

## Captive Industry Not Blinking at Economic Double-Whammy

*Captive insurance issuances at the No. 1 domicile in the United States surge past the 900 mark, as use for the financial vehicles gets more diverse, sophisticated.*

By MATTHEW BRODSKY, senior editor/Web editor of Risk & Insurance®



BURLINGTON, VT.---The backs were being slapped at this year's annual meeting of the [Vermont Captive Insurance Association](#) because the No. 1 onshore domicile announced its 900th [captive insurance](#) issuance. The issuance, to Lincoln Financial Group, is the 22nd of the year for Vermont.

Theories abound on why activity at the Vermont domicile is hopping despite the double whammy of a soft insurance market and a smoldering economy, but attend VCIA and talk to the folks there, and you get past mere hypotheses.

The truth, it appears, is that many companies put captive plans on hold back in 2008. They didn't want to tie up capital desperately needed during the financial collapse. Then, starting in the second half of 2009 and continuing through the first half of 2010, companies felt comfortable enough to move forward again, according to Nancy Gray, regional managing director of [Aon Global Insurance Managers](#). "Vermont has benefited too because other states have had difficulties in their regulatory departments," Gray added.

"Regulation has been consistent," agreed James Swanke, senior consultant at [Towers Watson](#). Not only has the economy affected other domiciles. People look for domiciles where politics don't get mixed into the captive industry, he said.

The consistent and reliable approach to regulation aside, why open a captive when insurers in the traditional market are practically giving away commercial property/casualty coverage?

As Gary W. Langsdale, university risk officer for [Penn State University](#) and president of the school's captive, mentioned during one of the conference's session, captive owners know that their insurance vehicle is a long-term deal.

In other words, they aren't going to abandon the ones they've already set up, and they won't scuttle plans for new ones. "Companies still need to fund their retentions regardless of market cycles," Gray told *Risk & Insurance*®.

"Risk managers are just thinking more and more strategically," said Carol Frey, vice president of [ACE Risk Management](#).

Captive owners might have had to adjust how they're using these powerful strategic tools in the past couple years. Steven Bauman, senior vice president and head of [Zurich's](#) captive services unit, has seen owners using captives in nontraditional, creative ways.

For instance, some risk managers are turning to their captives for global product liability and errors-and-omissions liability or even crime coverages. "To us, it makes perfect sense," Bauman said.

Captives are perhaps the "most effective mechanism" for risk managers looking to take on their exposure consistently around the world, while allowing them to consolidate exposure and claims data and handle local regulatory compliance within whatever country they're operating in, said Clint Johnson, executive vice president, complex risks, at ACE.

Johnson and ACE were at VCIA promoting the idea that captives made great sense for multinational insurance coverages.

In the case of ACE, the local ACE company would issue the primary paper, then ACE would reinsure the total global program, with a captive reinsuring the risk on top of that.

Bauman at Zurich offered a slightly different twist to the structure, with Zurich providing the local paper with the captive reinsuring on top of that, and Zurich then perhaps coming in with a quota share or other reinsurance agreement on top.

Some companies are exploring even more complex and creative uses for captives with employee benefits.

The Department of Labor approved a captive setup for Coca-Cola, allowing the global beverage icon to fund retiree healthcare through a captive April 2. It's a matter of debate whether such news will provide the tipping point, leading to a rush of captive owners toward employee benefits.

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