



● CAPTIVES

Meet the Flockers

Executives at three companies say the liberal regulatory laws are among the most important reasons for trekking to Vermont to set up a captive insurance operation.

BY THOMAS J. SLATTERY

Among the latest corporations to make the pilgrimage to the Green Mountain State are Liberty Mutual, the Collegiate Catalyst Fund and John Deere Co. It is companies like these who have made Vermont a favorite among financial services companies looking for a shelter to ease the burden of paying for benefits in an age of steeply rising premiums.

LIBERTY MUTUAL

Liberty set up a sponsored captive in Vermont in February. Nancy Glennon, managing director of captive services, says the company has been in Bermuda for a decade, where it manages various rent-a-captives, the equivalent of a sponsored captive in Vermont.

“We’ve had a business plan to come onshore with similar capabilities to cater to a different client base,” she says. “There are certain clients who would prefer to have their captive in an onshore domicile. Boards of directors sometimes have more of a comfort level with insurance onshore. They sometimes find it’s more tax effective and there may be better reinsurance offered through the Vermont market than through Bermuda.”

Somewhat uniquely, Liberty moved its existing rent-a-captive from Bermuda to Vermont. Why a rent-a-captive? “There’s been demand over the last couple of years in the middle commercial market for self-insurance vehicles,” Glennon

explains. “Setting up their own captive can be very expensive and time consuming, so [they] try out a captive structure and many of the conveniences that come with it [by] renting space, if you will, within a rent-a-captive.

Alison Calder, products director, Liberty Mutual Captive Services, distinguished this from a “pure” captive, with its much higher level of management commitment.

“By renting space in someone else’s captive, you can access some of the risk financing and flexibilities, yet not have that same level of management commitment or capital requirements,” she says. “So sometimes companies ... enter through a rent-a-captive, then after a few years form their own.”

Glennon says Liberty will continue to expand its captive management operation to other domiciles [South Carolina, for example] within the United States, as well as in the Cayman Islands, where it will provide accounting and consulting services.

“At this point in time, from a rent-a-captive standpoint, we only foresee using the captives we have now in Bermuda and Vermont. We may set up additional ones,” she says, “but as we develop new products and we enter into different lines of insurance, we find there are domiciles and structures and vendors within those domiciles that support those types of business and coverages and will be more of a niche market that we’ll start to enter into.”

Glennon and Calder point to the company’s success with multiple-owner captive accounts. “It takes a group of homogeneous companies, already affiliated in some way, and brings them together to share rent within a segregated account in a rent-a-captive facility,” Calder says. “There’s a finite number of participants in it. That’s a really nice opportunity that the companies within the multiple-owner captive accounts would not be able to do on their own.”

Adds Glennon: “We found that there had previously been displacement in group-type captives. Clients were not satisfied

with the arrangement. They sort of peeled themselves apart, these folks that understood each other and were in similar types of businesses and were looking for a vehicle to do a self-insurance, captive-type approach where they felt they had more control than in a larger group-type structure.”

In the larger settings, she says, they typically don't know the other members sharing risk with them. “So if there were certain members that were having bad loss experience or not committing or investing in the same type loss strategies, it could affect their programs.”

Glennon says Liberty Mutual's satisfaction level in Vermont is high. “The regulators and the vendors and the legal environment and everyone we work with have been extremely helpful. We went there with a very comprehensive business plan and, with their support, we got through the process rather quickly, more quickly than

most of us thought we could. The scrutiny was definitely there.”

JOHN DEERE CO.

The company, looking for financial alternatives to the regular insurance marketplace, came to Vermont in September 2004. “We were looking for increased flexibility in how we handled our risks,” says Mark Middleton, the manufacturer's risk manager. “The insurance marketplace today doesn't provide the alternatives it used to for various types of coverage. Secondly, many of those alternatives come with high prices and pared-back coverage.”

A captive, he says, gives his company some possibilities to alleviate that situation. “What we wanted was to give ourselves some alternatives which would allow us to deal with, to handle and manage risk, differently than we have been doing the last few years,” he says. “Most corporations have seen insurance premiums go up quite a

bit. We decided it was time to give ourselves some flexibility and alternatives in the commercial insurance marketplace.”

The first thing Deere put into the captive was its extended warranty program on its manufactured products. But the company has further plans for its captive as well, things like reinsurance for its primary automobile, general liability and workers' comp.

“Employee benefits, of course, is one that has recently been made available to us because of the recent Department of Labor rulings,” says Middleton. “And professional liability for our managed health care operation is another expensive and limited coverage—limited insofar as there aren't so many [insurers] out there writing it. We're also considering transit coverage.”

Why did Deere look in Vermont? “Vermont has

ONE-HALF HORIZONTAL (7" X 4-7/8")

demonstrated its commitment to captive insurance companies,” he says. “It’s also been aggressive in recruiting captives. The government has assembled a knowledgeable and supportive team of experts with whom to work. And, finally, the infrastructure of business services there has developed to support captives.”

“[Other domiciles] have entered the market lately,” he says, “but Vermont has the jump on them.”

Middleton says the company jumped into the captives marketplace now because commercial carriers were raising prices and the state’s regulations were favorable.

“The hard market and high premiums convinced us that we needed to develop alternatives to the commercial insurance market,” he says. “The recently adopted position of the Department of Labor which allows a parent’s employee benefits to be insured by a captive under certain conditions was another motivating

factor. And then it also seems to us that there’s been increased clarity over the past several years by the IRS regarding captives and the tax deductibility of premiums paid to them by the parent.”

COLLEGIATE CATALYST FUND

Another group that has recently entered the Vermont captive insurance market is the Collegiate Catalyst Fund. It began operating there in July.

The fund is a 35-year-old educational consortium of five colleges: Amherst College, the University of Massachusetts, Smith College, Mount Holyoke College and Hampshire College. In the past, they have shared administration and risk management services.

The fund had been self-insuring on an “ad hoc” basis and wanted to expand coverage, says Beth Carmichael, risk manager for Catalyst Fund. It decided that the captive route was the most efficient.

Vermont, she says, was the most attractive choice, because of its proximity to her home base in South Hadley, Mass., and because it was so liberal, compared with other domiciles, in its regulatory conditions.

The Catalyst Fund had been in the process of framing a limited liability corporation, with an eye to tax advantages, when it decided to go back to a captive structure. She looked at Bermuda and others, and newer (too new) domiciles in the United States, but eventually settled on Vermont. Carmichael says Vermont is a “quiet, fair and responsible high-quality environment” interested “in keeping us happy.”

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