 3).

Table 3 Minimum capital and net asset requirements

	Minimum paid-up share capital (MPSC)	Minimum net asset value
Captive manager	USD 50,000	50% of MPSC

Captive managers would normally be responsible for a number of critical administrative, compliance and executive functions for the captive. Representatives of the captive manager may sit on the captive's board fulfilling an executive, non-executive or advisory role. In such a situation, it would be important that captive managers manage and mitigate effectively any potential conflict of interest that may arise as they discharge their duty.

Approved individuals

Certain key functions of the captive or captive manager (termed "controlled functions") can only be carried out by individuals approved by the Regulatory Authority to carry out those functions. The controlled functions are defined in the Individuals Rulebook, which is available through the Regulatory Authority website at **www.qfcra.com**.

A key feature of the QFC captive insurance regime is that approved individuals of a captive manager may carry out the controlled functions for which they are approved, in respect of a number of different captives managed by the captive manager. This approach is likely to facilitate the captive's initial authorisation and lead to significant economies of scale.

The controlled functions within a captive that may be carried out by approved individuals of the captive manager are as follows:

- senior executive function;
- finance function;
- compliance oversight function; and
- money laundering reporting officer function.

Other administrative activities

Captives may also choose to outsource to a captive manager a number of other activities related to the day-to-day management of the business. These administrative functions may include areas such as:

- accounting;
- brokerage;
- claims handling;
- investment advice;
- risk management; and
- underwriting.

The authorisation process

In order to establish and operate in the QFC, a company would ordinarily approach the QFCA and seek its approval for a strategic fit and then approach the Regulatory Authority to seek authorisation. Captives that will be managed by an authorised captive manager do not need to seek strategic fit approval from the QFC Authority.

To establish and operate in the QFC, a captive or captive manager must be:

- incorporated under the Companies Registration Office;
- licensed to operate in the QFC by the QFC Authority; and
- authorised by the Regulatory Authority to carry out regulated activities in relation to captive insurance business.

An authorised PCC must also obtain the written consent of the Regulatory Authority before creating each new cell. The Regulatory Authority will work to ensure that applications to carry on captive insurance business are dealt with in an efficient and timely manner as part of a customised process.

Submitting an application

An application for authorisation to carry on captive insurance business in the QFC should be made using QFC Form 22, which is available from the Regulatory Authority's website. This form covers applications from those seeking authorisation of either a captive (classes 1 to 4) or a new PCC (whether core only or core and individual cells).

The following documents must also be submitted to the Regulatory Authority in support of the application:

- business plan, including a strategy and risk document;
- reinsurance programme;
- corporate organisation chart;
- details of the owner's loss experience and proposed fronting insurance programme (where applicable);
- actuarial report, for proposed captives writing long-term business;
- auditor's letter of engagement; and
- any material outsourcing agreements (where applicable).

The Q22 form is part of a customised application process that the Regulatory Authority has developed for captive insurance business. Nevertheless, the level of detail required in an application will depend on the nature of the activities being proposed. For example, an application to carry on captive insurance business as a self-managed class 4 captive doing long-term business with unrelated third parties is likely to require significantly more detail, and subsequent analysis by the Regulatory Authority, than an application to establish a class 1 captive.

Along with form Q22, a prospective captive or PCC will need to complete form CRO1 to apply for incorporation. The Regulatory Authority will liaise with the QFC Companies Registration Office to assist in an efficient process.

Complete application forms, accompanied by all required supporting documentation, will help to ensure a timely and efficient assessment process. However if the application is not materially complete, delays in the assessment of the proposed captive are likely to occur.

Applying for the approval of individuals

Applicants seeking to carry on captive insurance business in or from the QFC will need to appoint and seek approval for individuals to carry out certain key activities, or controlled functions, on its behalf. In line with its customised approach to captive applications, the Regulatory Authority will seek to take a practical approach to the approval of such individuals. For example, where the controlled functions of a captive are to be carried out by currently approved individuals of an authorised captive manager, the captive will still need to apply for the approval of those individuals. This may simply be done by listing these individuals on the captive application form Q22, and no additional application fees will apply.

Where the captive is seeking approval for individuals who are not currently approved by the Regulatory Authority to perform the respective controlled function, for example the proposed members of the captive's board of directors, QFC Form Q03 "Application for Approval of Individuals" will also need to be completed and submitted with the application pack. This form may be downloaded from the Regulatory Authority's website, **www.qfcra.com**.

Fee structure

The Regulatory Authority has established application and annual fees that compare very favourably with other jurisdictions in order to encourage the development of the captive insurance industry in Qatar.

Table 4 shows the application and annual fees applicable for captives and captive managers. Captives applying to the Regulatory Authority for the approval of an individual who is already an approved individual for the captive manager need not pay extra fees for this process.

