

# Vermont Sees Captive Growth Even In Soft Market, Tough Economy

By Caroline McDonald

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Showing a strong first half for new formations in 2010 despite a soft commercial insurance market and struggling economy, Vermont is preparing to defend its position as the top U.S. captive domicile by adding additional staff to keep turnaround times to a minimum, as well as updating regulations.

Indeed, the state's captive administrator noted that he is set to license the state's 900th facility before the year is out.

In 2009, Vermont licensed a total of 39 new captives—the sixth-best year in the state's 29-year history as a captive haven. So far this year, Vermont has licensed 17 new captive insurance companies, surpassing 2009's first-half numbers, according to data released by the Vermont Department of Banking, Insurance, Securities and Health Care Administration (BISHCA).

This year's new captive insurance companies include 15 "pure" captives—four of which are special-purpose financial captives—and two risk retention groups, the department noted.

"Things are going great. We've had some turnover the last couple of years, but we've got the people here to take care of it," according to David Provost, deputy commissioner of captive insurance.

Most recently, Sandy Bigglestone, director of captive insurance at BISHCA and a veteran with the state's Captive Insurance Division, took over for Peter Raymond, following his departure in June.

"Sandy is walking right into Pete's job just fine," Mr. Provost told *National Underwriter*. "She worked directly for Pete the whole 13 years she's been here."

While some domiciles are losing staff due to state government budget cuts, he said Vermont's department will add at least three new captive examiners this year, which it will need with the new growth the state is seeing.

Added staff has meant that the waiting time for captive formations has remained the same—unlike some other domiciles, where waiting time has doubled and tripled. The state recognizes that captives are "still our big thing here," according to Mr. Provost,

given the amount of business activity and revenue the captive industry attracts to Vermont. “We still go to the Legislature and they still applaud. We still have their full support.”

Mr. Provost said that last year, as a result of the financial crisis, the pattern was that those who didn’t form a captive in 2008 did so in 2009. “We even had a backlog—people who had been talking to us for two years when the bottom dropped out, came back,” he noted.

This year, however, the business “all seems to be new. I don’t recall something that had been a long process,” he said.

He observed that Vermont has seen a lot of interest from hospital groups seeking a captive for their professional medical liabilities, as well as smaller and mid-cap companies.

Professional services, insurance companies, construction and health care continue to be growth sectors as shown by the newly formed captives for 2010, he said.

Vermont also has had three re-domestications this year—from Cayman, Bermuda and Arizona, he added.

“And the nice thing is, we’re getting net growth. I think we’ve only closed six captives this year,” he noted. “In the past several years, the closures have been keeping up with the new licenses.”

While there were a number of technical clarifications to regulations, Mr. Provost said there are two new changes that will impact captives:

- **The reduction of minimum capital requirement** for association captives from \$750,000 to \$500,000. Because the capital is generally based on the program, the minimum won’t often apply. Having the new minimum requirement, however, “doesn’t eliminate us from the competition,” he said.

- **A change of the reporting date** for pure captives to March 15, from March 1.



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Dan Towle, Vermont's director of financial services, told *NU* that Vermont is pleased with the growth and the high interest in prospective captive formations.

"It's fair to say this is as deep a pipeline as we've had in some time," he noted.

Mr. Towle added that the domicile also is encouraged that captives are being formed "for all the right reasons—as part of a risk management strategy."

He said Vermont is well equipped to handle the growth. "We've got the staff," he noted.

Sandy Bigglestone said in a statement that the growth of captives in the state is "a very encouraging sign at a time when the national economy's outlook is still unknown."

She added that "quality companies like Proctor and Gamble, PricewaterhouseCoopers, Crowe Horwath and Towers Watson & Company still see the value of establishing a captive as an integral part of their risk management regardless of uncertain market conditions."

Vermont has 895 captive licenses, which makes the state the largest captive insurance domicile in the United States and the third-largest in the world—with an excess of \$77 billion in gross written premium in 2009.

Captive insurance is a regulated form of self-insurance that has been in effect since the 1960s and is used for corporate lines of insurance such as property and liability. Vermont passed its captive legislation in 1981.