

ADM mulls adding more benefits risks to captive

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Published on BusinessInsurance.com/ConferenceExtra: November 27, 2006

SCOTTSDALE, Ariz.—Archer Daniels Midland Co., one of the first employers to request regulatory approval to fund employee benefits through its captive, could be a test case of regulatory flexibility in the area.

Three years ago, ADM, the Decatur, Ill.-based agribusiness giant, received Labor Department permission to reinsure group life insurance policies through its Vermont captive.

The significance of the department's approval went beyond ADM. By becoming the second employer to win departmental approval to fund employee benefits through a captive—Columbia Energy Group was the first—ADM set the stage for other employers to win so-called fast-track regulatory approval of their applications.

Under the fast-track process, the Labor Department must act on an application for a prohibited transaction exemption within 45 days of receipt. Fast-track approval is available to applicants who can cite two substantially similar exemptions the department has approved within the last five years.

Since ADM received approval, more than half a dozen other employers have won fast-track approval for their captive benefit applications by following the blueprint drawn by Columbia Energy and ADM.

Now, ADM is considering adding short- and long-term disability risks to its captive's book of business, said Michael Lusk, ADM's corporate vp.

Speaking at the 16th annual World Captive Forum held Nov. 13-15 in Scottsdale, Ariz., Mr. Lusk said one of the insurers ADM will consider to issue disability policies reinsured through its captive is UnumProvident Corp., its current disability insurer.

UnumProvident, though, has an A- rating, while the Labor Department only has approved captive benefit funding arrangements in which insurers issuing the policies have a rating of A or better. If ADM does select UnumProvident and the Labor Department approves the arrangement, that approval could expand the pool of insurers for employers to choose from to issue benefit policies reinsured through their captives.

Finding a highly rated insurer to issue employee benefit policies—which the Labor Department requires—in captive benefit arrangements can be challenging. Mr. Lusk recalled that when ADM first approached Minnesota Life Insurance Co. to write life insurance policies funded through the ADM captive, the insurer hesitated.

Over time, though, "We convinced them that it made sense and eventually they were comfortable with it," Mr. Lusk said.

On the other hand, when Sun Microsystems Inc., the Santa Clara, Calif.-based computer network company, decided to fund life insurance risks through the Vermont branch of its Bermuda captive, it had to find a new insurer, said Suzanne Gallie, Sun's senior risk manager in its corporate risk management department.

The insurer that had been issuing the policies on a fully insured basis wasn't comfortable with the concept. "Pricing was not competitive," Ms. Gallie said. Sun ultimately chose AIG Life Insurance Co. Ltd., an American International Group Inc. unit, to issue policies for the program, which the Labor Department approved last year.