



Vermont Captive Insurance Association ORGANIZATIONAL HISTORY

Background:

The Vermont Captive Insurance Association (VCIA) was formed by a group of captive owners and managers in 1985 and incorporated as a 501(c) (6) tax-exempt trade association to promote the general welfare of the captive insurance industry in Vermont.

The VCIA serves as a liaison between its members and representatives of the Vermont Department of Financial Regulation, Economic Development, the Vermont General Assembly, and Vermont's Congressional delegation. Additionally, the VCIA maintains strong communications and strategic relationships with other domiciles and related trade associations on issues of importance to the captive industry. Nationally recognized as the leading captive association in the U.S., the VCIA is uniquely positioned to address new challenges and opportunities to the captive industry not only in Vermont but throughout the country.

VCIA Vision Statement:

"VCIA strives to be the premier captive insurance association in the world."

VCIA Mission:

VCIA's mission is to provide its members with legislative leadership, education, mutual support and networking in order to ensure an environment favorable to the continued growth and health of the captive industry.

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VCIA Member Benefits



Legislative Advocacy:

- **Membership in VCIA means clout.** With over 470 active members companies, VCIA leads the way at both the state and federal levels. Legislative alerts are sent to VCIA members alerting them to VCIA's involvement in legislative issues affecting the industry. In 2013, VCIA spent over \$200,000 on legislative advocacy.
- **Coalition for Captive Insurance Clarity (CCIC)** – A coalition has been formed under the leadership of VCIA to push for legislative language that would clarify that the intent of the federal Nonadmitted and Reinsurance Reform Act was never intended to apply to captive insurance.
- Documents from **VCIA's legislative initiatives** can be found at www.vcia.com/legislative/ as well as in the Member's Only area.

Industry Education & Networking:

- In August 2013, **VCIA's Annual Conference** welcomed 1100 participants from 8 countries and 42 states. A remarkable 28% of the conference attendees were captive owners, attesting to the value of this unique event.
- **Networking Receptions, Webinars and "Original Captive Road Shows"** – VCIA continues to spread the word about captives in cities across the U.S. through the Road Shows. Webinars provide unequalled opportunities for valuable education with CPE and CLE credits available. Member Mixers are renowned for excellent captive networking.

Communications & Marketing:

- **VCIA's Quarterly Member e-newsletter, *The Captive Chronicle***, contains association and industry news and upcoming events.
- Through **VCIA's website**, members can access current information about Vermont's captive industry, VCIA news, activities and legislative efforts. Valuable educational materials from past VCIA educational events are available in our Resources area.
- Through our **LinkedIn** and **Twitter** groups, members can connect and keep informed. A conference app for 2013 was a big success, and is in the works for 2014.
- Numerous **marketing opportunities** exist for members to showcase their services or products through advertising in VCIA publications and website, exhibiting at the annual conference, sponsorship of events including the annual conference, road shows, mixers and golf luncheons.
- Associate members obtain a **free** presence on the web site in the **Captive Services Directory**.
- **Beneficial research and tools** are made available to members only: examples include the Benchmarking Workbook, Dodd-Frank White Paper and Behind the Numbers: Vermont Captive Insurance Aggregate Financial Data.

Discounts:

- **Members receive significant discounts** on registrations for the conference and VCIA webinars.
- Members are also offered **reduced fees** on advertising in VCIA e-newsletter and on the website.

Membership in VCIA provides your organization with strong legislative advocacy, professional captive education, and great connections with key industry players. Join us today!

Contact: Janice Valgoi, Director of Membership / janice@vcia.com / 802.658.8242 / www.vcia.com

Creative Corner: Captive insurance industry in Vermont like Switzerland with better cheese

Written by Rich Smith

Aug. 8, 2012

burlingtonfreepress.com

Today wraps up three days of the largest captive insurance conference in the United States — and one of the largest conferences in Vermont — hosted by the Vermont Captive Insurance Association. More than 1,000 attendees from across the country and around the world converge every August in Burlington to learn of the innovations and trends in this ever evolving industry.

This surely prompts two questions I get from most Vermonters when I mention the conference: What is captive insurance and why do they all come to Vermont?

A little more than 30 years ago, Gov. Richard Snelling and some of his advisers were searching for an industry that Vermont could attract. Gov. Snelling fixated on the financial services industry because of Vermont's proximity to Boston and New York, and, one imagines, the thought of Vermont becoming the Switzerland of North America with our beautiful mountains and gleaming office buildings filled with bankers.

