



2015 Captive Insurance Legislative Accomplishments

With Vermont Governor Peter Shumlin's signature last spring, the captive amendments in S.98 became effective as Act 20. Included within the Act are the following provisions:

Number of Incorporators – The number of incorporators was reduced from 3 to 1 to be consistent with most other incorporations under Vermont law.

Cell Companies Capital Requirements – The change reduces the minimum capital requirement from \$500,000 to \$250,000 for cell captive companies.

Structure on Capital Requirement for all Captive Companies – The new law allows captives to have greater flexibility with their required minimum capital to now include marketable securities along with allowing cash, trust and letters of credit to meet the minimum capital requirement. The Department will issue further guidance to define "marketable securities".

Definitions and Protected Cells – The law amends the sponsored cell law to make it easier to read by moving sections of the law to improve clarity.

Naming Conventions for Incorporated Cells – The law adds 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'.

Delinquency of Sponsored Captives and Adoption of the NAIC Protected Cell Company Model Act – Vermont now adopts portions of the NAIC Protected Cell Company Model Act language regarding the segregation of assets and liabilities, contracting by/for individual cells, treatment of cells in case of delinquency, and the reach of creditors.

RRG Governance – Vermont now adopts the NAIC Model Governance Standards for Risk Retention Groups.

A complete copy of the bill as passed with amendments can be found at:
www.vermontcaptive.com/laws-regulations/laws.

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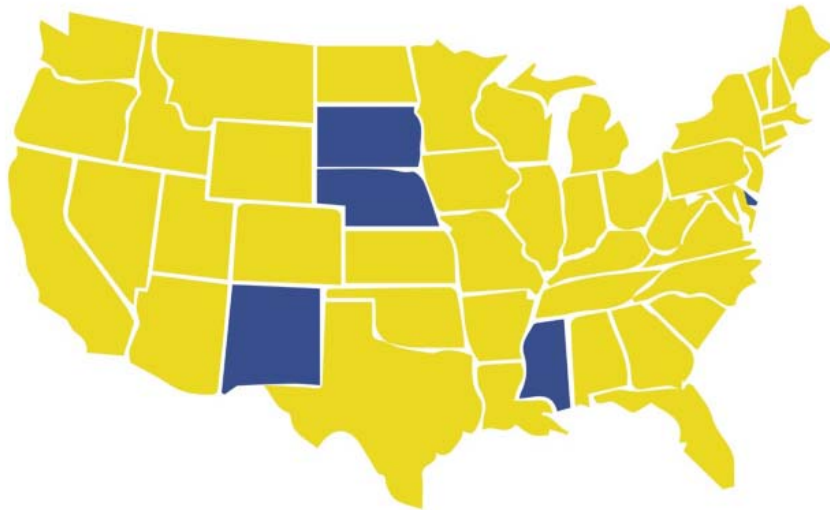
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VCIA Membership:



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VCIA members come from almost every state, plus Bermuda, Canada, England and Japan!



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Snapshot of the 2015

Vermont Captive Insurance Industry

Vermont is the leader in the U.S. Captive Insurance Industry

48 of the Fortune 100 and 18 of the Dow 30 have captive insurance companies domiciled in Vermont. Nearly 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. Vermont's total number of captive licenses issued is **1062**.

