

## Perception drives more captives to form onshore

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More captives are forming 'onshore' in the US than in offshore locations like Bermuda and Cayman.

This is one of the findings coming out of Marsh's 2012 Captive Benchmarking Report, which found that from 1991 to 2000, 65 percent of the captives formed were domiciled in offshore locations including Bermuda, Cayman Islands, Guernsey, and Isle of Man, while 35 percent stayed onshore.

Over the last decade, 52 percent of the captives formed from 2001 to 2011 were established onshore, compared to 48 percent offshore.

"The movement to a more balanced overall split between onshore and offshore domiciles is due to many factors, including travel costs, changing insurance regulations, and potential savings on certain premium tax payments for captive placements," said Michael Cormier, CEO of Marsh Risk Solutions, which encompasses Marsh's Global Captive Solutions Practice.

Speaking to *The Royal Gazette* at the 48th annual RIMS conference, William Montanez, head of Bermuda Captive Owners Association (BCOA), who also has had a captive in Bermuda for 15 years, said that one of the attractions for public companies to choose the US is the negative 'tax haven' perception that continues to dog offshore domiciles.

"From a public corporation's perspective, they are very concerned about perception so if they say they have a captive in Caymans, Bermuda or an offshore jurisdiction, some folks are going to say is that a 'tax haven'? There's been a lot of bad press so it's much easier to say 'we're in Vermont'," Mr. Montanez explained.

For some companies, another attraction to the US is the ease of travelling although Mr. Montanez, who is located in Chicago, said it's cheaper to get to Bermuda than to get to a captive state like Vermont.

Vermont, the largest captive state in the US, currently has 590 active captives, with 41 forming in 2011 and ten forming in 2012. Hawaii, which also has a presence at RIMS, has a growing business of 172 active captives.

According to David Provost, the deputy commissioner of captive insurance in Vermont, the state is actively going after the captive industry.

“We’re not the first onshore domicile but we really pursued it and made a success out of it,” he said. “Because Vermont is a very small state with 600,000 people with a tourist-based economy, it meshed really well for us.”

Meanwhile, offshore jurisdictions like Bermuda and Cayman are still pushing for more business and consider themselves to be the leader in the market.

“Cayman, Bermuda and Vermont are the biggest so you’re going to see a rivalry between them but really we consider our competition to be Bermuda,” said Rob Leadbetter, vice-chairman of the Insurance Managers Association in Cayman and the vice-president of USA Risk Group.

Caymans currently have 728 active captives and Bermuda 862.

Mr. Leadbetter added that while new onshore domiciles may look sexy at the start, it’s the consistency of more established jurisdictions that will win out in the end.

“The newer ones make a big splash when they come out and promise wonderful things but two years later, they have no staff, no regulators and have fallen off the map again,” he said, citing Arizona’s demise as a captive centre as an example.

Mr. Provost agreed, saying that consistency is key.

“You can’t run hot and cold, it will kill you as a state or otherwise,” he said, adding that Colorado, one of the first states to set up captive laws and at one time one of the biggest domiciles, tried to resurrect its captive business in the ‘90s and failed.

He added that many companies opt for multiple captives, one onshore and one offshore, particularly those companies that have gone through a merger or acquisition.

“We have a lot of companies with one onshore and one offshore captive,” he said. “We just want to make sure we are the onshore winner.”

Mr. Provost added that he feels that Vermont has a “symbiotic” relationship with offshore locations, like Bermuda.

“There’s friendly competition, we work well with Bermuda and Cayman and we all have the same interests,” he said.