At some point in these discussions, someone suggested that Vermont should focus on attracting a little-known sector of the insurance world called captive insurance. So, with a little bit of foresight and serendipity, the captive insurance industry in Vermont was born. OK, now what the heck is captive insurance?

Captive insurance is a regulated form of self-insurance that has existed since the 1960s, and has been a part of the Vermont insurance industry since 1981, when Vermont passed the Special Insurer Act. Captive insurance companies are formed by companies or groups of companies as a type of alternative insurance to better manage their own risk. Captives are typically used for corporate lines of insurance such as property, general liability, products liability, or professional liability. Growth sectors of the captive insurance industry include securitization, professional medical malpractice coverage for doctors and hospitals, and other emerging risk areas such as cyber risk.

Commercial insurance companies sell insurance to the general public, such as homeowners and auto insurance. They are licensed in all states in which they do business. By contrast, captive insurance companies insure only their owners, who have the ability to manage and retain their own risk. The degree of regulatory oversight required for captives is different than that which is required for commercial insurers. And remember, it is their money, so the parent organizations of captives want strong regulators and regulations that protect their assets. The captive is licensed in only one state, and operates under the captive insurance law of that domicile.

Rich Smith is the president of the Vermont Captive Insurance Association.

Full Access on the Web, Tablet & Mobile



VCIA President Richard Smith Named Number 10 on *Captive Review's* Power 50

**For Immediate Release
December 2014**

Burlington, Vermont – Vermont Captive Insurance Association President Richard Smith has been named number 10 on *Captive Review's* annual "Power 50" list.

The London-based publication annually selects 50 of the most influential professionals who are viewed as having wielded the biggest impact on the industry worldwide. In compiling the final list, four main criteria were used: industry influence and history, level of respect within the captive community, relationship with regulatory bodies and ability to creatively shape the future of the industry.

"I am pleased and honored to have been included on this list. On behalf of VCIA's members and the Vermont captive industry, VCIA will continue to work hard for the vitality and growth of captive insurance," said Smith.

More than 600 submissions were received for the Captive Review Power 50 in 2014 and then vetted by a panel of industry experts from around the world. Smith was recognized for playing a significant role in the continued success of Vermont as a captive domicile through his leadership of VCIA. The association's annual conference is the biggest onshore captive gathering of its kind with Smith leading one of the most powerful groups of captive owners in the world. Smith and VCIA's influence "should not be underestimated", as mentioned in the article, highlighted by the introduction of two pieces of legislation to Congress in August seeking to amend the Non-Admitted Reinsurance Reform Act (NRA).

Vermont's Deputy Commissioner of Captive Insurance David Provost was honored with the number 2 position on the Top 50 list. The article recognized that "as the head of Vermont's captive regulatory unit, Provost remains a heavy power broker within the industry – respected by owners, managers, lawyers and his fellow regulators. Having worked its way into such a dominant position onshore in the United States, Vermont has reached the stage where it is able to be particularly choosy with what it licenses. There are now more than 40 non-US captive owners with entities licensed in the state, demonstrating Vermont's international reach, and Provost is sought-out for his opinions and for his guidance and leadership."

VCIA is the largest trade association for captive insurance in the world, with over 500 member companies. VCIA provides industry education, professional connections, and lobbying support on behalf of its members. For more information please visit www.vcia.com.

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VCIA MEMO

TO: VCIA Board of Directors – General Session
FROM: Rich Smith
DATE: January 15, 2015
RE: Preliminary VCIA 2015 Legislative Proposals

Below is an updated outline of proposed changes to Vermont’s captive statute for the legislative session starting earlier this month. This is based on our meeting with DFR’s captive insurance leadership and is still a work in progress, so some proposals may be dropped and others added. Working with DFR, VCIA has started drafting the amendments.

Sponsored Captives Update – These proposed amendments, when combined with those made in recent years, will position Vermont’s sponsored captive insurance law among the best in the country:

- **Adopt Portions of the NAIC Protected Cell Company Model Act**

Proposal: Adopt language regarding segregation of assets and liabilities, contracting by/for individual cells, and treatment of those cells in case of delinquency from the NAIC Protected Cell Company Model Act into Vermont sponsored captive insurance company law to provide additional clarity and ensure that Vermont’s sponsored captive laws are competitive with other domiciles. These same provisions of the Model Act have been adopted by several states in the last few years.

