

Highlights From

# Behind the Numbers



## Vermont Captive Insurance Aggregate Financial Data



# Highlights From **Behind the Numbers**

## **Introduction:**

Benchmarking, and more precisely the need for relevant, captive-specific financial, operational and governance data to benchmark against, continues to be a frequent request from Vermont captive owners as a result of ever increasing corporate governance requirements and the ongoing quest for best practices.

In response, VCIA and the Vermont Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) have researched how they might fill this data void. The result of this collaborative effort is a workbook entitled *Behind the Numbers: Vermont Captive Insurance Aggregate Financial Data*.

We are pleased to present these highlights of *Behind the Numbers* to give you an introduction to how beneficial this tool might be to your business. **The full workbook will be available to all VCIA Members starting mid-December, 2011 upon request.**

## **With Thanks:**

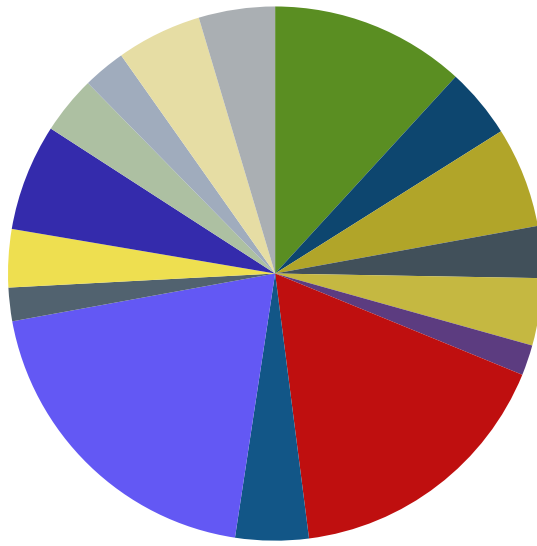
**This report would not have been possible without:**

- **A.M. Best**  
**(for use of their US PC, Commercial Lines and Medical Professional Liability Industries data)**
- **Vermont Department of Banking, Insurance, Securities and Health Care Administration (BISHCA)**  
**with special thanks to Deputy Commissioner David Provost**
- **VCIA's Strategic Planning Committee,**  
**with special thanks to content advisor Carol M. Pierce**

## **Disclaimer:**

This publication is intended for informational use only. The data and information included in this publication is general in nature and is not intended to address any particular individual or organization. No individual or organization should act on the data and information provided in this publication without appropriate consultation or examination. While we believe the data collected is reliable, the Vermont Captive Insurance Association has not performed an audit of the information gathered and does not express an opinion or any form of assurance on the accuracy of such information.

## VT Captives By Industry



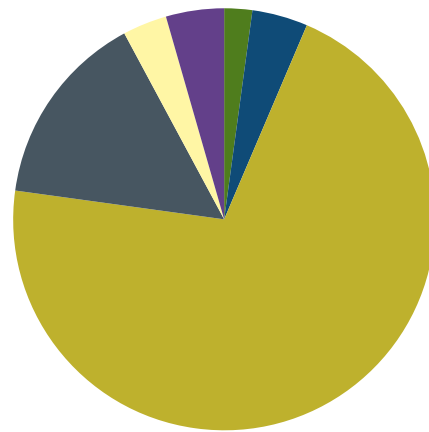
- Banking & Finance
- Communications & Technology
- Construction
- Education
- Energy
- Entertainment
- Healthcare
- Insurance
- Manufacturing
- Non Profits & Municipalities
- Other
- Professional Services
- Real Estate
- Religious Institutions
- Retail
- Transportation

### Demographics

Vermont captive insurance companies serve the needs of many diverse industries. The largest industry sector served (manufacturing) represents 19.7% of all Vermont captive insurance companies, followed by healthcare at 16.8% and banking & finance at 11.8%. Regarding type, pure captives represent the majority of Vermont captives at 70.8%. Association, industrial insured and risk retention groups account for 21.4%, with sponsored and special purpose financial captives rounding out the remaining types of captives in Vermont.

## VT Captives By Type

- Association
- Industrial Insured
- Pure
- RRGs
- Sponsored
- SPFCs



## BENCHMARKING

The term **benchmarking** was first used by cobblers to measure people's feet for shoes. They would place someone's foot on a "bench" and mark it to make the pattern for the shoes. Today the term is used to measure corporate performance.