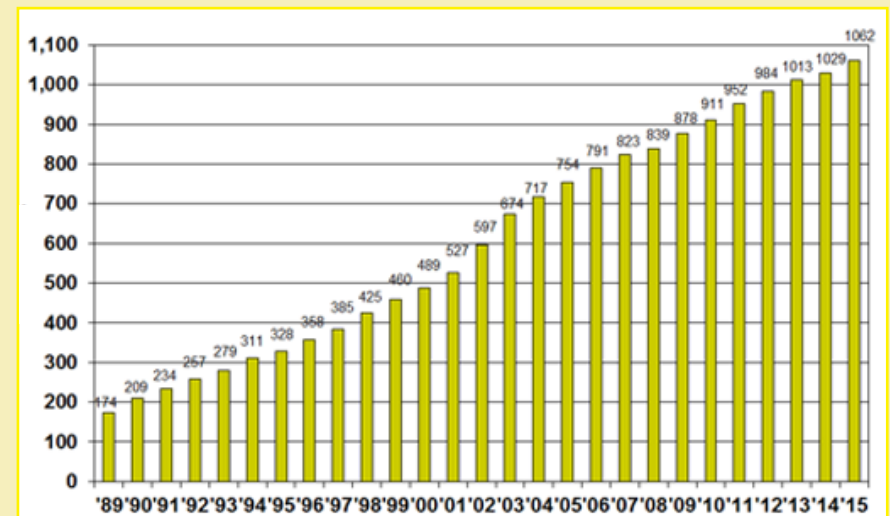
Why form a captive?

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

What makes Vermont the best?

- Vermont's infrastructure for captive insurance is one of the most sophisticated and mature in the world
- Experienced & knowledgeable regulatory team
- Responsive legislation and consistent regulatory environment
- Cooperation among Governor, legislators, regulators, VCIA and industry

Captive Licenses Issued in Vermont:



What is captive insurance?

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 1062 captives. Vermont's captive owners represent a wide range of industries including multi-national corporations, associations, banks, municipalities, transportation and airline companies, power producers, public housing authorities, higher education institutions, telecommunications suppliers, shipping companies, insurance companies and manufacturers.

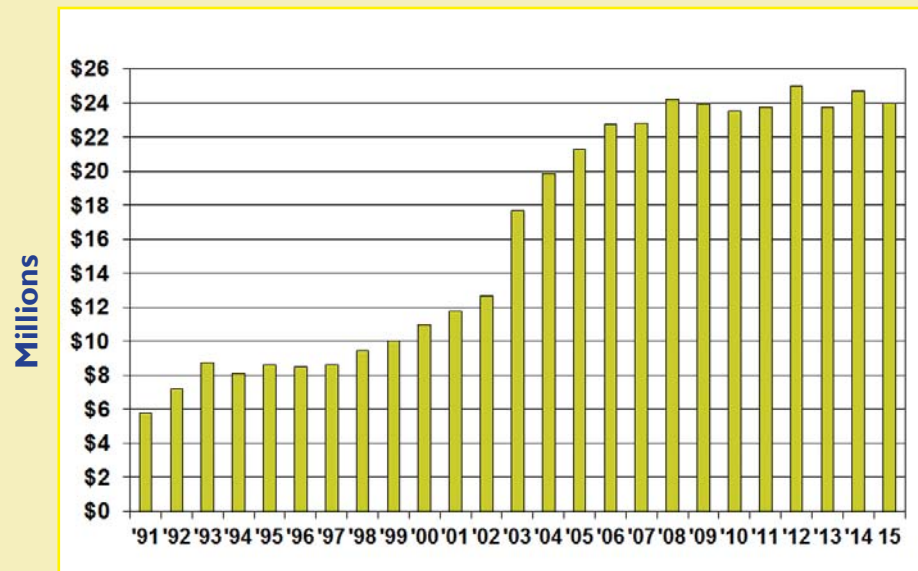
Captive vs. traditional insurance regulation

Commercial insurance companies sell insurance to the general public and are licensed in all states in which they do business. But 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 required for commercial insurers. The captive is licensed in only one state, and operates under the captive insurance law of that state.

Economic impact on Vermont

The captive industry is great for Vermont. In 2015, the Vermont captive industry is estimated to have generated \$24 million of premium tax benefits and related fees for 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:



Vermont Captive Insurance Association

VCIA is the largest trade association for captive insurance in the world. Established in 1985, the Association provides lobbying support on both the state and federal levels for its nearly 440 member companies. In addition, it hosts professional education opportunities for the industry at large. VCIA has a national reputation of being a highly effective and well-respected trade association. Our office is located in Burlington, Vermont. We have a staff of 6 people and are governed by a Board of Directors composed of industry professionals.

