



● INSURANCE

# Should I Stay, And Should I Grow?

**Two companies from opposite ends of the country began their hunt for a magic potion to help slow premium increases. In one instance, a corporate giant decides to expand its captive experiment. In another, management decides to retrench.**

**BY THOMAS J. SLATTERY**

They hail from different ends of the continent and they differ significantly in the nature and scope of their businesses, but some years ago their paths crossed in Vermont. Years later, for similar reasons, they're still there.

Giant Alcoa, the Pennsylvania metals behemoth, and Elixir Industries, the considerably smaller California manufacturer of components for recreational

vehicles and manufactured housing, found themselves somewhat strange bedfellows in the very early stages of the captive insurance industry there, and still do.

Elixir's was the second captive licensed in Vermont, Alcoa's was the eighth.

John Wilson has been with Alcoa since 1980, and with its captive company, Three Rivers, since 1991.

"To start from the beginning," says Wilson, "Alcoa had captives in Bermuda starting in the '70s. We were involved in third-party business from the very beginning. Around '83, a tax reform act in the Reagan administration eliminated the advantages of being offshore, at least for us, so we began looking for an onshore domicile."

Because Alcoa has a lot of

## A Mountain of Green

The number of captive insurance companies licensed to operate in the Green Mountain state has increased every year.

Year	Number Issued	Total Number	\$ Gross Premium Written
1981	1	1	84,540
1982	3	4	4.01 M
1983	10	14	29.17 M
1984	9	23	43.60M
1985	10	33	111.57M
1986	36	69	258.61M
1987	51	120	439.06M
1988	33	153	643.15M
1989	21	174	818.33M
1990	35	209	1.33B
1991	25	234	1.63B
1992	23	257	1.82B
1993	22	279	1.83B
1994	32	311	2.38B
1995	17	328	3.01B
1996	30	358	2.88B
1997	27	385	3.21B
1998	40	425	3.55B
1999	35	460	4.23B
2000	29	489	4.60B
2001	38	527	5.15B
2002	70	597	7.24B
2003	77	674	9.39B
2004	43	717	>10.00B

Source: Vermont Dept. of Economic Development

operations in Tennessee, they thought they'd locate there and they were far along in the process when Vermont unveiled its captive law.

"They did a very smart thing," he says. "They took the Bermuda law, crossed out Bermuda, and wrote in Vermont. It was very friendly to all the captives that were moving from Bermuda to Vermont. They were familiar with the Bermuda law and here was one that was just like it."

In particular, he recalls, the Vermont law was liberal in the area of investments. "And so at the last minute we switched," he says. "We decided to move to Vermont."

Roger Phelps was named general manager of Three Rivers, which became the eighth captive in Vermont. "Roger moved up here in 1983 and we started doing business at that time," he says. "We moved people up there starting in 1983, unlike a lot of captives who hire managers to

take care of all their affairs."

In the late '80s, Alcoa moved its holding companies from Delaware to Vermont as well. "We decided we'd consolidate the captive insurance company operation and Alcoa's holding company operation," he recalls. At first, the thought was to move the captive to Delaware, but Delaware didn't have a captive insurance law. "Might be easier to move the holding companies to Vermont," they figured, and that's what happened.

Phelps worked with the legislature and got a holding company law passed in Vermont. With the consolidation in Burlington, extra help was needed and so Wilson moved there, among others.

### FAVORABLE LAWS

Wilson says the decision was made to domicile the captive in Vermont "because the law was so much more favorable to us." What was particularly attractive was that there were fewer restrictions on where you could invest your captive's money. "We liked that, and we liked the fact that it was Bermuda law. We were very comfortable living under the Bermuda law. There was very little risk in Vermont because it was law you were very familiar with."

Today, Alcoa is growing its captive business, having added another, the St. George Insurance Company, with its acquisition of the Reynolds Metals Company. "At first we were going to consolidate the two, but then decided we liked having both captives at least for now," he says.

"We've been expanding the role of our captives through the hard market. We've been taking higher and higher retentions. We like taking our own risks. And now Alcoa has applied for and has received permission to use its captive for insuring domestic employee benefits."

Going forward, says Wilson, there are several projects, like international employee benefits,

insuring employee homes and autos, and a credit insurance program. "We've still got things on the plate," he says.

Elixir Industries found a home in Vermont in 1982, even before Alcoa. Lea Gerber, director of risk management and employee benefits there since 1985, recalls how Elixir made its way to the Green Mountain State.

The reason Elixir formed a captive, Garden Insurance Co., she explains, is because in the late '70s the insurance market constricted and premiums rose, most especially for product liability placements, but also for general liability, workers' comp and auto.

"It was the second captive in the state and is actually the longest operating because the No. 1 captive stopped using the Vermont facility, though I understand they've since picked it up again."

Elixir was familiar with captives before setting up shop in Vermont. "We started our first captive in Colorado in the late '70s," says Gerber. "As we moved into the '80s, a management decision was made to start a second captive in Vermont, because they allowed you to place outside business, whereas Colorado did not."

The favorable regulatory environment eventually led the company to transfer its entire captive operation to Vermont. Capitalizing on Vermont's liberal laws with regard to outside business, the company set up an insurance agency in California for that purpose.

Agents in California placed coverage through Garden Insurance Co., the Vermont captive, for companies not related to Elixir.

The agents, she says, focused on manufacturing companies similar to Elixir, which makes components for recreational vehicles and manufactured housing.

"So we really expanded our captive, to do outside business, but in industries that were

similar to ours," she says. "In Colorado you could only use your captive to place the parent's business."

Since '93, though, the Elixir captive stopped writing outside business, but it continues to operate for its own business.

"We came to a crossroads," says Gerber. "We had to decide: Were we going to significantly invest in our captive? Hire more agents? Bring in more outside business?"

### **TAKING SIDES**

The central question for management was whether to remain true to the core manufacturing business of Elixir, or whether to venture into the insurance business to an even greater degree?

Management eventually decided to stay true to its origins. "We just wanted to be in the business we've been in for over 50 years," she says. But management at Elixir is grateful for the service that Garden Insurance has provided the parent company, particularly in the hard market.

"Several years ago, when the property market became very, very difficult we were potentially

**"In Colorado you could only use your captive to place the parent's business."**

—Lea Gerber

facing a 200 percent to 300 percent increase in premium," says Gerber. "We talked to the [Vermont] Department of Insurance and they allowed us to place the first \$1 million of our property coverage in our captive."

The net result was that Elixir was able to absorb the increases, without any increase in premium.

"This is where the captive comes in as a really significant tool in allowing you to evaluate your financial situation and how you want to layer your program," he says.

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