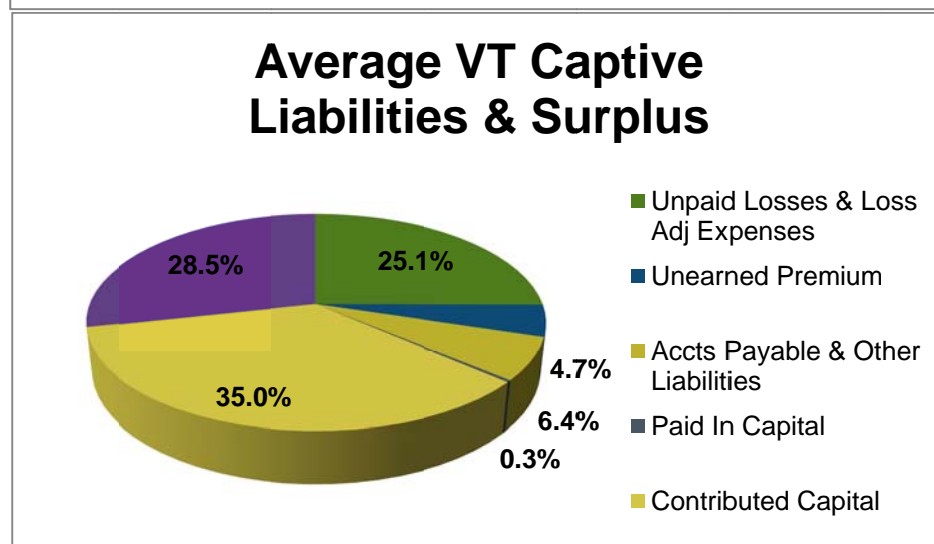
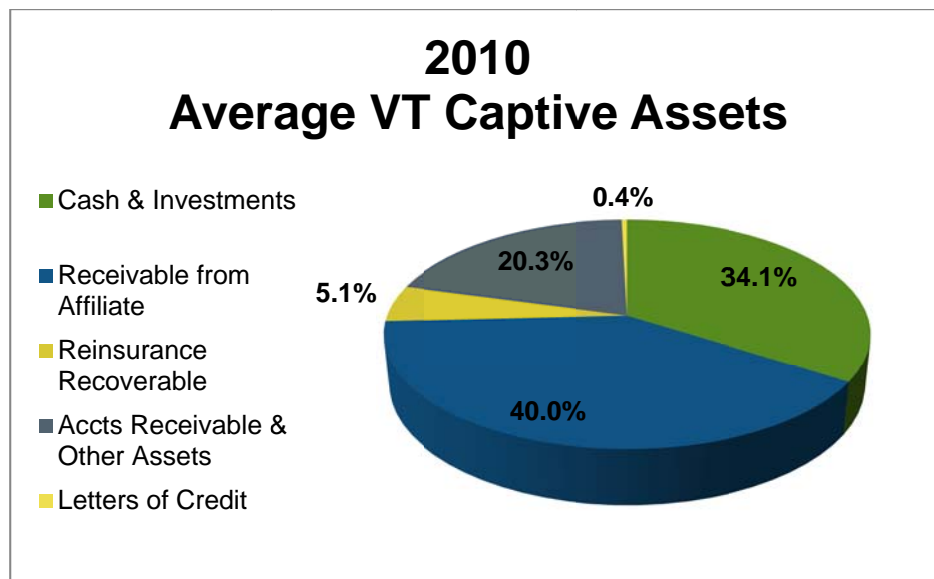
**Benchmarking** is defined as the process of comparing one's operational practices and performance metrics to industry bests and/or best practices from another similar industry. Benchmarks typically measured include quality, time, cost and financial results. By comparing one's organization to industry bests, one can improve both efficiency and effectiveness. The result – a better functioning organization.

Traditional benchmarking involves company management identifying *specific* firms in their industry (or any other similar industry) and comparing the processes and financial results of these companies to one's own. For captive insurance companies, this presents a unique challenge as most information needed for a benchmarking analysis is not publicly available per captive statutes. Therefore, as a proxy, an industry composite is the next best thing for gauging how one is doing compared to one's peers. BISHCA and A.M. Best have graciously provided their aggregate 2010 financial data to VCIA so that we could create such composites as a starting point for your own benchmarking analysis.