Our Mission

VCIA will provide members with legislative leadership, education, opportunities for information-sharing and a network of mutual support with others who share objectives in order to ensure an environment favorable to the continued growth and health of the captive industry and the Vermont captive community.

Our Vision

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

VCIA's members energize the industry!

- **1000+ people** attended VCIA's 30th Annual Conference in August 2015
- **130 volunteers from 78 companies** lend their expertise on VCIA committees
- **Nearly 1900 captive professionals** participate in VCIA events annually
- **100 companies exhibit** at the VCIA Annual Conference
- **VCIA presents 11 industry events** per year
- **440 organizations** are VCIA members

Vermont backs NRRA bill to clarify captives

27-08-2014



The Vermont Captive Insurance Association has highlighted a bill designed to clarify the treatment of captives in the federal Non-Admitted Reinsurance Reform Act (NRRA) during its recent annual conference.

Vermont Senator Patrick Leahy (D-VT) and South Carolina Senator Lindsay Graham (R-SC) cosponsored the technical corrections bill, designed to clear up confusion about the treatment of captives under the NRRA.

The NRRA was designed to address only surplus and reinsurance lines and was never intended to apply to captives. Some states, however, have tried to tax home state parent companies of captives domiciled elsewhere, although the domiciles have already taxed the captives.

This bill, and another introduced by Vermont Representative Peter Welch (D-VT), with the assistance of the Coalition for Captive Insurance Clarity, was written to clear up this confusion.

“The bipartisan support for this bill is refreshing,” said Len Crouse, JLT Insurance Management USA partner and former Vermont captive insurance regulator. “But if any states are confused about the intent of the law, additional clarity is welcomed. We’re hopeful the bill will become law.”

“As always, the VCIA offered a fantastic conference,” said Guy Ragosta, JLTIM chief executive

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BUSINESS INSURANCE.**Vermont Sen. Leahy touts state's standing among captive domiciles**

Posted On: Aug. 12, 2015 2:38 PM CST

**Jerry Geisel** (<mailto:jgeisel@BusinessInsurance.com>)

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BURLINGTON, Vt. — Vermont is the “gold standard” when it comes to captive insurance domiciles, Sen. Patrick Leahy, D-Vt., the state’s senior senator says.

Speaking at the opening general session Wednesday at the Vermont Captive Insurance Association annual conference in Burlington, Sen. Leahy told attendees to “think how this business” has evolved in the last three decades. Sen. Leahy was referring to the 30th anniversary this year of the formation of the VCIA and the huge growth — from about three dozen captives domiciled in the state in 1985 — to 585 today. And Sen. Leahy’s interest in captive issues has not waned. He is, for example, the cosponsor of The Captive Clarification Act, which would make clear that captives do not fall under the jurisdiction of the Nonadmitted and Reinsurance Reform Act of 2010, which provides that nonadmitted insurers are subject to the regulation of their home state. That law left policyholders unclear on whether some taxes on insurance purchased from a captive should be paid to a captive owner’s home state in addition to the captive’s domicile. The Captive Clarification Act would make clear that the NRRA does not apply to captives. The measure, which is cosponsored by Sen. Lindsey Graham, R-S.C., would ease the taxation question “a great deal,” Sen. Leahy said. He also said Congress may need to act to require companies to beef up their security and protect consumers’ financial information against cyber attacks.



AP

Sen. Patrick Leahy, D-Vt.



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Richard Smith
Vermont Captive Insurance Association

As the Vermont Captive Insurance Association hosts its 30th Annual Conference, association president Richard Smith gives his take on the industry's current talking points, and what to expect from the event itself

Vermont has made its name blazing a regulatory trail. What regulations is the state currently working on?

