

Spotlight on Vermont's Department of Financial Regulation

VCIA recently caught up with Sandy Bigglestone who filled us in on Vermont's captive strengths and recent positive developments.

Why was 2016 such a good year for Vermont?

In 2016 Vermont hit a stride for many reasons. The Vermont Department of Financial Regulation (DFR) licensed 26 new captives in a prolonged soft insurance market, which is a testament to the continuing interest in Vermont as a captive domicile. Vermont also received high accolades in the form of industry awards: the #1 U.S. Domicile for the fourth year in a row, and #1 non-European Domicile by Captive Review Magazine. Deputy Commissioner David Provost was inducted into Captive Review Magazine's international "Hall of Fame", as were two of his predecessors. The Captive Review Power 50 named several folks who work in and promote the captive insurance industry in Vermont. Vermont's dedication to high standards has helped secure its place as the country's leading domicile of captive insurance companies, a leader in the world in terms of premium volume and assets under management.

What features or highlights make Vermont's captive industry special?

Vermont has had a 35-year history in captive insurance success. The Vermont Agency of Commerce and Community Development has done a great job promoting Vermont as a captive domicile, while leaving the licensing and regulation of captive insurance companies to the Vermont DFR. There is a strong sense of community within the captive insurance environment in Vermont, made up of the world's leading captive management professionals, attorneys, bankers, accountants, actuaries and investment advisors. The creation of community is in part due to the work of the Vermont Captive

Insurance Association (VCIA), which brings people together from all corners of the captive industry. The VCIA is the largest captive industry association in the world, with legislative representation at the state and federal levels.

The Vermont industry attracts business that wants to be regulated because it protects the owner and business partners' interests. Vermont's regulatory regime is vested in being experts in their field, working at the speed of business, and protecting the reputation of its family of captives by upholding the "gold standard" of regulation. Vermont's regulators take a measured approach to its regulatory discipline that has been described as firm, but flexible and fair.



Sandy Bigglestone
Director of Captive Insurance, Vermont Department of Financial Regulation

The Vermont DFR enjoys having the largest governmental staff of captive insurance professionals in the world. Its experienced team provides the resources necessary to deliver an efficient and effective application process, prompt response time to business plan change requests, accessibility to inquiries, and the delivery of effective, efficient examinations that minimize time and expense. Vermont takes pride in the support of the captive insurance industry from governors and state law makers, who are educated, aware and engaged. Vermont's laws and regulations are continually modified to be up-to-date and innovative. Vermont is focused on continuity and leveraging the experience to build on its success.

Why are captives coming to Vermont from other jurisdictions?

Vermont has a reputation in the industry for its experience and specialized knowledge regulating captive insurance programs. Many captive owners enjoy the benefits that Vermont's infrastructure offers, with a host of qualified managers, attorneys, actuaries, auditors, banks and investments experts. Vermont directly employs its examination and analysis staff, so its operating model allows for greater efficiency and control over cost while meeting the very highest standards.

When captive owners compare the total cost of operating over a five-year period, Vermont typically stands out as a winner. When companies have had the opportunity to meet the Vermont regulators, they recognize a certain chemistry exists and they are impressed at how accessible the regulators are, including the time it takes to discuss and approve changes in a captive's

plan of operation. Companies quickly realize they made the right choice when the Vermont regulators demonstrate attention to detail and a keen understanding of the business at hand.

Why are some captive programs denied by Vermont and what should companies be aware of to be accepted?

Vermont has a process for vetting a captive program before an application is filed. Both the regulators and the company appreciate the opportunity to discuss the feasibility of a captive's business plan and determine if the program is a good fit for Vermont's standard. Vermont's standard is a combination of applicable laws and regulations and philosophical ideals. If the captive's risks and premiums don't stand up to scrutiny, the captive won't receive a license in Vermont. Vermont struggles with programs that are based on aggressive tax strategies with no apparent insurance purpose. An insurance company assumes the risk of loss, so it's difficult to understand an insurance program that doesn't anticipate losses. For those reasons, Vermont discourages the use of captives as tax and estate planning vehicles, and primarily focuses on insurance purpose regardless of premium volume. Tax considerations can be crucial in the determination of the financial feasibility of the captive, but

they should always remain secondary to the insurance and risk management needs of the parent organization.

The typical acceptance for captive exploration in Vermont stems from an organization that perceives that the commercial insurance market is not serving its needs. Such a situation may arise when a company determines that market premiums are not justified by loss experience; when it's not getting adequate consideration or credit for risk management initiatives; and when insurance is unavailable at any cost. We recommend, whenever possible, that an organization consult with an actuary or other qualified consultant to help determine whether the captive program is appropriate for the business of insurance.

What questions are the Vermont DFR fielding on a regular basis?

Aside from questions specific to individual captives, general questions fielded by DFR regulators relate to new business (capital needs, lines of business, types of captives, application process and requirements, re-domestication process), interpretation of laws and regulations, and filing and other requirements. We often get inquiries about Vermont statistics, such as how many captives write specific lines of coverage. Often, statistical questions of this nature come from organizations considering

a captive program, who are trying to assess Vermont's experience with certain lines of coverage in a business plan.

What are the top five lines of coverage written in a Vermont captive and what other coverages are popular or emerging?

The top five lines of coverage in Vermont captives are general liability, workers' compensation and employers' liability, property, professional liability and auto liability. Other prominent lines of business in Vermont captives include, but are not limited to: medical malpractice liability for doctors, hospitals and other healthcare providers and organizations, product liability, pollution liability, environmental, business interruption, warranty, marine, directors and officers, errors and omissions, construction, surety, flood, earthquake and terrorism. Medical stop loss coverage continues to draw a significant amount of business, as does employee benefits. In addition, companies are assessing the need to address cyber risks. Currently, there are approximately 20 captives writing stand-alone cyber liability and many others have written cyber into their general liability or umbrella liability policies.