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Vermont sees captives addressing governance issues without mandate

By RODD ZOLKOS
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BURLINGTON, Vt.—While the corporate governance requirements of the federal Sarbanes-Oxley Act have become a fact of life for publicly traded insurance companies, they haven't yet been directly applied to captive insurers.

And the largest U.S. domicile likely won't be moving to apply them to captives unilaterally, according to Leonard D. Crouse, deputy commissioner of captive insurance in the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

However, speaking during the Vermont Captive Insurance Assn.'s 20th annual conference in August in Burlington, Vt., Mr. Crouse said that while there are no mandates applying Sarbanes-Oxley to captives, it probably makes good business sense that those companies apply the guidelines to their activities, and many probably already are.

"Nothing is mandated in our industry right now as far as Sarbanes-Oxley is concerned," Mr. Crouse said, noting that the National Assn. of Insurance Commissioners has not ordered it yet.

The Vermont deputy commissioner noted that 75% of Vermont captives are pure captives. "I can guarantee you that these publicly traded companies are looking at their pure captives," he said. "Are we going to mandate it? Probably not. Are we going to look a little closer at some good corporate governance? I think we should."

"Risk retention groups should probably be taken up a notch," Mr. Crouse said, adding that he believes companies should pay attention to governance issues with regard to their captives just because it makes good business sense.

"Our examiners right now do look at internal controls," he added.

If the NAIC does apply Sarbanes-Oxley requirements to risk retention groups, it probably will be four or five years before those requirements take effect, Mr. Crouse said. "And you have to remember that there are costs associated with some of these things," he noted.

The Vermont regulator said he sees captive auditors moving in rational fashion toward working governance issues into their reviews of captive activities.

"The auditing firms are really taking their time to get things right, which I think is fine," he said. "So I think it should just flow down to those people in charge of any organization to do the right thing."

The issue is one that is of concern to captive parents, said Molly Lambert, president of the VCIA, judging by interest in the topic among this year's conference attendees.

"It certainly is on the minds of the industry, because we (had) a panel on it and it (was) one of the top three people signed up for," Ms. Lambert said.

And John S. Alberici, chairman of Alberici Corp., noted that when his St. Louis-based company looked to form its Contractors Casualty Co., the kinds of transparency issues now at the heart of Sarbanes-Oxley led to choosing an onshore domicile and Vermont.

"So having a very strong regulatory process here, having the infrastructure here in Vermont that can provide needed information is very important," he said. "That could be one of the reasons that redomestication is occurring."

During the conference, the VCIA presented three honors that have become customary at the gathering. The first, a lifetime honorary membership in the association, was given to U.S. Sen. James Jeffords, I-Vt.

The VCIA's Captive Crusader award, presented by the association's staff to an individual to recognize his or her support and assistance of the association's activities, was presented to Michael Meehan, regional marketing coordinator of Milliman Inc. in Wakefield, Mass.

And the association's Industry Service Award, presented by the association's board to an individual for his or her support of the captive insurance industry, was awarded to Thomas M. Jones, a partner with the McDermott, Will & Emery law firm in Chicago.