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# Vermont powers ahead

The US captive domicile giant continues to innovate and add new services, says Dan Towle.



For nearly 30 years, Vermont has been a global leader in captive insurance. To date, the Green Mountain State has licensed more than 840 captives (557 active), which makes it the US's largest domestic domicile and the third-largest captive jurisdiction in the world. Vermont has licensed captives for 44 of the Fortune 100 companies and for 21 of the 30 companies listed in the Dow Jones Industrial Average.

Vermont is a small and rural state. When many people think of Vermont, they recall skiing, scenes filled with covered bridges, maple syrup and beautiful autumn foliage. However, others think of captive insurance, recognising the often overlooked fact that Vermont is a global leader in the insurance industry.

The state has developed a perfect balance of firm but fair regulations, with experienced regulators, a Fortune 500 clientele, and a sophisticated infrastructure. It is this reputation that sets it apart from other domiciles. Even in the current economic climate, Vermont's qualities are easy to see. While other domiciles have downsized their captive staff to coincide with the downturn in the economy, Vermont has continued to invest more in this valuable industry. The captive insurance division is able to handle all inquiries, ongoing examinations and new formations. The department is prepared, has a veteran team in place, and consistently demonstrates why it has earned the reputation as the 'gold standard of captive domiciles'.

Vermont has one of the most stable regulatory environments in the world. Since 1981, only three individuals have led its captive insurance division. Currently, deputy commissioner David Provost, an industry veteran of 19 years, and Peter Raymond, director of captive insurance, with 20 years in the business, represent one of the most experienced and knowledgeable regulatory teams anywhere. Such experience is used to enable quick and efficient processing, along with providing knowledgeable advice on the initial formation and ongoing support

of captive programmes. Some 27 individuals make up the state's regulatory team, which can review and process new applications efficiently, typically in less than 30 days.

As captives mature, the department is able to offer support to help them evolve and grow. And as captives add new lines of business or make plan changes that require the approval of the department, the state is quick to work with captive managers and owners. Plan change can be critical to the success of an insurance programme. Vermont's process means that it usually occurs in a matter of days, and not weeks or months as in other jurisdictions. Also, the department can often accommodate more urgent time requirements, if needed.

Examinations are also done by Vermont examiners, not contractors. This helps keep the cost of examinations affordable and ensures that they are carried out quickly and competently.

Vermont's captive infrastructure is sophisticated and diverse, with 16 approved captive management firms. Options range from the largest insurance brokers in the world to smaller independent captive managers. The state also has a full complement of other service providers to help ensure that a comprehensive team can be put to work on any new or existing captive. There are knowledgeable investment professionals, bankers, actuaries, accountants and lawyers. All are ready to serve the needs of the industry. The captive insurance community includes some of the finest intellectual capital in the world.

The state's infrastructure is further complemented by the largest captive insurance trade association in the world, the Vermont Captive Insurance Association (VCIA). The VCIA provides constant support to the Vermont domicile and is an excellent partner to the state. The VCIA hosts one of the world's largest captive insurance conferences, held annually in August. Last year, 1,300 people attended the event. The conference has become a 'must attend' event and provides incredible

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education and networking opportunities. It also brings together the majority of leading stakeholders of the captive industry for knowledge-sharing of best practices.

Since the beginning, Vermont’s Governor and legislature have provided extraordinary support for the captive industry. Virtually every year, Vermont makes changes to and fine-tunes its insurance regulation. Vermont has the luxury of tripartisan support for the industry throughout the state government. This year is no exception. In a year when overall state tax revenues are down, Vermont is looking to provide a ‘tax holiday’ for new captives formed in 2009 and 2010. This ‘tax holiday’ will reduce the taxes paid by newly formed captives. Also, Vermont is looking to increase the funding available to regulate and promote the industry, and is seeking to make numerous small changes to keep it at the forefront of captive legislation. These proposals have been widely supported by both sides of the political aisle.

The Governor and legislature recognise the importance of the industry. This is shown in the resources allocated to the captive division and in the incredible support given by its government and elected officials. This industry has been in Vermont for nearly 30 years, and the state understands its importance and reacts accordingly. The Vermont domicile is in this for the long term and this shows in how proactively it supports the industry.

Captive insurance is a vital part of the Vermont economy. It creates more than 1,400 full-time and part-time jobs, and brings in direct tax revenue, which generates approximately two percent of the general fund budget. The industry may be relatively low key in the Green Mountain State, but it has put Vermont at the forefront of the insurance market. As Vermont is a small state, those 1,400-plus jobs are important. To put it into perspective, if those 1,400 jobs were at a single employer in Vermont, it would be a top 10 employer in terms of the number of

employees. The captive insurance industry’s importance to Vermont cannot be overstated.

Growth areas over the past few years have included hospital and physician groups forming captives for medical malpractice coverage. Nearly 100 physician and hospital groups, writing more than \$1.0 billion in premiums, are domiciled in Vermont. This line of business, which has been perceived as largely being located offshore, is finding its way onshore and to Vermont. Some of the nation’s largest hospitals have chosen Vermont as their domicile.

Vermont is also a leader in risk retention groups (RRG), with most of the largest RRGs in existence domiciled in the state. Vermont is a leading member of the National Association of Insurance Commissioners (NAIC), supporting RRGs at the national level. Vermont is actively involved in all of the NAIC’s working committees relating to captives. RRGs are in good hands when they are licensed in Vermont.

In addition, captive employee benefits also continue to be a strong area of interest, with most of the Department of Labor approved captives writing their premiums through a Vermont captive.

While Vermont is well known for its work in helping form large captives, it is also a growing force when it comes to captives formed to write \$5.0 million or less in annual premiums. Half of all of the state’s licensed captives fall into this category. Vermont has 150 captives that write \$1.0 million or less annually. This little known fact provides evidence that captives can be an excellent risk management tool for smaller companies, as well as larger organisations. While larger premium volume may create additional savings for some companies forming captives, smaller companies can still benefit in many of the same ways. It remains an excellent way to take control of your risk management programme.

Choosing a domicile is important to the long-term success of your insurance programme. There are many important factors in determining a good fit for your company. Some of these factors include: reputation of the domicile; speed of the process; ease of the transaction; the infrastructure; the experience and knowledge of the regulators; and the commitment of the domicile. Talk to experts, find out where others have chosen to form and talk to domicile regulators. Forming a captive is not a single transaction, it is a long-term commitment to taking better control of your risk management. Choosing an appropriate domicile is important to the overall success of your programme.

Vermont is extremely optimistic about 2009 and expects strong growth in the number of captives. The state is in an excellent position to flourish, even during these challenging economic times. The first quarter of 2009 is proving to be a positive start to the year, with interest high among potential captive owners.

Find out what 44 of the Fortune 100 companies have already discovered—that Vermont is the best place for their captive insurance programmes. Look around, conduct your due diligence, and we are sure that you will want to form your captive in Vermont. You will be joining some great company.

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