- **Reduce the Capital Requirement for Sponsored Captives**

Background: For sponsored captives and their cells, minimum capital is required to get them off the ground. When risks are then written/retained additional capital is contributed to support the insurance program/plan for each cell. Proper planning requires capital at the cell level to support any risk written/retained within the cell. Once a cell within a sponsored captive is operational, capital in the core becomes a secondary backstop although obviously exposed by law.

Proposal: Reduce capital requirements for sponsored captive insurance company structures from \$500K to \$250K.

- **Provide Naming Conventions**

Background: Several states have recently adopted amendments to their sponsored captive statutes providing naming conventions for both unincorporated and incorporated cells. The emerging consensus in this regard is that protected cells should have their own

distinct names and designations, which in the case of incorporated protected cells should include the words ‘Incorporated Cell’ or the abbreviation ‘IC’.

Proposal: Add a requirement that incorporated protected cells have their own distinct names and designations, which in the case of incorporated protected cells should include the words ‘Incorporated Cell’ or the abbreviation ‘IC’.

Change Structure on Capital Requirement

Background: The current code requires capital and surplus be in the form of cash, a trust approved by the commissioner and of which the commissioner is the sole beneficiary, or an irrevocable letter of credit issued by a bank approved by the commissioner. Letters of credit are expensive and the listed assets effectively have zero yield, especially after custodial fees. Tying up funds in a zero return assets is yet another cost to forming a captive.

Proposal: Amend the law adding "marketable securities" after cash in section 3304(c) of the statute:

(c) Capital and surplus may be in the form of cash, marketable securities, a trust approved by the commissioner and of which the commissioner is the sole beneficiary, or an irrevocable letter of credit issued by a bank approved by the commissioner.

Series LLCs

Background: Statutes in eight states allow the creation of series LLCs, which consist of a “master” LLC and one or more series of members, managers, interests, or assets. Each series can generally function as the equivalent to a freestanding legal entity separate from the master LLC and any other series.

Proposal: Pursue series LLC update as part of larger update to Vermont corporate law.

Number of Incorporators

Background: Number of incorporators required (3) to form a captive insurance company is arbitrary and not necessary.

Proposal: Reduce the number of incorporators from 3 to 1.

RRG Governance Standards

Background: DFR wants to adopt RRG governance standards into statute.

Proposal: Review language from DFR for scope and impact. We may also want to research NAIC RRG governance standards and traditional insurer standards to identify potential minimum thresholds for exemption.

For more information, please contact:

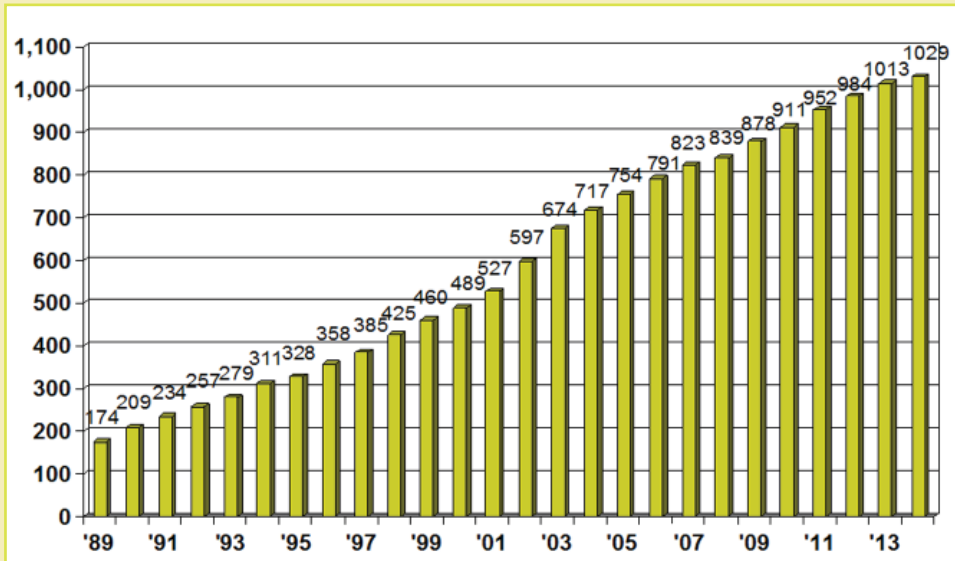
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Number of Captive Licenses Issued in Vermont:



Vermont is the leader in the United States Captive Insurance Industry.

