The

Risk Retention

Reporter

Change Brings Challenges, Interest To Captive Regulator's Job

An interview with David Provost, Vermont Deputy Commissioner, Captive Insurance Division

Curiosity, a constant search for something new, and great respect and admiration for the captive insurance industry are traits that David Provost brings to the job of chief captive regulator for the state of Vermont, the leading jurisdiction for risk retention groups. As head of the division that regulates 87 RRGs (among nearly 600 captives domiciled in the state), Provost believes constant communication between regulator and licensee is key to his department's success in attracting and shepherding companies under its jurisdiction.

RRR: You spent about 12 years in the insurance industry before you went to work for the state. What made you decide to go into government work?

Having worked in various capacities with several captive management firms, I was ready to try something different. But I didn't want to start over from scratch, in a new industry. The examiner job came up, and I thought that would be an interesting change. I like change. It's hard for me to sit in one place for too long, literally and figuratively.

RRR: Although Vermont has the most licensed and active RRGs of any U.S. jurisdiction, you now have a lot of competition. What's behind that movement?

We do have a smaller share of a much bigger market than there used to be, but we're still growing at the same sort of pace that we have for many years, a pace that we can manage. As always, we're open to quality programs, and I've said it before: I don't really care if I license six or 60 captives in a year—we're seeking quality. I have no intention of relaxing our standards in the interest of adding to our tally.

As far as the other states go, I think they are looking at our success and trying to emulate that. In some cases they are competitive in the market—they are in the captive insurance business to try to generate industry for their state, and that works well in some of the smaller states with smaller economies. I think all the other states that have captive laws now will attract some captives, especially some home-based captives that want to stay at home and don't want to have to go to Vermont or Hawaii or South Carolina to take care of business.

Although there are many similarities among domiciles, on- or offshore, there are differences, albeit sometimes subtle, and there is likely to be a domicile just right for you, so why not go there? We (Vermont) can't be all things to all captives, though we try to make sure we're at the top of anyone's list.

RRR: With 87 RRGs, Vermont has the most experience. How does that come into play?

I think RRGs like to come here because we are perceived as the leader in the business. We have our own staff of examiners, and ... we can control the cost of the exam because we do it ourselves instead of contracting it out. I think some other states are going to be employing their own examiners as well—I think Utah already has. And that can make a big difference.

That, and ... you know, business begets businesses. For instance, 47 of our RRGs are healthcare-related. It's nice to have a group to talk with, compare notes, and network with.

The Vermont Captive Insurance Association is a very big part of the success in Vermont. We go out on "road shows" with them several times a year explaining what captives are, why Vermont is a great place to do business, and providing case studies of successful captives. ... It's a great way for us to promote captives and to educate people about the benefits of establishing a captive for their risk management needs.

RRR: How does Vermont work with its RRGs to ensure a healthy relationship and healthy businesses?

The key is communication—and that goes for both RRGs and other captives. We have a steady communication with the company, from the time they visit us to talk about filing an application, through the application and approval process, to their first organizational exam, and continuing through the surveillance process once they are up and running. We review each RRG on a quarterly basis and perform a full-scope exam every three to five years.

Vermont RRG Regulator
Dave Provost

Title: Deputy Commissioner of the Captive Insurance Div.

Agency: Vermont Department of Banking, Insurance, Securities and Health Care Administration

RRGs under supervision: 87 in July 2011

Education: Bachelor of Arts, University of Vermont, 1978; Associate in Science in Accounting, Champlain College, 1985; Certified Financial Examiner, 2007

Experience: Captive regulator, 10 years; 12 years of industry experience with AIG Insurance Management Services, Sedgwick Management Services Ltd., and Johnson and Higgins Services, Inc. (since merged with Marsh Management Services)

Biggest Success: Working through the recession with all of our companies. We don't have any failures that you could tie to the recession, in fact our RRG surplus continued to grow throughout the period.

During the exam, we are actually in the company offices talking with them, understanding their controls and processes, and getting to know the people involved. We talk with them when they're up here for their annual meeting, or if they come up for the VCIA meeting, or if we're on the road we'll stop and visit them as well. It really is just that—constant communication with the companies.

There are some companies that we don't hear from that much, or that we don't have to talk to that much, either because they have a simple program or are over-capitalized (it's nice to have too much money)—but it's great to hear from them anyhow, even if just to hear that they're still doing well. Obviously if they are not doing that well, then the communication is a little more frequent and a little more urgent. But it happens whether the company is a billion dollar company or a million dollar company.

RRR: Do you see any particular challenges for RRGs domiciled in Vermont in the next year or two?

There are a lot of challenges coming up, but I don't think they are unique to Vermont. We're still in a soft market. Some RRGs are affected by the soft market in their retention of their members. However, for many RRG members, price is not a primary driver in their decision to remain with the RRG. The members are sticking with them through thick or thin because they've been burned before, and because they realize there are many more benefits to being involved in an RRG. But there are other members that don't remember the hard market and what can happen, and they might be more likely to leave the RRG.

The changes with the regulations, and the changes with interstate regulation of RRGs, will affect all RRGs, not just those in Vermont.

There are changes coming as a result of the Affordable Care Act. A lot of folks think that implementation of the Act's provisions will result in a lot more captive and RRG formations for healthcare companies writing professional liability. The end result is expected that more and more physicians are going to become employed with hospitals rather than be self-employed, and they will fall into the hospital's RRG.

RRR: What's your biggest success—or what are you proudest of?

Two things: first the great people in this department. We have 28 people with tremendously varied backgrounds, but all working hard at keeping up our part of the industry's three-legged stool of captive owners, service providers, and regulators.

And second: working through the recession with all of our companies. We don't have any failures that you could tie to the recession, in fact our RRG surplus continued to grow throughout the period. We worked with all the companies—both the single captives and the groups—to address issues that came around because of the credit crunch, and the investment valuation issues that arose during the recession.

We had constant communications with the companies and said, 'How can we work through this?' We didn't force things down their throat—we didn't make companies change if the path they were on looked reasonable. If they were in trouble, we said, 'How are you going to get yourself out? Come up with some ideas, and if it's sensible we're going to approve it. We're going to let you do things that make sense.' There was a lot of that with some of our companies during the last couple of years, and now we're pretty much out of that deep hole and on something new. I don't know what's coming next.

RRR: What have been your biggest personal challenges in this job?

I really have to work to manage my time. I have to schedule things out, and I struggle to keep on schedule.

And ... keeping up with everything that's going on around here—at the National Association of Insurance Commissioners, changes in the financial world ... The insurance business is changing so fast, and so are the parent companies of our captives. Not just risk retention groups writing malpractice—we have almost 600 captive insurance companies writing everything imaginable and many things I never imagined. It's a challenge just to keep up. But it's a blast—I can't imagine doing anything else.

RRR: How do you keep up with it all?

I can't add more hours to the day, so the next best thing is to have a great staff—there are 27 other fantastic people here who do a great job. And the captive managers really help out a lot, too. Everybody in this industry is in it not just for themselves, but for the industry to succeed.

RRR: Do you ever get weighted down with the responsibility of it?

No! I knew going in—it's a 24-7 kind of job. I'm going to eat, sleep, and drink captives for the foreseeable future. If I'm still having fun, and if nobody's knocking on the door saying, 'Hey, it's my turn,' then I'll be here until I'm just too tired to do it anymore. Don't get me wrong, I love my weekends, but I still look forward to Monday.

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