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Joe McDonald on His New Position, RRGs, and What's Next for South Carolina

Joe McDonald began his position as director of captives at the South Carolina Department of Insurance (the Department) on February 2, 2022. Prior to coming on to lead the captive division in South Carolina, McDonald was the captive and risk product manager at the International Risk Management Institute, Inc. (IRMI). McDonald had previously served as licensing coordinator for the Department of Insurance from 2008 to 2020.

McDonald rejoins the Department during an exciting time for the captive and RRG industries, with strong activity across a range of domiciles and business sectors. South Carolina has seen strong growth in new RRGs over the past two years and is now the second largest RRG domicile after Vermont.

The Risk Retention Reporter spoke with McDonald on what he brings to the position, what South Carolina is looking for in RRGs, and his goals for the first two years as head of South Carolina's Captive Division.

Risk Retention Reporter: You have a bit of unique perspective as a regulator in that you have spent all your career either as a regulator or at IRMI where you focused on media and education. Do you feel you have a different perspective than many other regulators that have come from the private sector, such as your predecessor Jay Brnum, or regulators in other domiciles?

Joe McDonald: As regulators, we all have a similar perspective. We're charged with applying statute to ensure solvency and consumer protection. Jay Brnum brought a lot to the role due to his private sector experience and was instrumental in helping the domicile reach its present maturity. The late Jeff Kehler also did a lot to advance South Carolina and was a great mentor to not only me, but many of my colleagues in the captive division in South Carolina. As regulators, both Jay and Jeff, they advocated for the principle of proportionality with respect to the application of regulations. That as regulators, we need to remain conscious of both the scale and the complexity of the entities being regulated, as well as the level of insurance sophistication of the people and companies involved in any program. That left an indelible mark on me.

With that said, my own perspective is differentiated by an emphasis on developing critical relationships in the industry. During my nearly two years at IRMI where I focused on the education, information resources and media side of the industry, I was able to see the captive industry as a whole. That informed my perspective in that there are these key relationships that drive the lion's share of growth and progress in the industry.

You're one of the youngest individuals to lead a captive insurance department. What do you think the captive industry can do to get more young professionals engaged?

Many of the steps to attract and engage a younger generation of captive professionals are already being taken. We're seeing leaders in the industry seek out and cultivate existing talent, while offering real opportunities to be

involved and grow professionally. I'm grateful to Director Farmer for his confidence in me and for placing me in this position. With his foresight we've built what is a very experienced team in South Carolina with our captive division. A team that are all young by industry standards—I mean, we're all under 40. And yet, we do possess a wealth of experience as regulators.

I also think that what Dan Towle is doing with CICA's Next Gen Initiative, has been a major driving force in attracting, engaging, and developing younger captive professionals. The initiative not just highlighted the need for supporting young professionals, but actually created an industry wide means for doing so.

To my understanding, in your the role you're one of the main marketers for South Carolina as a domicile, but you're also the lead regulator. How do you balance both sides of your position?

In other domiciles, this role is sometimes split. But quite frankly, these responsibilities are easy to balance due to the great team that I work with. I get a lot of support from them. On the one hand, I'm working to promote and market the domicile to attract business. But also, before that I've leaned heavily on my team for their insight into the types of businesses we want to market South Carolina to. Collectively we get together and say if it makes good business sense, we want it here in South Carolina, but not everything makes good business sense.

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Right. What are you looking for in your captives and particularly your risk retention groups?

For RRGs specifically, what we look for in our license applications is quality membership. We'd like to see that the members of the RRG possess the financial wherewithal to stand behind and support the vehicle, including the initial capitalization of the RRG. We also want to see that as the program matures if there's an adverse experience that the members have the foresight and the willingness to step in and further support the vehicle through additional capital infusions or other changes accordingly.

There's been record growth in captives and strong RRG growth. You're coming on during an exciting time for the industry. What are you hoping to accomplish during your first two years on the job?

My primary goals for my first two years in this role will be to increase efficiencies in our processes, to update our marketing strategy, and to support and inform a revision of our captive statute. And also keep South Carolina in the forefront of people's minds when it comes to domicile selections for a quality control program.

Do you have any other comments on the position or the captive industry in general?

I'm just grateful to be a small part of this great industry. As I mature in this role, I aim to remain nimble and continue to provide a valuable service as a regulator to the industry.