

# CAPTIVE INSURANCE 101

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Presentation to Vermont  
Legislature  
January 22, 2019

# Presenters

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Sandy Bigglestone, CPA, CFE, CPM, APIR

Director of Captive Insurance, Department of Financial Regulation

Ian Davis, MPA

Director of Financial Services, Department of Economic  
Development

David Provost, CFE

Deputy Commissioner of Captive Insurance, Department of  
Financial Regulation

# What is a Captive?

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- A limited purpose insurance company
- Licensed and regulated in a single jurisdiction (domicile)
- Formed to insure or reinsure the risk of the captive owner(s) *and cannot directly insure the risk of non-owners or the general public*

# Types of Captives

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- Single parent (pure) captive
- Protected cell company
- Group captive
- Risk Retention Group
- Special Purpose Financial Insurer
- Affiliated Reinsurance Company

# Who Uses Captives?

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NATIONAL LIFE  
GROUP®



WINOOSKI  
HOUSING AUTHORITY





## Why Form a Captive?



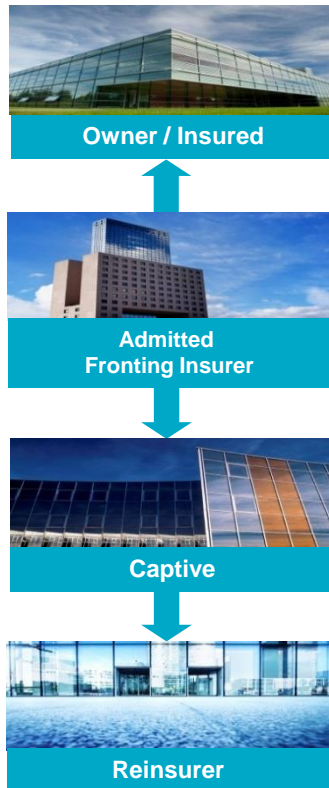
# Why Form a Captive?

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- ▶ Control
- ▶ Capacity
- ▶ Cost
- ▶ Coverage
- ▶ Commerce

# Typical Captive Structures

## Fronted Reinsurance Captive

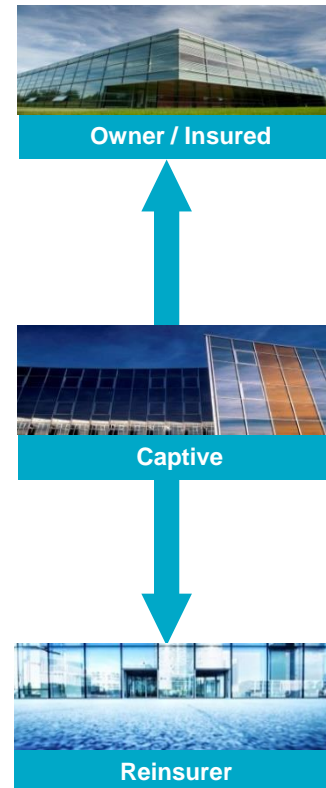


Fronting insurer issues policies and arranges claims handling service

Reinsurance cessions to captive; captive retains risk at agreed level

Captive retrocedes risk in excess of its desired retention

## Direct Issue Captive



Captive insurer issues policies and arranges claims handling service and retains risk at agreed level

