

## NEWS IN BRIEF

### Self-insured fund repaid over fraud

Checks totaling \$6.5 million have been mailed to hundreds of former members of Phoenix Fund Inc., a self-insured group workers compensation fund, that were victims of reinsurance fraud, according to the North Carolina Insurance Department. Nearly \$18 million has been recovered from Thomas G. Reitz, who the department described as the fund's "purported insurance broker," who pleaded guilty to mail fraud and money laundering.

### Aon restructures captive operations

Aon Global Insurance Managers, the captive management division of Aon Corp., has restructured its leadership around three regional hubs. Stephen Cross, chief executive officer of Aon Global Risk Consulting, said the move is intended to better serve the needs of captive clients in the face of recent political, regulatory and economic changes. Andrew Tunnicliffe, London-based chief operating officer for Aon Global Risk Consulting, will serve as global leader of the regional hubs. Nancy Gray, who had been executive director-North America with Aon Insurance Managers (USA) Inc. in Burlington, will head AGIM's operations in the United States, Canada, Bermuda, the Cayman Islands, Bahamas, Barbados and Panama. John English will lead AGIM's Europe, Middle East and Africa operations. Paul Johnson will head AGIM operations in Singapore, Hong Kong and Australia.

# State poised for growth in captives

RODD ZOLKOS

MONTPELIER, VT.—Vermont looks to be on track for another busy year of new captive formations, with 16 new licenses issued through July 31.

"I think by any measure, we're having a wonderful year," said David F. Provost, deputy commissioner in the Captive Insurance Division of the Vermont Department of Banking, Insurance, Securities and Health Care Administration. "We've already licensed as many as we did last year."

The 16 licenses Vermont issued in 2008 brought the number of active captives in the state to 557 at year-end, with more than \$16.19 billion in gross written premiums.

Six of the 16 captives Vermont has licensed so far this year formed to write medical professional liability coverage, Mr. Provost said. "And the rest is a mixed bag, as usual," he said.

## VERMONT CAPTIVES 2008 SNAPSHOT

LICENSES ISSUED: 16
ACTIVE CAPTIVES [YEAR END]: 557
GROSS WRITTEN PREMIUM: \$16.19 billion
NET WRITTEN PREMIUM: \$12.69 billion
PREMIUM TAXES: \$23.9 million
TOTAL ASSETS: \$126.73 billion

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



"The interest in captives remains, even in these difficult economic times," said Nancy L. Gray, regional managing director-Americas at Aon Global Insurance Managers in

Burlington.

Ms. Gray said she's seeing an increased focus on cost control

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Mr. Bemis

## Regulators, captive services set Vermont apart: Bemis

By JERRY GEISEL

BURLINGTON, VT.—There are many reasons why Vermont is a "special" captive domicile, says Michael Bemis, outgoing chair of the Vermont Captive Insurance Assn.

It has the most experienced team of regulators and the biggest captive service provider infrastructure of any domestic domicile, said Mr. Bemis,

who also is president and chief executive officer of the National Catholic Risk Retention Group Inc., a Vermont-chartered RRG.

Just as Vermont is a special domicile, as the largest captive domicile in the United States and the third-largest in the world with 557 captives, Mr. Bemis said the VCIA has

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“QUOTABLE AT VCIA: You've heard us all say in the past that we're committed to being the gold standard of domiciles. We believe we are, and we want to stay that way. GOV. JIM DOUGLAS

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RODD  
ZOLKOS

It's good to be here for the Vermont Captive Insurance Assn.'s 24th annual conference. And, on behalf of *Business Insurance*, let me say how happy we are to be working with the VCIA to bring you daily coverage of this great event.

There's no shortage of challenges facing captive owners these days—the economy, traditional market conditions, and credit market issues among them. But, as usual, the VCIA has put together a terrific program to help those in Vermont's captive industry deal with the challenges of today and prepare themselves to take advantage of the opportunities of tomorrow.

So have a great, productive conference, take advantage of the opportunity to connect with industry friends and colleagues, enjoy Vermont, and look to these pages for daily conference news.

## VCIA readies leadership change

By RODD ZOLKOS

BURLINGTON, VT.—As a committee of board members of the Vermont Captive Insurance Assn. assesses candidates hoping to succeed her, Molly Lambert expected to experience some feelings of nostalgia this week as she guides the association through her last annual conference as VCIA president.

In April, U.S. Sen. Patrick Leahy, D-Vt., recommended Ms. Lambert to the White House as the U.S. Department of Agriculture's state director for rural development for Vermont and New Hampshire. The new post is a presidential appointment, and Ms. Lambert is waiting for White House confirmation.

The VCIA committee has narrowed the list of candidates for its next president and will likely make a decision this fall. Meanwhile, the association has tapped Diane Leach, the VCIA's director of education and program planning, to become interim president upon Ms. Lambert's departure.

In her new role at the USDA, Ms. Lambert's work will involve supporting economic development, housing and infrastructure



Molly Lambert has been nominated for an Obama administration post.

development through grants, loans and loan guarantees in Vermont and New Hampshire.

In 2008, USDA Rural Development distributed almost \$200 million in funds to Vermont and New Hampshire.

In addition to her role with the VCIA, Ms. Lambert has an extensive background in economic development activities. She was Vermont's secretary of the Agency of Commerce and Community

Development from 1998 to 2002, and before that was executive director of Burlington's Church Street Marketplace from 1991 to 1998.

Reflecting on her seven years with the Vermont captive group, Ms. Lambert said: "It's probably about the best job in the world. You get to work in an industry that the state of Vermont loves, and then you've got an industry group that loves the state of Vermont. It's a great privilege to be a bridge between the two."