Table 4 Applicable fees

	Application and annual fees (in USD)
Captive class 1, 2, 3 or 4	$5,000
PCC – core only	$8,000
PCC – core and individual cell(s)	$8,000 + $1,000 per cell
Cell(s) of an authorised PCC	$1,000 per cell
Captive manager	$1,000

Pre-application meetings

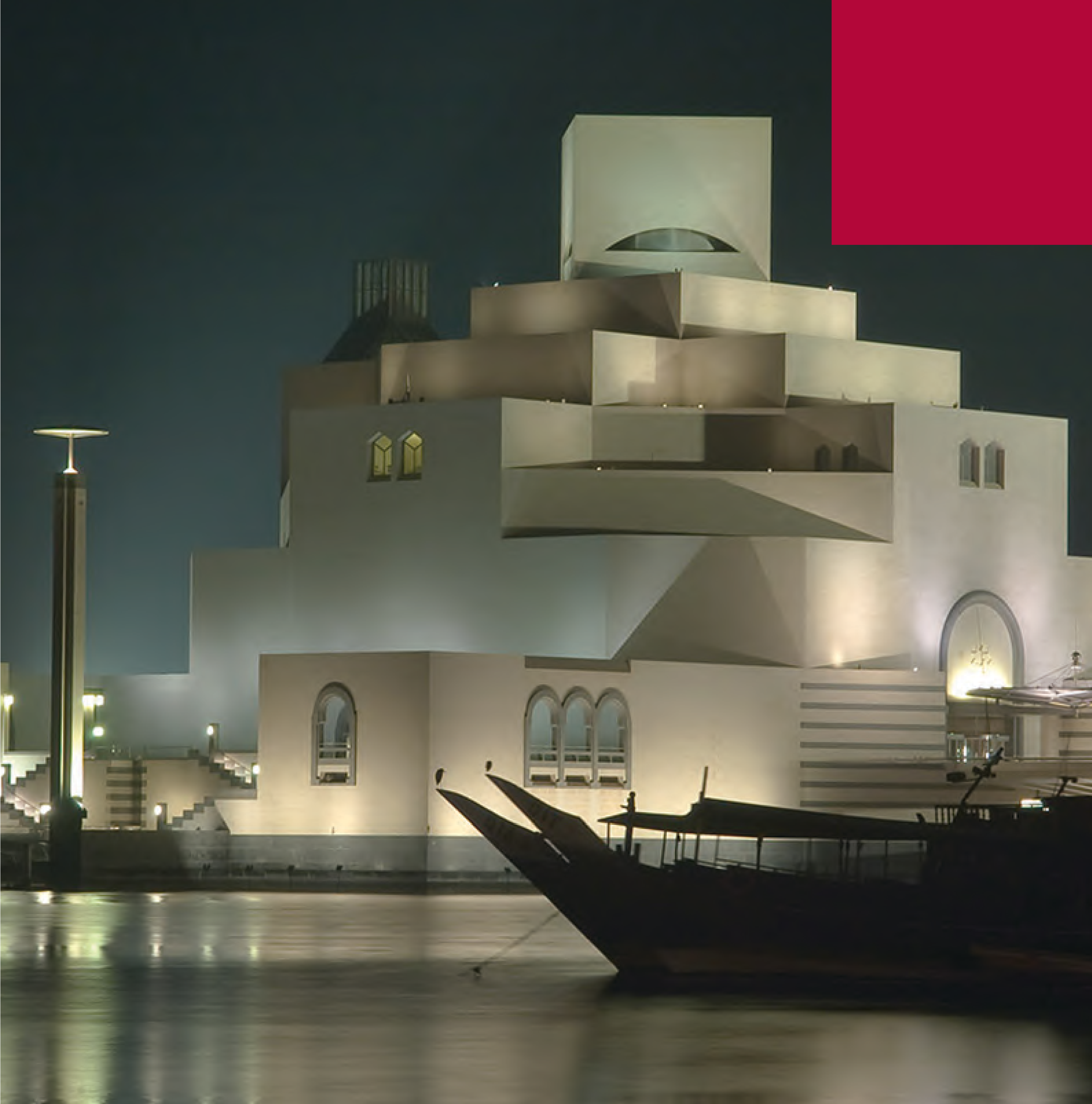
The QFC Authority would expect to hold pre-application meetings to discuss the applicant's proposed business and answer any questions in relation to the incorporation and licensing process in the financial centre.

Firms may contact the QFC Authority on +974-4496-7777.

The Regulatory Authority would also expect to hold pre-application meetings to discuss informally the applicant's proposed captive insurance business prior to making a formal application. This provides a good opportunity to outline the scope of the authorisation process.

Applicants may contact the Regulatory Authority's Authorisation team on +974-4495-6888.

Further information on the QFC captive insurance regime, completion and submission of application forms, and details of the QFC application process are available on the Regulatory Authority's website at **www.qfcra.com/whatdo/CaptiveIns.php** or by emailing **CaptiveInsurance@qfcra.com**.



Contact Information

For further information please visit the Regulatory Authority website at **www.qfcra.com**, or contact the Regulatory Authority directly at:

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