



Captive Insurance Basics

House Committee on Commerce and Economic
Development

January 15, 2015

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What Is a Captive?

- ▶ a regulated insurance company with a limited license and limited purpose
- ▶ “formalized self-insurance”
- ▶ insurer owned by its policyholders
- ▶ licensed in a state (or country)

Who forms Captives?

- ▶ Manufacturers
- ▶ Health Care Providers
- ▶ Financial Services
- ▶ Professional Services
- ▶ Construction, Energy, Real Estate,
Transportation, Educational & Religious
Institutions

Why form a Captive?

- ▶ Obtain Coverage
- ▶ Control Costs and Services
- ▶ Focus on Risk Management
- ▶ Manuscript Policy
- ▶ Pre-loss funding
- ▶ Special Purposes

Where?

- Global Top 3: Bermuda, Cayman Islands, Vermont
- Nearly 40 other states, led by South Carolina, Hawaii, Utah, Arizona, Delaware and Washington, D.C.
- Dozens of offshore choices
- Very competitive environment

Why Vermont?

- ▶ Infrastructure – captive managers, attorneys, bankers, actuaries, investment professionals
- ▶ Vermont Captive Insurance Association
- ▶ Consistent support of Government
- ▶ Consistent, reasonable regulation
- ▶ World class clientele – 48 of Fortune 100
- ▶ Gold Standard Reputation

Vermont by the Numbers

- Largest US Domicile – over 1000 licensed
- Third largest in world after Bermuda and Cayman Islands
- Most gross written premium of any domicile: \$27.5 billion (2013 data)
- Most aggregate captive assets of any domicile: \$176 Billion (2013 data)
- Largest domicile for Risk Retention Groups

Benefits to Vermont

- ▶ Employment: estimated 1,400 jobs created
- ▶ Higher than average salaries, no smokestacks
- ▶ Over \$27 million in premium taxes, license and exam fees
- ▶ Annual board meeting requirement

Vermont's Captive Industry Profile

- ▶ Over 1,000 licensed companies
- ▶ 16 management firms & growing
- ▶ Service providers (CPAs, banks, actuaries, attorneys, investment advisors)
- ▶ Captive division staff of 32

Types of Captives

1. Pure or Single Parent: insures the risks of its parent and affiliated companies.
2. Group: insures the risks of a group or a group of companies.
 1. Industrial insured
 2. Association
 3. Risk retention group (RRG)

Types of Captives

3. Special Purpose Financial Insurers

1. Used to securitize risk

4. Sponsored Captives

1. Think “condominium”
2. Contractual cells or incorporated cells
3. Useful for small companies, as incubator space, or for short-term solutions

Captive Teamwork

- ▶ DFR - Captive division staff of 32
- ▶ ACCD – Economic development staff of 1
- ▶ VCIA

Challenges

- ▶ Competition: Other states and Off shore
- ▶ Competing against no cost states.
- ▶ Keeping our Reputation as the “Gold Standard”
- ▶ Supporting Growth
- ▶ Federal intervention
- ▶ Negative misperceptions

Current Session Proposals

- ▶ Reduced number of incorporators
- ▶ Improved investment opportunities for minimum capital
- ▶ Cell company refinements (Always!)
- ▶ Governance Standards for RRGs

The Future?

(hint: it looks a lot like the past)

- ▶ Continued competition
- ▶ Increased federal scrutiny and intervention
- ▶ Need an educated workforce for the industry
- ▶ Strive to keep Vermont an economical place for captives
- ▶ Never rest on our laurels