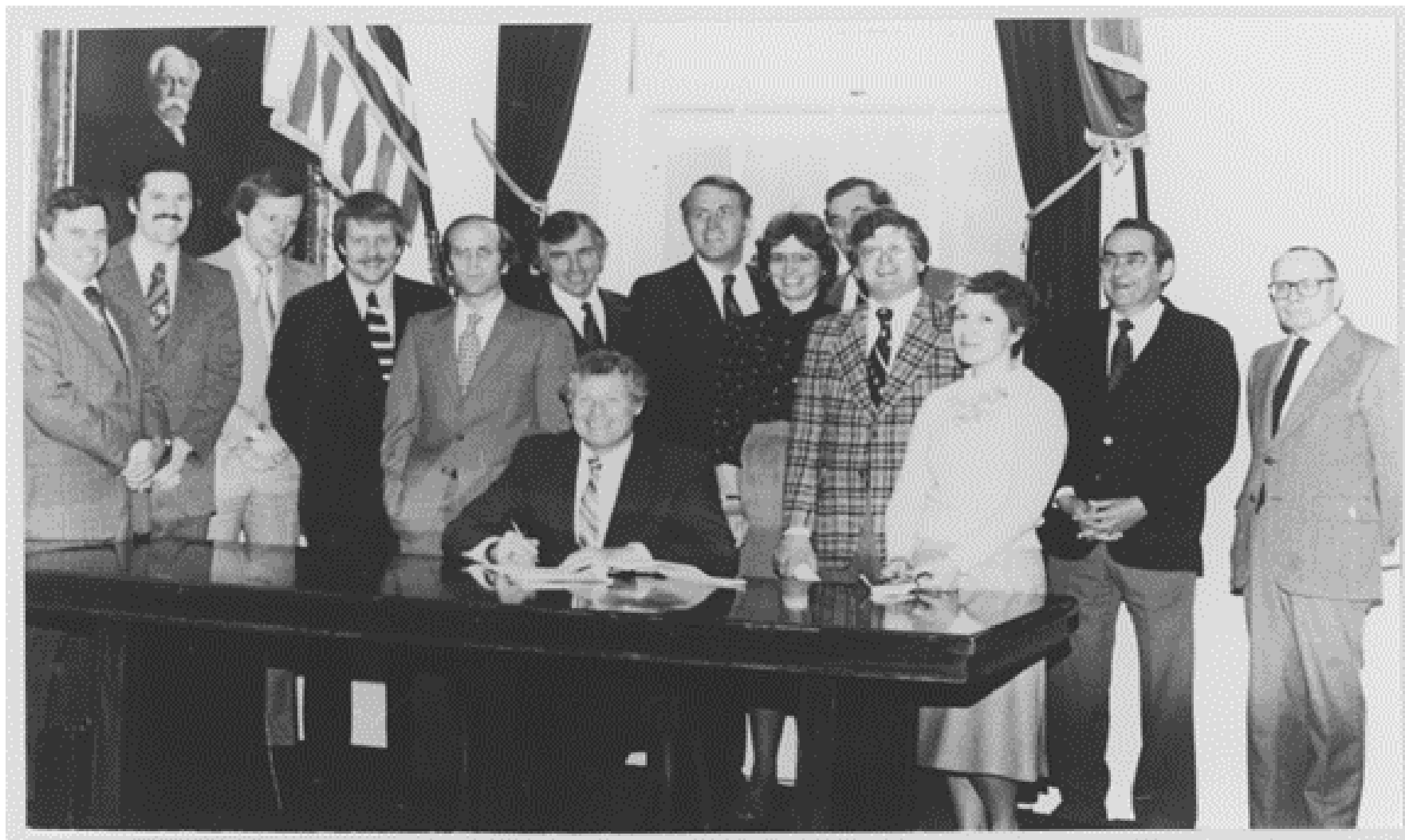
Captive reinsures in excess of its desired retention

# Captive Operations Team

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- Parent/*Board*/Risk Manager
- *Captive manager*
- *Actuary, Auditor*
- Third Party Administrators – Underwriting & Claims
- *Investment & legal advisors*
- Fronting insurers and/or reinsurers

# From humble beginnings...



# ...to a global leader!

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Top 10 global captive domiciles, by number of captives at year-end 2018

1.	Bermuda	739
2.	Cayman Islands	669
3.	<b><i>Vermont</i></b>	<b>558</b>
4.	Utah	480
5.	Delaware	391
6.	Guernsey	315
7.	Barbados	266
8.	Anguilla	258
9.	Hawaii	230
10.	South Carolina	172