## FINANCIAL STATEMENTS

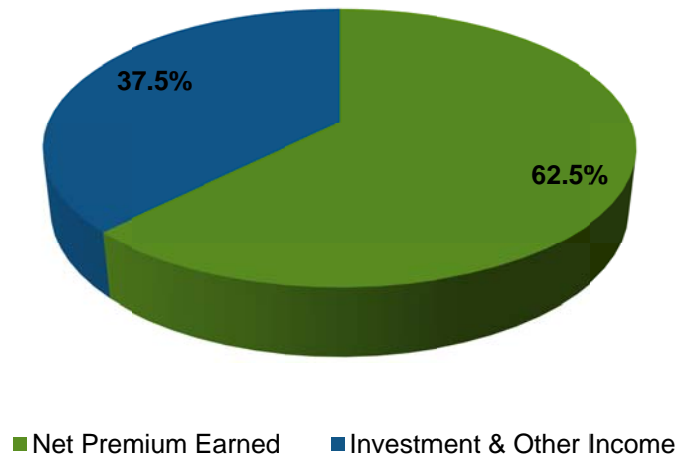
The Average Assets, Average Liabilities & Surplus and Average Sources of Revenue charts for all industries that utilize pure, association, industrial insured and risk retention group captives permit any company to compare its captive's balance sheet and income statement against the Vermont averages. Allocations for particular industries may deviate significantly from this overall average due to the inherent nature of the risks assumed in these captives. **In December 2011, a full workbook will be available to VCIA members which provides full details for the major industries that have Vermont captive insurance companies.**

### BALANCE SHEET



## INCOME STATEMENT

### 2010 Average VT Captive Sources of Revenue



## PERFORMANCE METRICS

Four important performance metrics for insurance companies are net leverage, net reserves to policyholders surplus, return on invested assets and combined ratio. (Note: the full workbook contains details on these and many other metrics by both industry of parent/sponsor and type of captive. Corresponding metrics for the U.S. property-casualty industry, commercial lines composite and medical professional liability sector are also included in the full workbook.)

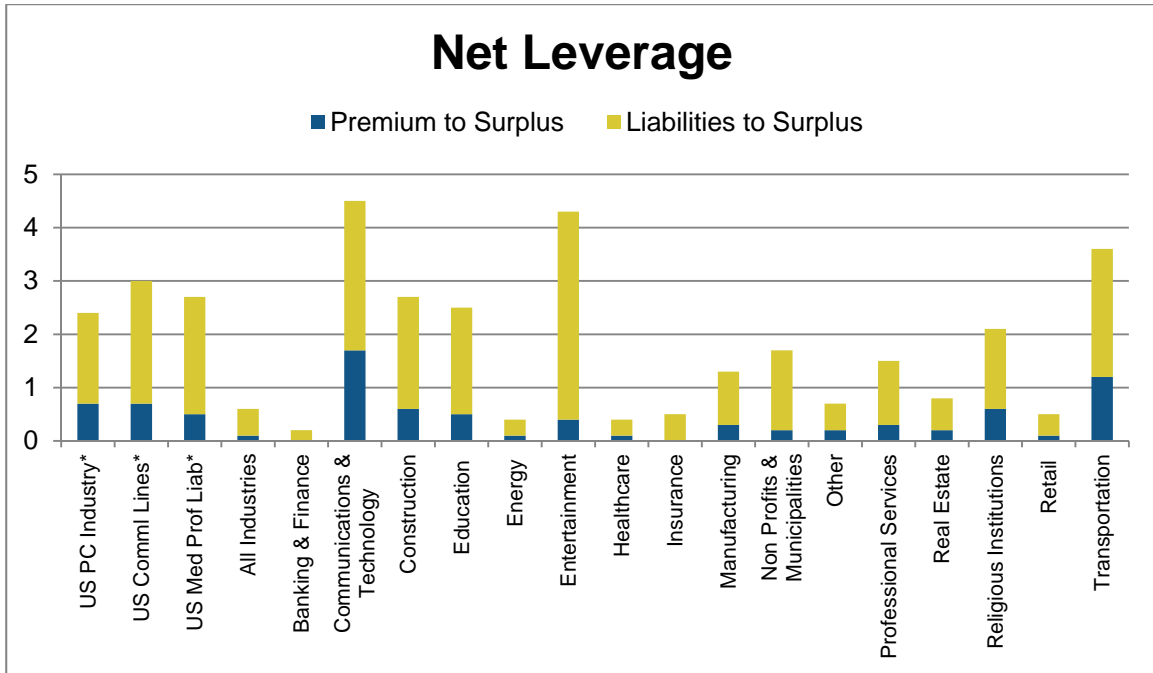
**Net leverage** reflects an insurer's combined exposure to pricing and loss reserve errors, while **net reserves to policyholders surplus** provides more granular detail on an insurance company's exposure to underestimation of loss reserves.

