

# RISK & INSURANCE

## The Front Man

*Dan Towle, director of financial services for the state of Vermont, has been a mainstay of the Vermont captive insurance industry for the last dozen years, representing the No. 1 U.S. domicile around the world.*



By MATTHEW BRODSKY, senior editor/Web editor of Risk & Insurance@ May 1, 2010

If you think back, oh, a dozen years or so, to those heady days of the late 1990s, and remember what was being discussed in and about the [Vermont captive industry](#), you'd be surprised by how eerily similar it was to today.

Then, we were talking about how, despite a persistent softening in the traditional insurance market, the captive business in the Green Mountain State was going strong.

Everyone was looking forward to the annual [VCIA](#) event at the Sheraton in Burlington. There was talk about the captive-friendly political environment in the state, with legislators and former Gov. Howard Dean working together to pass laws to expand and strengthen the industry, not to mention the strong and able hand of regulators (in this case, with Len Crouse at the lead).

We were commenting about how strong and diverse the industry was, with possibly 25 new captives in the works for 1998, representing various sectors and writing multiple lines.

It was way back around then--November of 1999 to be specific--that Dan Towle got his start in the state government as, you guessed it, director of financial services (his title today).

He had been in banking for 10 years since graduating from the University of Vermont, so the story goes, and some of his clients were captive insurance-related companies. Clients became friends, and friends became real good friends when a position at the Department of Economic Development opened up. They called him and told him to look into applying.

"At that point in time, I had had a very narrow perspective of what captives were compared with now," said Towle, director of financial services for the [Vermont Department of Economic Development in the Agency of Commerce and Community Development](#). "But I was certainly intrigued by the industry."

He was curious enough that he investigated the opportunity, did his due diligence, called his college friend, John Prescott (a UVM alumni like Towle and then still at the accounting firm Johnson Lambert & Co.), who said it could be an excellent opening.

"Pretty quickly, my eyes were wide open. It looked like a great opportunity," Towle said.

So he took it.

"My first day on the job, I hopped on a plane and flew to the World Captive Forum," he recalled. "It was the fastest way to get immersed into the job."

Still, he lived in Burlington at the time and had to commute 45 minutes south to Montpelier. So he originally committed to just one year, then he'd see what happened after that.

Well, what happened is, Dan is still the Vermont man. He is a fixture at every **Vermont captive** event, as well as many national and international industry meetings. A one-year job? Yeah, right. If you took every captive meeting he's been to and strung them together, one after the other, you'd probably get more than one year that he's spent at just conferences. How many thousands of miles on planes is that? How many days on the road?

Yes, the details of the **Vermont captive** industry might be different from the late 1990s to the 2010s, but the themes stay the same.

When he started, Towle recalled, "onshore" meant Vermont and Hawaii. There was talk that New York and Maine could be the next big domiciles in Montpelier's rear-view mirror, just like there's talk today about the next great possible pretenders to Vermont's throne. Just like then, Vermont remains No. 1 for U.S. domiciles. Just like then, there are very good reasons why that is.

### **SMALL = NIMBLE**

In the dozen years that Towle has been a part of the captive business, the state of Vermont has not grown. Last we checked the map, it's still a small, green-and-white slice of New England.

"From the very beginning, we knew we were a small state, a small jurisdiction. But we always looked at that as an asset, not a liability," Towle explained. "There's not a place that's quicker than Vermont."

Need to launch a captive? How's 30 days to do so? Need to do a plan change for an existing company? Pick up the phone and call the person who can get it done for you. Laws need changing? Done. (More on this later.)

One of the reasons that this small jurisdiction works so well, Towle reasons, is that everyone involved feels like they have a stake, from the governor and legislators through to the captive owners and the vendors that service them.

Vermont regulators are not afraid to call up various experts throughout the industry, or go to Washington and talk to different folks there, to get ideas for what is going on, to spot emerging issues, and to get ideas for how to solve or benefit from them. Every year, the Vermont regulators get feedback on what they are doing and how it can be done better.

It's a matter of everyone taking a real ownership in the success of the domicile, which has been the case from the get-go. That's often how it is when scale--be it with a state, a business, a family--is small.

It's also a matter of being humble, of taking pride in what they are doing in Vermont and in its reputation, and of understanding that, even as the No. 1 onshore domicile, the best way to go is to keep moving forward.

"We know that we can always do things better," Towle said. "If you're not moving forward, I think you're really perceived as falling behind."

Such was the case, again, way back when the Vermont industry was wet behind the ears and just getting off the ground. From the very beginning, Vermont sought out the insight and experience of regulators who had come before them, of industry insiders and innovators, and of current and possible future captive owners at the Risk and Insurance Management Society Inc. and elsewhere.

"We were humble from the beginning," as Towle put it.

### **GOLD-STANDARD QUALITY**

Humble, yes. But Vermont also goes around calling itself the "gold standard" of domiciles.

Speaking of that, while we're on this history kick, what is the story behind the expression? Towle can't remember exactly who or when the term started being bandied about, although he suspects the trade press is to blame for coming up with the moniker. No matter. The "gold standard" was picked up by the risk management and captive owner community. It stuck.

The Vermont folks adopted the term themselves somewhat subtly at first, but eventually began to use it in their advertising campaigns. Nowadays, you can't attend any session on captives without a speaker referring to Vermont's "gold standard" status.