# Benefits to Vermont

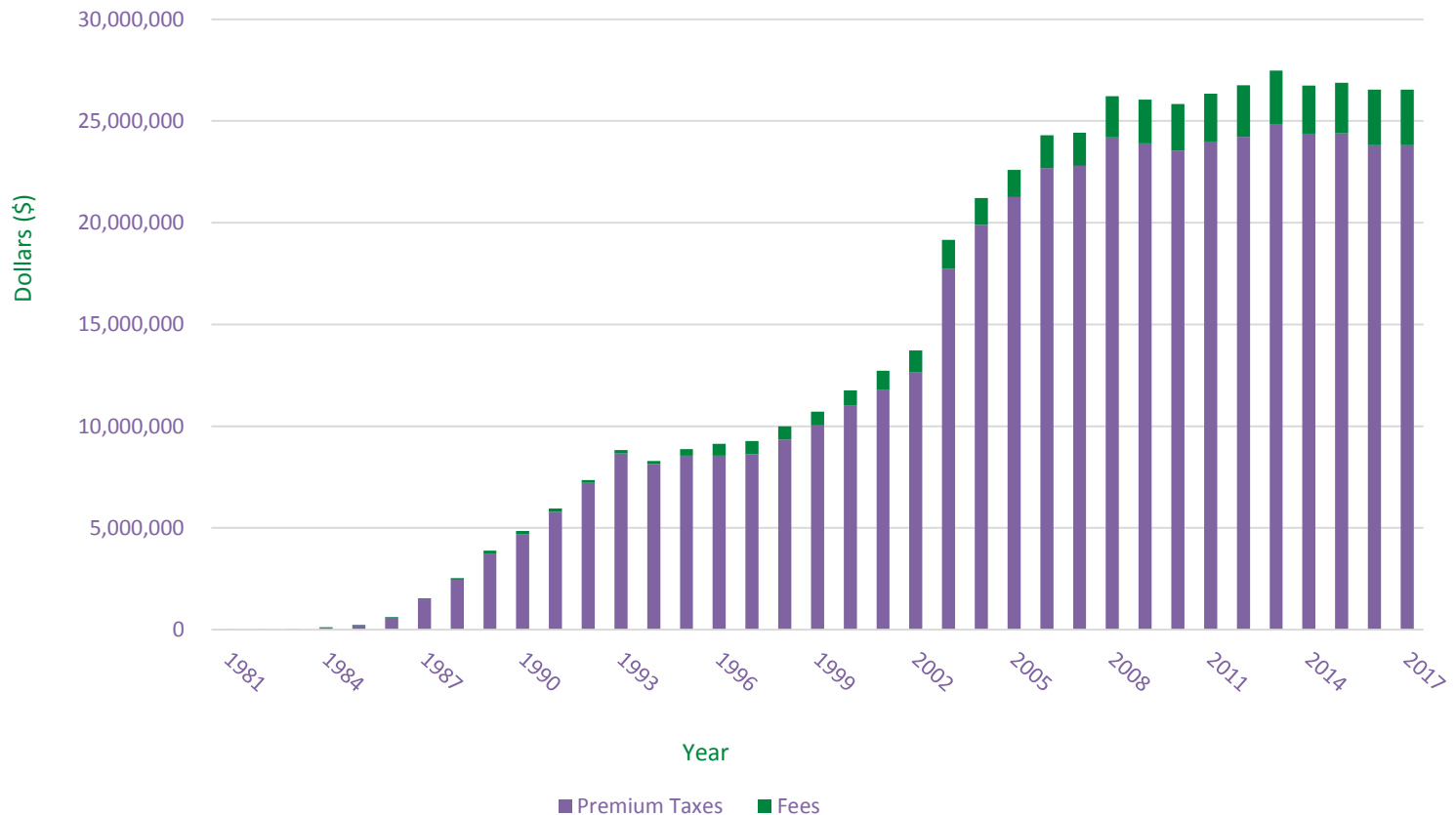
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## Rough Numbers:

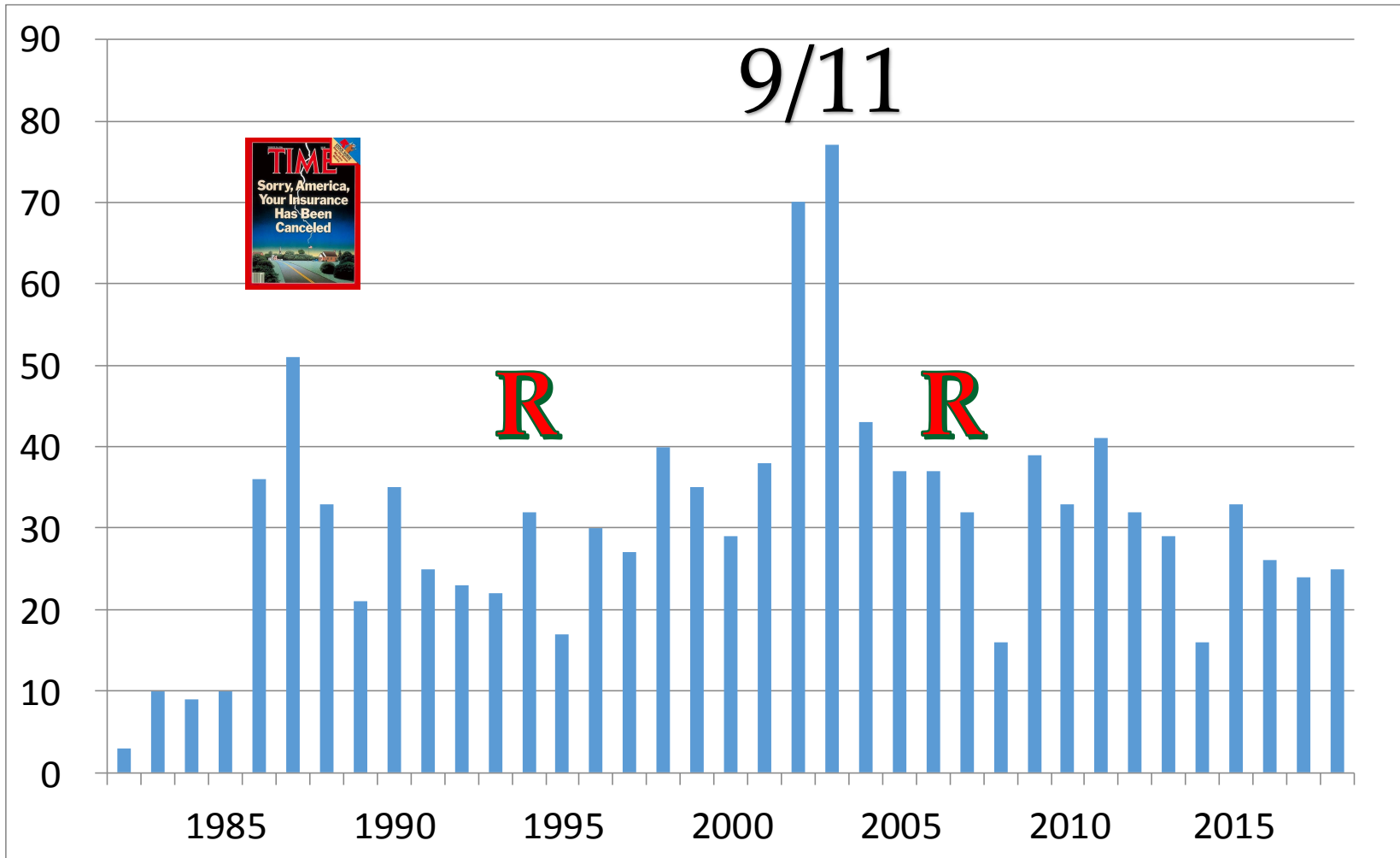
- ✓ over \$500 million in taxes & fees collected since 1981
- ✓ over \$25 million in taxes & fees collected every year since 2008
- ✓ more than 400 direct jobs for Vermonters
- ✓ increased tourism spend from board meetings
- ✓ improved visibility and reputation in the business world

# Vermont's economy: captive insurance

## Premium Taxes and Fees Generated



# VT Captive Licenses Issued by Year





# Vermont - The Leading US Domicile

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- ❑ Over \$21 billion in gross written premium in 2017
- ❑ \$194 billion in assets at year-end 2017
- ❑ Thirty-eight year history in captives
- ❑ 1,138 captives licensed as of January, 2019
- ❑ 42 of the Fortune 100
- ❑ 15 of the Dow Jones 30
- ❑ More than 100 healthcare related captives
- ❑ Leading domicile for Risk Retention Groups

# CHALLENGES

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- Prolonged soft insurance market
- Low interest & federal income tax rates
- Self-procurement taxes
- Competition & copy cats
- Reputational risks

# Regulation of Captives

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RULES!

1. You SHALL!
2. You WILL!
3. You MUST!

# Focus of the Regulators in Vermont

The mission of the Captive Insurance Division is to maintain a regulatory system that attracts quality business to Vermont, promotes our reputation in the industry, and ensures the solvency of captive insurers while recognizing the special purpose for which they were created.

The Division pursues this mission by:

- Attracting and licensing quality programs whose primary purpose is risk management or risk financing;
- Performing ongoing financial surveillance;
- Performing periodic financial examinations;
- Implementing and enforcing laws and regulations;
- Developing effective and reasonable policies and procedures;
- Advancing the growth of Vermont's captive industry.

# Consistent Regulatory Environment

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- Focus on quality programs
- Continuity of staffing
- Involved and responsive regulators
- Applications turned around in 30 days (no drive-up window!)
- Plan changes approved (electronically) in 5 business days

# How Does Vermont Regulate?

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- Face to face meeting
- Initial application, independent actuarial review
- Monitoring of parent company
- Periodic financial analysis of captive
- Frequent communication
- Examinations

# Insurance lingo to make you dangerous...

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- Long tail & short tail & development
- Frequency & Severity
- Reinsurance
- Loss development
- Risk-focused surveillance and examinations
- Underwriting and premiums written