Every year, the Vermont Captive Insurance Association (VCIA) and state regulators bring new proposals to Vermont's general assembly providing needed changes to Vermont's captive statute to keep up with this ever changing industry. This year was no different. Governor Peter Shumlin signed new legislation passed in the 2015 session strengthening Vermont's captive legislation in a variety of areas, including ground breaking changes to the investment guideline in the minimum capital requirement, and reducing the minimum capital requirement for sponsored cell captives.

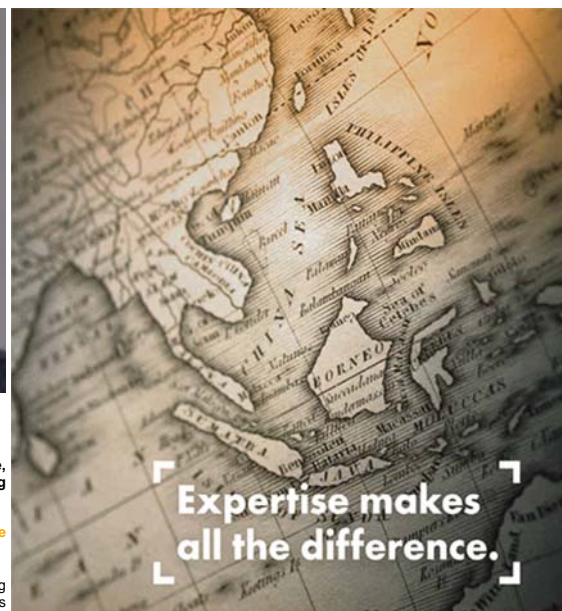
The law changed the investment guidelines that will now allow for captive insurance companies to have greater flexibility by expanding their investment options to include marketable securities. This is a significant change that has already attracted considerable interest and is consistent with current investment guidelines for Vermont's traditional insurance companies.

A summary of some of the changes in the law include the following:

- Number of incorporators—the number of incorporators was reduced from three to one to be consistent with most other incorporations under Vermont law.
- Cell companies capital requirements—the change reduces the minimum capital requirement from \$500,000 to \$250,000 for cell captive companies.
- Structure on capital requirement for all captive companies—the new law gives captives greater flexibility in meeting their required minimum capital by now including marketable securities along with cash, trust and letters of credit.
- Delinquency of sponsored captives and adoption of the National Association of Insurance Commissioners (NAIC) Protected Cell Company Model Act—Vermont has now adopted the NAIC Protected Cell Company Model Act language regarding the segregation of assets and liabilities, contracting by/for individual cells, and treatment of cells in case of delinquency.

Do regulations elsewhere, whether that is domestically, offshore or even in Europe, have any bearing on Vermont's outlook or actions?

There are a number of challenges to the captive industry, which will likely continue over the



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next few years: (i) excessive regulation resulting from insufficient knowledge; (ii) the weakening of sound regulatory structures based on a desire to attract business; and (iii) efforts to impose new or increased taxes.

Our primary focus in the past few years remains issue arising in Washington DC. The VCIA will be working with the Vermont delegation, along with other resources, to clarify the Non-admitted and Reinsurance Reform Act (NRRRA) issue in the Dodd-Frank Act. As everyone is painfully aware, there has been little action in Washington DC, but we are pleased to now have a bill introduced in Congress that perhaps can pass this year. We are always monitoring issues with the NAIC as well and, working closely with Vermont's captive regulators, have had a positive impact on current discussions.

Many concerns remain on the horizon, including the proposed tax on reinsurance (also known as the Neal Bill), the impact of the Federal Insurance Office on the industry, and the continued attacks by the other regulatory officials. Increasingly, actions by international bodies that have limited understanding of captive insurance could create hurdles for the industry as a whole.

Is the captive industry still a priority for the state's government? If so, what have they done in support of it lately?

Regardless of who sits in the governor's office, or which party has the majority in the State House, the support to the captive insurance industry in Vermont has remained unwavering for more than 30 years. I mentioned the bill that was enacted into law earlier this year as one example. The governor and legislature continues to provide funds to help the VCIA to pursue the Captive Clarification Act in Washington DC, putting their money where their mouth is.

