

Is Vermont's position at the head of our ranking an aberration, or symptomatic of a shift towards onshore US domiciles?

By **Matthew Broomfield**

2011 SURVEY



LEADING CAPTIVE DOMICILES

▶ CAPTIVES ▶ PREMIUM ▶ AUM

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This year's domicile survey sees Vermont overtaking Bermuda as the world's number one captive domicile, due to its huge premium figures and assets under management (AUM). These high figures caused Vermont to leapfrog Bermuda and the Cayman Islands despite having fewer captives.

According to *Captive Review's* weighting system, devised after consultation with industry experts and balanced between captive numbers, premium and AUM, Bermuda still has the most captives, but lags behind Vermont for premium and AUM, so it slips to second place.

The British Virgin Islands had a bad year and slips out of the top five, and is now closer in size to the domiciles placed six to 10, rather than those ahead of it.

Utah has been catapulted into the top 10, meanwhile, with the result that onshore US domiciles occupy three of the top 10 places, indicating a relative growth of the onshore US market.

Brady Young, president and CEO of Strategic Risk Solutions (SRS), expressed surprise at some of Vermont's high figures, but is not too surprised by it overtaking Bermuda. "Bermuda has positioned itself as more of an insurance company domicile and is not really focused on captives, unlike every other domicile listed," he says.

"Bermuda is still a great domicile with a level of sophistication and expertise that is hard for other domiciles to match or develop, and will continue to do well," says Young.

However, Young also says there has been a

discernible increase in the US for alternatives closer to home, with many factors diminishing Bermuda's relative appeal. In particular, Young thinks the tax advantage of being offshore has gone, while it has become politically incorrect to be offshore unless there's a compelling reason or advantage to do so.

"Arizona, South Carolina, Utah and others have attracted big captives from Bermuda and have landed new ones that historically would have gone offshore," Young adds.

Charles Winter, head of risk finance at Aon Global Risk Consulting, says the figures indicate the growth of onshore US domiciles, and US corporations' domination of the captive industry.

"It confirms, and further illustrates, the notion that captives are no longer formed for tax reasons, and suggests offshore domiciles may be in relative decline," says Winter. "Looking at the domiciles ranked 11-20, this becomes even more apparent."

However, Eduardo Fox, corporate commercial and trusts manager at Appleby, says much of the growth of the newer, onshore US domiciles comes from captives of state-run organisations, which are keen to keep their captives on home soil. "The majority of captives that really matter go offshore, especially to Bermuda. As Bermuda becomes better known to the newer US captive domiciles, this will continue.

"Before Vermont and Delaware, Bermuda had no US competition, and there still isn't competition for multi-national companies," he says.