The measure used to determine overall underwriting profitability is the **combined ratio**. It does not consider investment income nor income taxes. Ratios under 100% indicate that the company's underwriting activities are profitable. Ratios over 100% mean that the company must supplement its underwriting activities with investment income in order to make a profit.

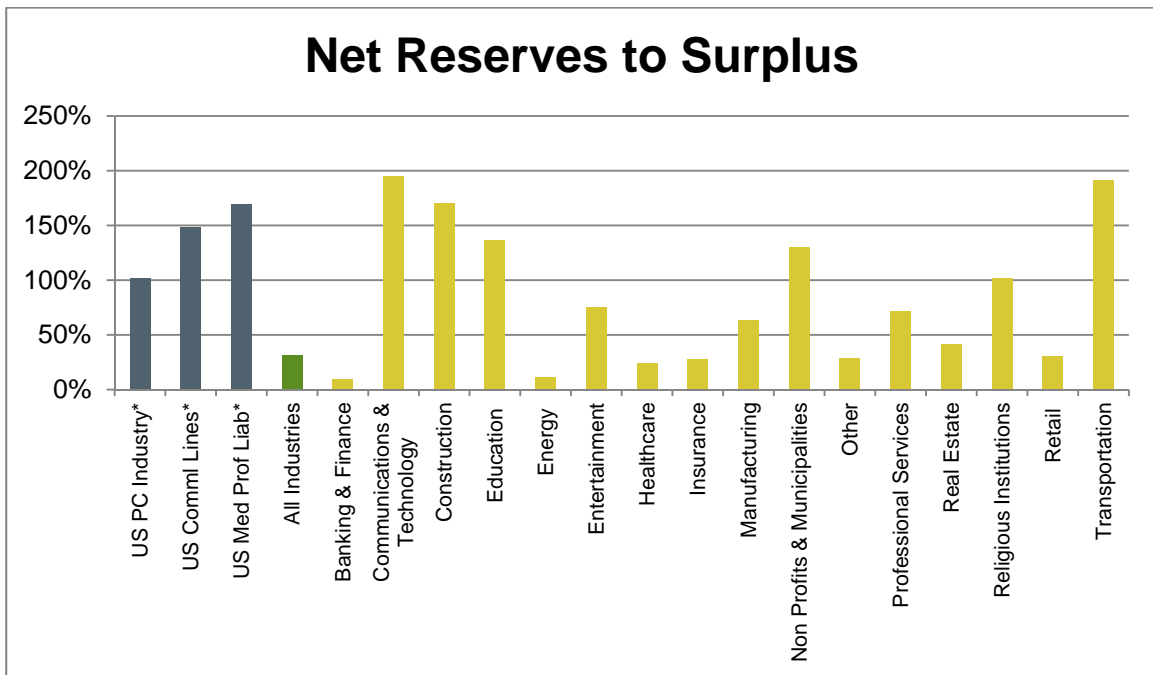
**Return on invested assets** is an overall metric that shows just how much revenue is generated from investment activities in any given year. To fully understand the metric it needs to be viewed against published indices for the various types of investments carried.

**The following two pages display the actual 2010 results by industry of the parent/sponsor for the four performance metrics described above.**

## UNDERWRITING LEVERAGE

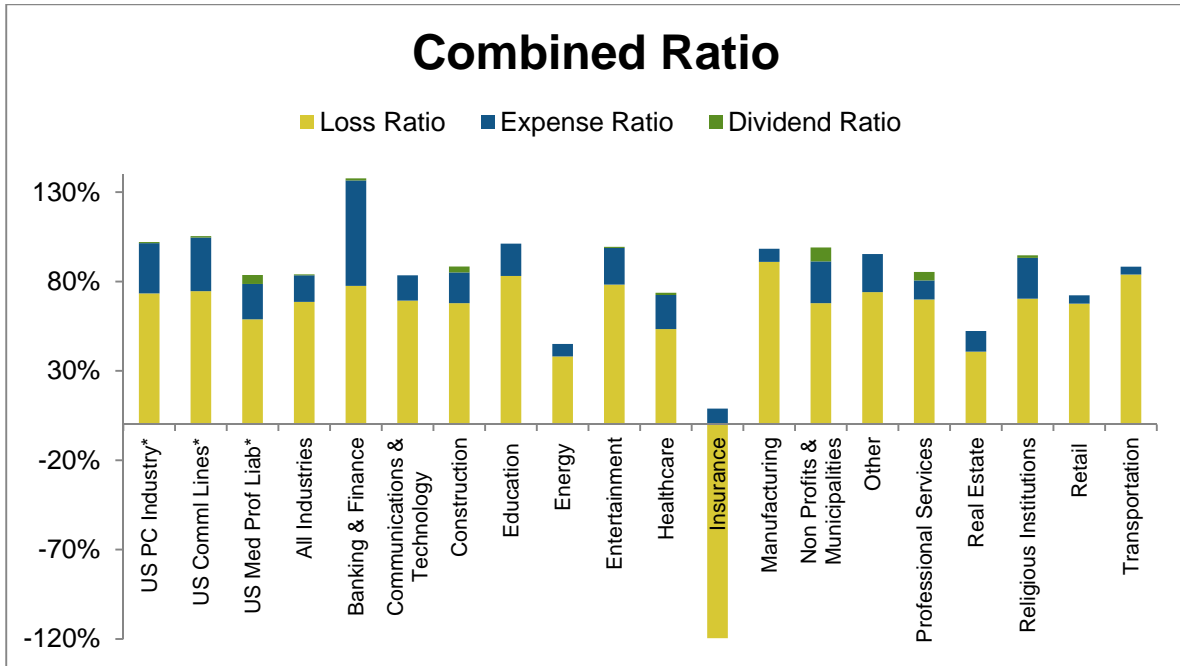


## LOSS RESERVE RATIO

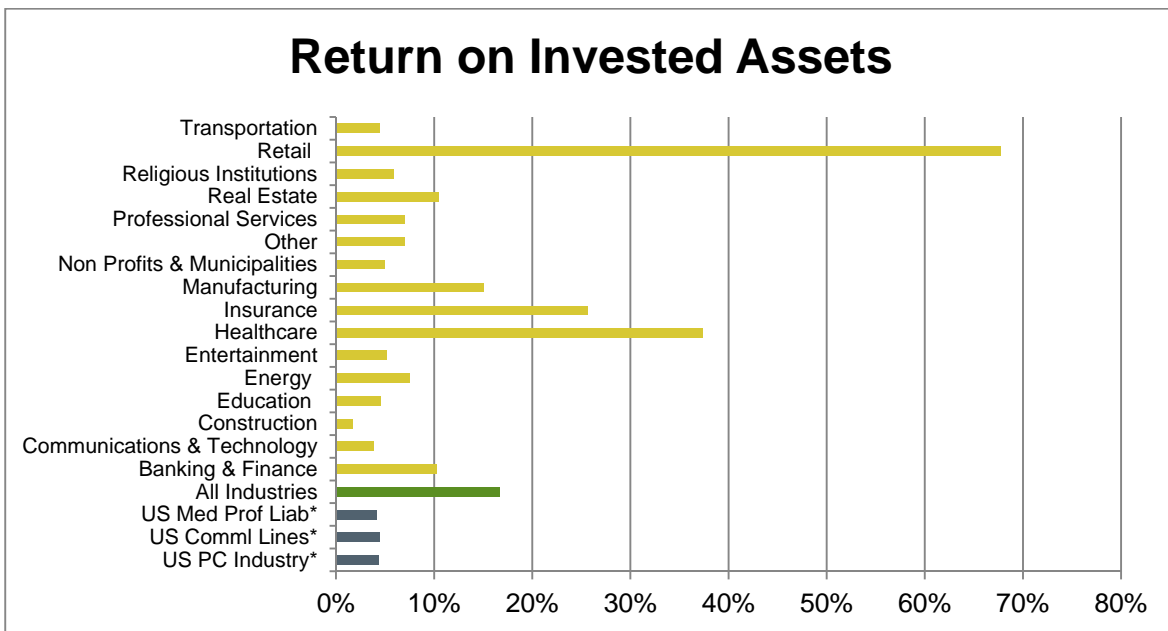


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## UNDERWRITING RATIOS



## RETURN ANALYSIS



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**Interested in learning more?** This booklet is a small preview of what is available in the full workbook. The full workbook is interactive and enables the user to input data from their own captive to see how it compares to other Vermont captives. The full workbook is available to VCIA Members free of charge, upon request. Not a VCIA Member? Join today to gain access to this valuable document along with many other member benefits including captive education, legislative advocacy and networking. Simply email VCIA at [info@vcia.com](mailto:info@vcia.com) or call 802.658.8242 today.

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