

Vermont Licenses 17 New Captives

The leading U.S. domicile sees interest in captive formation in 2010 from the construction and financial services sectors, as well as from hospitals.

By CYRIL TUOHY, managing editor of Risk & Insurance@ July 23, 2010

[Vermont](#) licensed 17 new [captive insurance companies](#) in the first six months of the year as companies take advantage of the soft insurance market to prepare for a time when prices in the traditional market rise, officials said.

The six-month tally was three more than in the year-ago period, the state's captive insurance officials reported.

"We have seen a lot of interest by hospital groups seeking a captive for their professional medical liabilities and by smaller and midcap companies," said [David Provost](#), deputy commissioner of captive insurance, said interest in setting up captives had come from hospital groups and midcap and small companies.

"I expect this trend to continue," he added.

Financial services companies, some of whom are facing steep price increases in [directors' and officers' \(D&O\) liability insurance coverage](#), have also shown an interest in forming captives, state officials said.

Of the 17 newly licensed captives in the first six months, 15 were pure captives--companies formed to insure only risks assumed by a corporate parent--and two were risk retention groups, according to data released by the [Vermont Department of Banking, Insurance, Securities and Health Care Administration \(BISHCA\)](#).

Fifteen of the newly licensed captives came from the U.S. domestic market, and two were redomestications--one from the Cayman Islands and another from Bermuda--said Dan Towle, director of financial services.

During the six-month period, two captive insurance licenses were granted to companies in the construction sector; two in the banking sector; five in the insurance sector; four in the professional services arena; one in the healthcare sector; one in the manufacturing sector; and one in the transportation sector, said Towle.

Another captive license was granted to a religious institution, he also said.

Captive insurance vehicles offer parent companies a way to self-insure their risks when prices in the traditional insurance market go up.

"Procter and Gamble, Price Waterhouse Coopers, Crowe Horwath, and Towers Watson & Co. still see the value of establishing a captive as an integral part of their risk management regardless of uncertain market conditions," said Sandy Bigglestone, director of captive insurance.

Companies are more likely to think about creating captives during a hard market, but it's not unheard of to create captives in a soft market, when prices are more affordable.

"Companies forming captives now are preparing themselves," Towle said. "They are taking control of insurance costs and programs. That's what's driving the formations."

Vermont captive insurance officials said the six-month numbers augur well for the remainder of the year. As many as half the newly licensed captives in Vermont in any given year are licensed in the fourth quarter.

Last year, Vermont licensed 39 new captives.

By the end of last year, Vermont had issued a total of 878 captive licenses, with 560 of them still considered "active," according to BISHCA data.

Vermont is the largest captive insurance domicile in the United States and the third largest in the world, with more than \$77 billion in gross written premium in 2009, according to Towle.