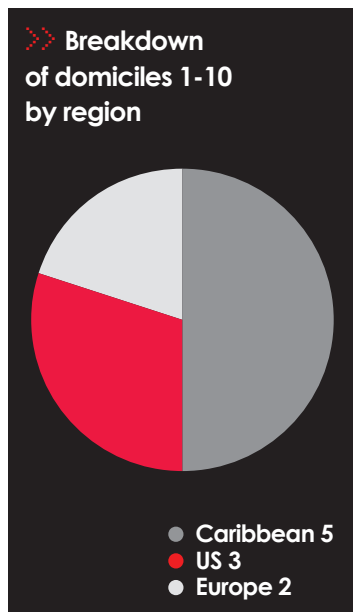
Fox adds Bermuda also has many oppor-

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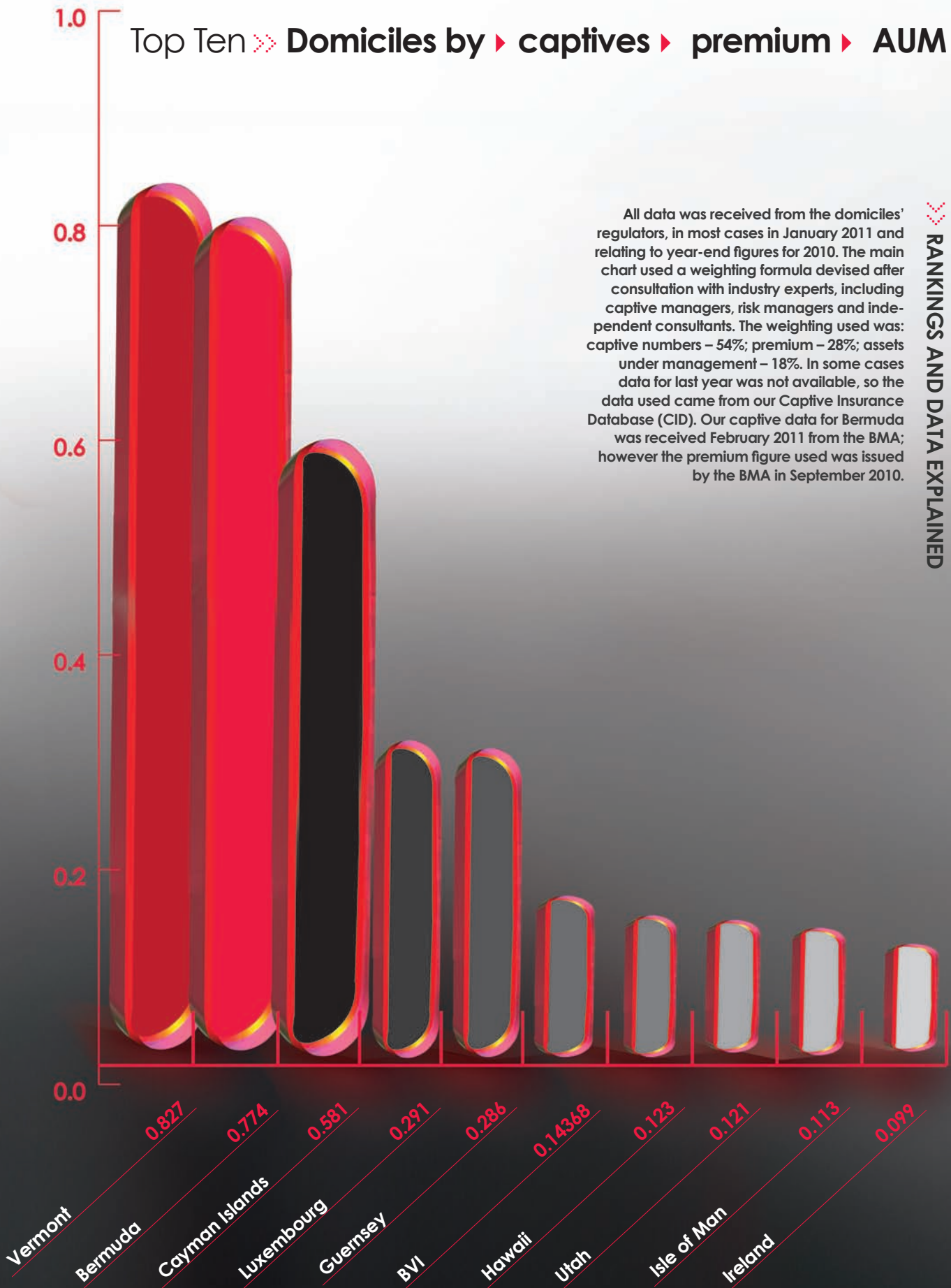
*including all captive structures but not individual cells

Top Ten » Domiciles by captive numbers*

	2010	2009	change
Bermuda	845	885	-40
Cayman Islands	738	780	-42
Vermont	576	560	16
Guernsey	333	336	-3
Anguilla	252	undisclosed	n/a
Luxembourg	249	251	-2
Barbados	242	230	12
BVI	219	285	-66
Utah	188	148	40
Hawaii	168	161	7



Top Ten » Domiciles by captives premium AUM



All data was received from the domiciles' regulators, in most cases in January 2011 and relating to year-end figures for 2010. The main chart used a weighting formula devised after consultation with industry experts, including captive managers, risk managers and independent consultants. The weighting used was: captive numbers – 54%; premium – 28%; assets under management – 18%. In some cases data for last year was not available, so the data used came from our Captive Insurance Database (CID). Our captive data for Bermuda was received February 2011 from the BMA; however the premium figure used was issued by the BMA in September 2010.

» RANKINGS AND DATA EXPLAINED

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tunities in Mexico, following recent changes to Mexico's tax law, which lowers the withholding tax rate to Bermuda captives and other entities. “The opportunities there are tremendous,” he says. “We should be able to attract a lot of business from Mexican businesses, as well as US companies with links in the Mexico.”

Bermuda is in negotiations with Brazil, Argentina and Chile to forge similar arrangements, says Fox, who expects Latin America to be a large source of captive formations in Bermuda in the future.

Les Boughner, managing director at Willis captive and consulting practice (US), agrees that offshore domiciles retain great appeal globally, even though they may be in relative decline for applications involving US taxpayers. “It is a global economy and Japan, China, Mexico and others are looking at the benefits of offshore domiciles, and executing reciprocal tax agreements. It is hard to beat Cayman for healthcare and Bermuda for mutual insurance companies.”