Most importantly, leaders and policymakers in Vermont consistently supply the resources for Vermont's regulators to deliver sensible and knowledgeable guidance to this dynamic industry. Other domiciles may advertise they have the same laws on the books, but none have the depth and experience found in Vermont's Department of Financial Regulation.

What do recent victories such as the reintroduction of the Captive Clarification Act do for the captive industry in Vermont and the wider US? Are they indicative of the tide turning in captive regulation?

It's hard for me to say whether the tide is turning in terms of captive regulation in the US. I think recent victories in the courts on captive tax status, as well as decisions by the NAIC regarding certain aspects of captive and risk retention group regulation, are good news. However, I feel like the recent battles are more akin to fighting crime: you never defeat it, you only continue to mitigate and fight to reduce its impact.

That being said, with more than 35 states now having enacted captive insurance laws, it is likely that there will be more allies in this fight and perhaps we can reduce the number of fires we need to attend to on a regular basis.

What can delegates expect from this year's conference? Will it differ substantially from previous years?

In celebration of the VCIA's 30th Annual Conference, we will host a special reception on the shores of beautiful Lake Champlain. Shelburne Farms will be the venue with breath-taking lake and mountain views. This year, 21 seminars will feature more than 70 speakers providing attendees the opportunity to expand their knowledge of captives and connect with key players in the industry.

Topics have been selected with the guidance of our captive owner advisers and explore everything from employee benefits, healthcare, tax updates and big data, to managing international and challenging risks. A number of popular peer-to-peer forums will present captive owners with the opportunity to exchange their experience and knowledge on a one-to-one basis.

Companies and organisations that are sharing their expertise range from Fortune 500 companies to small, nimble entrepreneurial enterprises, all of them leading the way into new areas of opportunity.

Organisations such as Global Rescue, which provides medivac and crisis response services for hundreds of organisations during thousands of events worldwide, and iconic corporations such as Walgreens and Corning, are among our expert panelists this year.

Attendees at the Annual Members' Meeting will hear remarks by Susan Donegan, commissioner of Vermont's Department of Financial Regulation. Jim McIntyre, the VCIA's legislative representative in Washington DC, will provide legislative highlights. Senator Patrick Leahy has been invited to welcome attendees at the general session, and Hank Watkins, president at Lloyd's N.A. will be our keynote speaker.

New this year, at the time registration opened, social Q&A was set up for all sessions, allowing attendees to provide input during the content development stage. The 2015 conference app allows us to digitally provide all conference information, including seminar descriptions, speaker information, updated schedule/speaker changes, and seminar materials.

Vermont's chief captive regulator, David Provost, will provide his ever popular look at hot topics that he sees for the industry. Our closing luncheon will spotlight keynote speaker Captain Richard Phillips on the topic of 'Steering Your Ship through Rough Waters: Lessons on Leadership'. The subject of the award winning movie starring Tom Hanks, Vermonter Captain Phillips will deliver his unforgettable story to our attendees.

What prompted the VCIA to structure the conference and its content in this way? Do events in the wider industry play any part in how the sessions take shape?

The VCIA begins planning for our annual conference almost immediately at the end of the previous one. Starting in September, more than 35 volunteer members contribute their hard work and input into designing and producing the three-day event the following August. The content is based on an extensive member survey as to what issues attendees would like to see addressed, as well as events that are playing out in the broader insurance arena.

As always, the conference benefits from the ongoing support of our content advisors and captive owner advisors. Their important role is to ensure the timely, innovative and accurate content of the seminar presentations. This diligence, coupled with the keen eye of instructional design advisors, improves the impact of our conference presentations year after year.

The VCIA works hard to stay attuned to what keeps risk professionals up at night so that we can provide the most up-to-date and relevant information to the attendees. We pride ourselves on providing the 'must attend' conference in the captive insurance industry.

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