48 of the Fortune 100 and 18 of the Dow 30 have captive insurance companies domiciled in Vermont. Over 40 states now have laws allowing the formation of captive insurance companies. With nearly 600 of the world's 5000+ active captives, Vermont ranks as the world's third largest domicile in number of licensed captives.

Why Vermont?

- Superior infrastructure
- Responsive legislation
- Experienced & knowledgeable regulatory team
- Consistent regulatory environment
- Cooperation among the Governor, legislators, regulators, the VCIA and industry participants
- Largest captive insurance association in the world

Here's what industry experts say about Vermont:

- Vermont's state government is well educated about the industry and accommodating of its needs
- The state's infrastructure for captive insurance is among the most sophisticated and mature networks in the world
- Service providers form a support network that is unequalled
- Vermont has low incorporation, administration and management costs
- Vermont's total package is incomparable when it comes to serving captives
- The best regulation, the most developed infrastructure, and the highest degree of flexibility and innovation are available to those wishing to locate in an onshore domicile

Why form a captive?

- Control cost
- Encourage management to reduce or eliminate losses by implementing effective loss control programs and cooperating with claims administration
- Retain investment income
- Provide evidence of insurance
- Provide access to reinsurers



Captive versus traditional insurance regulation:

Commercial insurance companies sell insurance to the general public and are licensed in all states in which they do business. By contrast, captive insurance companies insure only their owners, who have the ability to manage and retain their own risk. The degree of regulatory oversight required for captives is different than that which is required for commercial insurers. The captive is licensed in only one state, and operates under the captive insurance law of that domicile.

Glossary of captive terms:

Captive Insurance: is a highly specialized form of self insurance. To insure a variety of risks, companies or groups of companies establish their own licensed, regulated insurance companies. There are currently over 5,000 active captives worldwide. As of this printing, Vermont has licensed 1029 captives.

Vermont's captive owners represent a wide range of industries including multinational corporations, associations, banks, municipalities, transportation and airline companies, power producers, public housing authorities, higher education institutions, telecommunications suppliers, shipping companies, insurance companies and manufacturers.

Single-owner Captive: also referred to as "pure captive", insures only the risks of the owner or the owner's subsidiary operations.

Group Captive: is owned by multiple, non-related organizations and is designed to insure the risks of these different entities.

Association Captive: is owned by members of a common industry or trade association in order to share the risks of that industry among its members.

Risk Retention Group (RRG): is an entity created under the federal Liability Risk Retention Act, and licensed in any one state to write liability insurance; is regulated as a captive insurance company; and may operate nationwide, provided it properly registers with each state in which it proposes to solicit or write insurance.

Reciprocal: an unincorporated entity that allows its subscribers to share risks. A reciprocal format has significant advantages for a group composed of both for profit and not for profit subscribers.

Special Purpose Financial Insurance Company (SPFI): is subject to the provisions of Subchapter 4, Section 141. A SPFC is most often established for the purpose of securitizing life insurance transactions.

Sponsored Captive: is one that uses the capital provided by an insurer or reinsurer while providing fronted insurance coverage to discrete and usually unrelated entities. The sponsored captive may be a licensed insurer, an authorized reinsurer, a fronted Vermont captive insurer, a financial institution (including financial holding companies) or a Vermont licensed broker-dealer (securities firm).

Branch Captive: is a unit of an existing offshore (alien) captive, licensed in Vermont to write the same risks as permitted by other captive insurance companies for its owners and affiliates onshore. The branch is regulated as a pure captive, is taxed only on the branch writings and is required to use an onshore trust for the protection of US policyholders and ceding insurers.

Reinsurance: "Insuring the insurer." A form of insurance whereby one insurer indemnifies another insurer for losses.

Front Company: is an insurer that issues a policy and reinsures all or a substantial part of the risk of another insurer.

Ceding Company: is the insurance company that is reinsured.

Economic Impact:

In 2014, the Vermont captive industry is estimated to have generated nearly \$25 million of premium tax benefits and related fees for the State of Vermont. At last count, more than 1400 direct and indirect jobs (full and part-time), were created by the captive industry in Vermont.

Captive Premium Taxes Collected:

