

Captive Audience Celebrates a Milestone

By Hilary Niles
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Eric Dethlefs of Cassatt Insurance Group accepted a framed letter and captive insurance license from Gov. Peter Shumlin on Thursday as Lucy Leriche (second from left) and Susan Donegan (far right) looked on. Photo by Hilary Niles/VTDigger.

Gov. Peter Shumlin marked a milestone Thursday in one of Vermont's unique financial industries: captive insurance. The state's 1,000th captive insurance company was announced in a Statehouse news conference, attended by state regulators, industry representatives and service providers.

Captive insurance is a mechanism that allows corporations to insure themselves against business risks. Rather than contracting with an outside company, the corporation forms a subsidiary company to provide its own business insurance.

Vermont is one of the world's captive insurance leaders, state officials say. The Vermont Captive Insurance Association website says the state holds the third-highest number of registered captive insurance companies in the world, and the second-most value of insured assets. Bermuda and the Cayman Islands rival Vermont as the captive industry's world leaders.

In recent years, about 30 states have also established captive insurance licenses.

"Other states have tried to copy Vermont on this one. They've tried to steal our thunder," Shumlin said.

He credited lawmakers of all political stripes for maintaining the state's captive insurance edge since the licensure became available in the 1980s, under Gov. Richard Snelling's administration.

"We've worked together in bipartisan fashion to keep Vermont the No. 1 captive of the 50 states," Shumlin said. "And we do that by listening to our captive insurance companies."

Shumlin said that through legislation and administrative rules governing the industry, Vermont continually adapts the licensure according to industry needs. This, in turn, allows captive insurance companies to stay nimble, said the event's guest of honor, Eric Dethlefs, president and CEO of Cassatt Insurance Group.

Cassatt is the state's 1,000th captive insurance company, which will now offer insurance to hospitals and health care centers. But he's long done business in Vermont, through another captive: Cassatt Risk Retention Group. The two are structured differently, but in a way that allows the members of each to work with one another, he said.

HOW CAPTIVE INSURANCE WORKS

In addition to single-owner captives, which exist solely to insure the risk of one company and its subsidiaries, several other types of licenses exist, including for groups of companies or industry associations. The parent or member companies do not have to be incorporated or directly employ people in Vermont in order to establish a captive insurance license in the state.

The boards of captive insurance companies, however, must hold at least one meeting per year in Vermont. And the captives must hire a local captive manager, according to Dan Towle, director of financial services within the Agency of Commerce and Community Development.

Those captive managers, plus the Vermont-based legal teams companies often hire to assist with operations, are the source of job creation lauded by Shumlin and other state officials.

“What this celebration represents is good, high-paying jobs in Vermont that are clean, green and extraordinarily important for Vermont’s economy,” Shumlin said at the news conference.

In addition to the travel and tourism dollars the annual meeting caveat brings to the state economy, and the professional services the captives contract for in Vermont, filing fees and taxes also drive the industry’s value.

Towle estimated that \$25 million per year is paid by companies through state taxes on their insurance premiums (about \$23 million) and fees for licensure and examinations (about \$2 million). Shumlin said those direct payments total about \$350 million since the program’s creation.

Susan Donegan, commissioner of the Department of Financial Regulation, which oversees the captive insurance regulatory office, said applicants for captive insurance licenses are closely scrutinized before gaining state approval. Her office turns down companies all the time for not meeting the state’s “good housekeeping seal of approval,” she said.

Because captive insurance companies put up their own capital to insure their own risks, they want to be sure they’re doing it right, said David Provost, deputy commissioner of captive insurance. Officials said that while Vermont’s regulatory framework is nimble, it’s not lax.

“It’s a complicated industry,” Dethlefs said. “That’s why I think regulation is good.”

INDUSTRY NEWS

As the industry celebrates the 1,000th captive insurance license, Burlington attorney William D. Riley, of Paul Frank + Collins, celebrates his new position as chair of the Vermont Captive Insurance Association. This year is the association’s 30th anniversary.

“It is a testament to the consistency, quality and responsiveness demonstrated by Vermont’s regulatory staff, government leaders and service providers since the captive insurance law was first enacted here in 1981,” Riley said in a news release. “The VCIA and its members are extremely proud of the role we have played in helping to build this highly successful industry in Vermont.”

He said that as the captive insurance industry gets more crowded with more states licensing captives, his goal is to help Vermont remain the “cream of the crop.”

“This means monitoring insurance, financial and tax legislation and generally keeping track of what other domiciles and the federal government are doing that impacts captives and their parent companies,” he said.

Towle pointed out that the captive insurance industry used to be the purview of Fortune 1000 companies. As licensing has expanded, more small- and mid-market companies have joined the field.