Luxembourg is the other notable domicile in the top five, benefiting like Vermont from high premium and AUM figures, both of which place it third. However, the parent companies of most of its (largely reinsurance) captives are undisclosed, as is the methodology for how exactly they define captive insurers. Luxembourg, therefore, remains a bit of an unknown quantity.

The other notable entry is Utah, which witnessed high growth in captive numbers last

year, shortly after some predicted its decline.

Ross Elliott, captive insurance director at the Utah Insurance Department, says Utah's appeal was heightened because it didn't suffer from the government cutbacks that hit some other domiciles. “This left some other states without enough regulatory staff required to accept more captives. But we haven't suffered from this fate.”

Some publications have recently acclaimed Utah as the second-largest US captive domicile, and its recent growth has certainly been impressive: in 2005 it had just 15 captives, since then its numbers have risen annually to 30, 97, 123, 148 and 188.

However, the majority of Utah's new captives were small 831(b) captives, and our figures place it third below Hawaii and Vermont for US states. Furthermore, South Carolina's premium dwarfs Utah's (which remains relatively low) so uncertainty remains as to which jurisdiction really deserves the accolade of the second-largest US domicile.

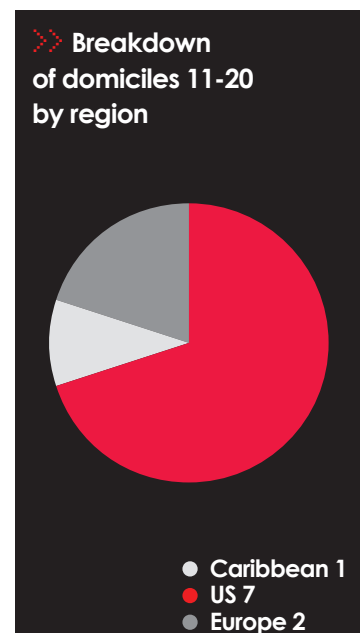
Ireland squeezes into the top 10, owing to a consistent spread throughout the three criteria. However, with uncertainty over its wider economic circumstances, some captive managers (who asked not to be named) anticipate it may struggle to attract further business in 2011.

Anguilla, with the fifth most captives, might have featured in the overall top 10, but recent figures for the other two criteria were not available. Similarly South Carolina had high captive and premium numbers, but no figures

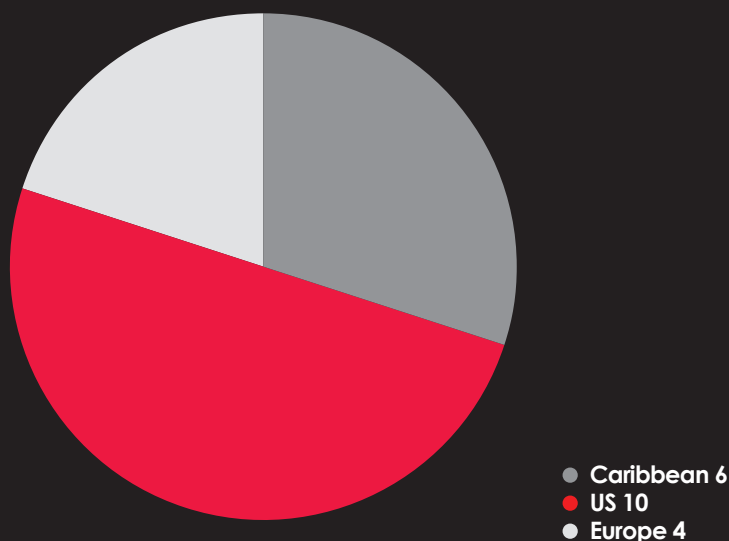
*including all captive structures but not individual cells

Top 11-20 >> Domiciles by captive numbers*

	2010	2009	change
South Carolina	160	156	4
Isle of Man	142	145	-3
Kentucky	127	102	25
Dublin	125	112	13
Nevada	124	125	-1
Nevis	109	63	46
District of Columbia	102	94	8
Delaware	97	49	48
Arizona	95	99	-4
Montana	69	43	26



Breakdown of domiciles 1-20 by region overall



“ There’s definitely a perception that if you’re a US company, why not be in the US? ”

David Provost, BISHCA



were available for its AUM, so it could not feature in the overall ranking.

Though licensing 15 new captives last year, Bermuda’s overall numbers fell by 40. However, the difference resulted from ongoing re-classification of firms and de-registrations/amalgamations common to global insurance markets, says Pat Phillip Bassett, deputy director, corporate governance and communications at the Bermuda Monetary Authority (BMA).