"It's one of those things, from a branding perspective, if you live up to that, it's genuine," Towle said. "We've been happy to embrace that."

It's genuine because, from the start, Vermont has focused on quality, not quantity, and the domicile has never lowered its standards.

Initially, the regulators were so concerned about quality that they sought the consultation of an advisory board of captive experts on what new captives should be approved.

"Can you imagine that today?" Towle asked rhetorically.

Probably not in Vermont. Though the state regulators do still seek input from industry insiders and the VCIA "to see if there's a better way to do things."

What they typically gather from this input is that people don't want Vermont to change what it's doing and has always done.

"Overwhelmingly, people do not want us to lower our standards. They want the bar to be high in Vermont," said Towle. "Some clients say, 'If we can't do this in Vermont, we're not going to do this.' "

Sure, Vermont regulators provide sturdy, steady oversight, and they make sure that captive owners have "skin in the game," but captive owners and vendors like that because it helps them market their captives. They value the security that comes with it.

"People do want to be regulated," he said.

As Towle illustrated, the last thing a chief financial officer at a Fortune 1000 company wants to do is have to go back to his or her board of directors in year two of a captive and explain how it had a big loss but didn't have enough capital to handle it.

## **SUPERIOR OVERSIGHT**

Vermont's astute regulators wouldn't let that happen. They would sit down with the captive owner at the get-go, look at the business plan and see what makes sense in terms of capital requirements.

Vermont regulators have a 30-year track record of being firm, fair and stable to back up their prescriptions.

Nor is Vermont one of those domiciles where the regulators change every two years. When Towle started, Len Crouse had already established himself as a straight shooter, and he stayed around as head

captive regulator until 2008. Dave Provost took over (having been with the department since 2001), and he plans for a long tenure too.

Along with Provost are 26 employees, veterans of the captive industry business. Because exams are done in-house, the costs for captive owners can be three times cheaper compared with some other jurisdictions. Plan changes can be taken care of in days, not months.

And quality comes from the support the industry enjoys from the state government. After all, in such a small jurisdiction, the captive industry has a big economic impact in terms of revenues and jobs.

So the industry has a long-term place in the regulatory system and economic development, and in the hearts of governors and legislators from both sides of the political aisle.

Back when Towle started in the business, the legislature was moving to allow pure captives to write third-party business and considering rent-a-captives, which are now called "sponsored captives" in Vermont and are doing very well, thank you. Towle reported that the domicile has 17 sponsored captives with more than 100 protected cells in them.

Getting back to the late 1990s, Gov. Dean was signing laws to allow reciprocals in Vermont and to allow existing captives to reorganize into reciprocals and gain favorable federal tax treatment from it.

Today, Towle said, if someone brings forward an idea for a legislative change that makes sense, Vermont's legislature and governor are very open to hearing that recommendation.

And never in Towle's memory had either former Gov. Dean or current Gov. James Douglas ever turned down an appointment to attend a captive engagement.

What's more, today's state lawmakers are hard at work to improve existing captive legislation.

"We have proposed legislation to make it easier for captive insurance companies to merge and consolidate," said Towle. "We have also proposed lowering the minimum capital requirements for association captives, and finally we have proposed a variety of technical amendments to update various components of our law. Every year we are looking for ways to improve upon our legislation."

So you see, this high level of care has always been there, and as far as Towle is concerned, always will.

Again, it's quality, not quantity. Sure, Vermont keeps track of how many new captives form in any given year, and how many it has in total.

Thirty-nine captives were formed in 2009, by the way. The total number at year-end was 878 captives, 560 of which are active. Back in the late 1990s, the number they were shooting for was 400.

But the number is less important than the individual captives behind it.

"If there are 50 quality companies out there in a year, we want all 50. If there are five, we want all five," Towle said. "Every quality company that wants to form a captive, we want to make sure we're on their short list."

Sure, the industry as a whole has gotten more competitive, and some other domiciles seem to be in a race to achieve higher numbers.

"Now we have to work very hard for every captive we get," Towle admitted. "It is a very competitive environment. But that's part of what I really enjoy about it."

## **THE PEOPLE**

Of course, there might be other things that Towle enjoys about his work: the people he works with, for example. Not just fellow Vermont state employees and regulators, but everyone at the **Vermont Captive Insurance Association** and the owners, managers and vendors that make up the industry.

It's apparent to anyone who's attended the VCIA annual conference in Burlington, or any captive industry event for that matter. They are a close-knit bunch. Evening networking events can be less like an insurance function and more like a high school reunion, where there are more hugs per square foot than handshakes.

But before you get your undergarments in a bunch about whether or not regulators should be consorting with the same people they're meant to oversee, it's not like that.

For one, it's a very small industry, so it's hard not to become acquaintances--and most of the time, good friends--with everyone. Plus, in Towle's case, it's his job to be familiar with regulators from Vermont and other jurisdictions, with captive owners, and with captive managers and other vendors. "I work very hard to make sure I know all those people and know them well," he said.

Also, ultimately, everyone involved in the **Vermont captive** industry is aiming for the same goal: to make sure Vermont stays No. 1.

"It goes back to that, I do have a personal stake and a personal ownership in the success of the captive industry in Vermont, and it's something I share with everyone I work with," Towle said.

So is there anything his colleagues and peers in the **Vermont captive** industry might not know about Towle after working with him for nearly a dozen years?

"When I was younger, I really was a very shy person!" he claimed.