Cayman’s captive numbers were down 42 from 780 at the end of 2009. However, its premium and AUM figures rose from the end of 2009 figures by 16% and 30%, up from US\$7.4bn and US\$44.7bn.

Vermont has seen good net growth because the ‘cleaning’ process is over, says David Provost, deputy commissioner at the captive insurance division of Vermont’s Department of Banking, Insurance, Securities and Health Care (BISHCA). “Those captives affected by

the economy and facing dissolution have now dissolved, and the bank mergers, which typically reduced their captive figures, seem to be over.”

Despite its overall captive figures falling slightly in recent years, Guernsey remains the cell company leader, with 68 core cell companies and 342 individual cells.

BVI’s figures declined the most, and together with Bermuda and the Cayman Islands’ figures, suggest Caribbean domiciles fared badly, compared to the growth or stability in other regions.

Indeed, BVI listed the possibility of companies setting up onshore more than offshore as its second biggest concern for 2011.

Top Ten Domiciles by premium (\$m)

Vermont	73,800
Bermuda	19,642
Luxembourg	11,510
Cayman Islands	8,664
Guernsey	5,477
South Carolina	3,751
Isle of Man	2,560
Ireland	2,200
Hawaii	1,201
Singapore	602

All change

Positions 11-20 have seen the most change, with Kentucky, Delaware, Nevis and Montana all increasing their captive numbers greatly.

Delaware’s numbers almost doubled in the last year (leaping from 49 at the end of 2009), and it soon expects to exceed the 100 captive mark, says Steve Kinion, director of the Bureau of Captive and Financial Insurance Products in Delaware.

However only 46 of its captives are pure/single parent, with most new formations being 831(b) captives, as in Utah. Furthermore, the premium and AUM are undisclosed, so it’s difficult to infer its true captive size, as it is with Nevis.

Montana licensed 26 captives last year, and its rate of growth has been 38% over the past five years, according to Brenda Olson, chairperson of the Montana Captive Insurance Association (MCIA).

Top Ten >> Domiciles by assets under management (\$m)

Vermont	134,400
Bermuda	118,000
Luxembourg	67,891
Cayman Islands	57,983
Guernsey	37,271
Isle of Man	9,000
Ireland	7,500
Hawaii	7,273
BVI	1,679
Singapore	1,325

It now exceeds Singapore, which has 60 captives, down from 63 in 2009. However Singapore's captives are all single-parent captives and it is in the top 10 for premium and assets, so its overall captive industry still exceeds Montana's.

US states occupy seven of the places, and 10 of the top 20 spots, confirming the impression that onshore US domiciles are growing faster than other regions.

A deeper look

Captive numbers alone do not indicate their structure, size, lines of coverage or how many of them are in run-off.

However, a domicile's captive premium and asset figures provide some insight and suggest that many of the emerging domiciles are growing off the back of 831(b) captives. Although still significant, their high numbers are arguably misleading or, at least, only show one aspect of a domicile's captive industry.

Most striking is Vermont's premium, which Winter attributes to its captives' high level of workers' compensation, employee benefits and general liability coverage. "Their programmes are a lot more premium-intensive," he says.

Utah makes neither chart, while BVI's low premium (\$395m) and assets indicate that its status as a leading domicile has arguably been over-simplified. ☹

“ It is hard to beat Cayman for healthcare and Bermuda for mutual insurance companies ”

Les Boughner, Willis



>> What next?

Delaware and Utah are tipped by Boughner as the US domiciles to watch in 2011 and beyond, following recent high growth.

Tennessee is also set to enter the industry (see *Right side of Memphis*, page 20), as is New Jersey, although it's a moot point whether they can cater for more than just a few domestic companies. Kentucky has also shown high steady growth over the past few years, while the District of Columbia and South Carolina may also hope for growth following recent appointments to their insurance divisions.

However, this apparent shift towards onshore US domiciles may only be temporary. The further growth of Brazil, Russia, India and China (the BRIC countries), and the captive formations its spawns, will arguably be a key determinant of captive domiciles' future fortunes. And BRIC-parented captives would be more likely to domicile offshore, says Boughner, as could those emanating from Latin America as a whole. Then there are Asia-Pacific domiciles to be considered (see *Eastern Promise*, p18).

But whatever jostling occurs between domiciles, the future looks reasonably rosy. The average number of captives for each top 20 domicile in 2010 exceeded the figure for 2009 by an average of four captives (up from 244 to 248).

The rumours of the captive's demise have been greatly exaggerated.