She'll also take with her fond memories of her time spent working with the association's staff, particularly before, during and after the annual conferences.

"I think one of the most wonderful things about this tenure is the staff, the core group that works out of this office," Ms. Lambert said from the VCIA's Burlington headquarters. "Those special bonds—and those bonds are tested and heightened by working on an event like this year after year."

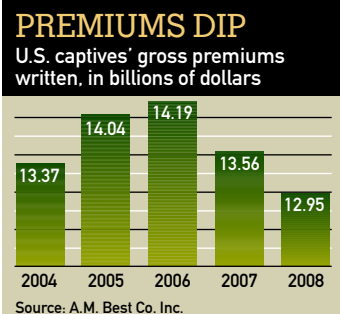
"Those folks are amazing," Ms. Lambert said. And during this week's conference, "There will definitely be nostalgia."

## Prudent underwriting, investing aid captives in '08: Best

By RODD ZOLKOS

Underwriting discipline and financial flexibility are helping U.S. captives fare well in the face of difficult economic, financial and market conditions, according to a newly released report.

The "2008 U.S. Captive Insurance Market Review" released last week by A.M. Best Co. Inc. showed that among the 186 captives filing annual financial statements with Best, net underwriting income increased to more than \$768.9 million in 2008 from approximately



\$700.5 million in 2007.

In a webinar on the State of the Captive Insurance Market presented

last month by Oldwick, N.J.-based Best, Steven Chirico, a Best assistant vp, noted that while captives—like traditional companies—are subject to an underwriting cycle, "that cycle is softer than you find in the general commercial market, so the peaks aren't as high and the troughs aren't as low."

Meanwhile, Mr. Chirico said, the fact that captives are typically more conservative investors than traditional companies has helped limit the impact of the investment market downturn. In fact, the captive market review Best released last

week notes that captives had no material exposure to commercial mortgage-backed securities or mortgage-backed securities, and only minimal exposure to Lehman Bros. or Bear Stearns securities.

The report noted that while new captive formations continue despite a soft traditional market, new captive domiciles are having a difficult time getting a foothold in the market, while established domiciles update their captive laws to meet the market's changing needs. The outlook for the captive industry is "stable," according to Best.

## Captive education program reaches fifth anniversary

By **RODD ZOLKOS**

**BURLINGTON, VT.**—The International Center for Captive Insurance Education this summer is marking its fifth anniversary.

Since its launch in 2004 to provide a comprehensive program of captive insurance education, ICCIE has awarded more than 100 Associate in Captive Insurance designations. During that time, the center has had more than 500 students enroll, approximately half of whom are students intending to complete the full ACI program.

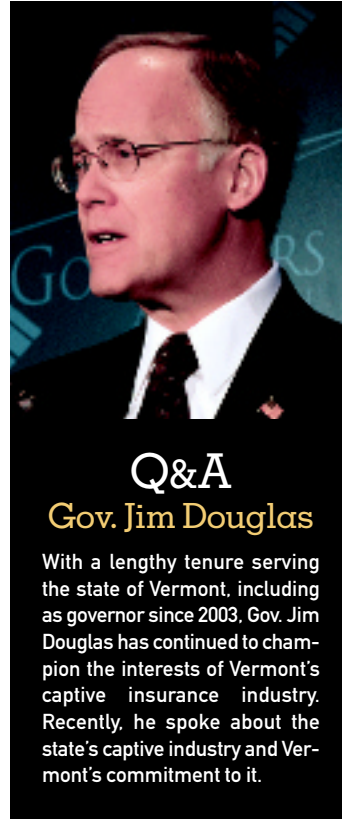
The Vermont Captive Insurance Assn. conceived the idea of the center in 2001, announcing the formation of Burlington, Vt.-based ICCIE at the 2004 VCIA conference. The core curriculum

was developed in conjunction with the University of Vermont.

The program is intended to be relevant to any captive domicile, with students able to take courses either in traditional face-to-face fashion or online.

Face-to-face offerings typically are scheduled around major industry conferences and offered one or two times a year. Online courses are offered one to three times per year and include start and end dates, followed by a testing period. Online courses are instructor-led, but students can do the work for each one-week or two-week course section on their own time.

Students can participate in the ICCIE program either as designation candidates or as individual class students.



### Q&A

#### Gov. Jim Douglas

With a lengthy tenure serving the state of Vermont, including as governor since 2003, Gov. Jim Douglas has continued to champion the interests of Vermont's captive insurance industry. Recently, he spoke about the state's captive industry and Vermont's commitment to it.

we've done so.

We continue to change our laws when we need to to stay on the cutting edge of the industry and to remain competitive. I'm proud of our commitment to the captives. It's been a quarter century of success for Vermont, and I'm determined to maintain that.

**Q: So the premium tax break for new captives and increasing the amount of tax revenue for captive regulation and promotion is part of that commitment?**

The premium tax holiday for the new captives is an important incentive, and providing more funding for the regulatory operations makes sense. The purpose of premium taxes principally is to make sure that we support the program, although our general fund is grateful for the contribution.

**Q: Where does captive insurance fit in Vermont's overall economic strategy?**

We're experiencing the same economic stress that other states are, but it's not as profound. In relative terms, we're weathering it well, and one of the reasons that we're successful is the diversification of our economic base.

The captive industry is one sector of our economy that's been stable. It provides revenue, helps our banks with their deposits, creates some good jobs that pay well above the state average. So it's been part of the underpinning of our state's economy that's helped it weather the storm that's all around us.

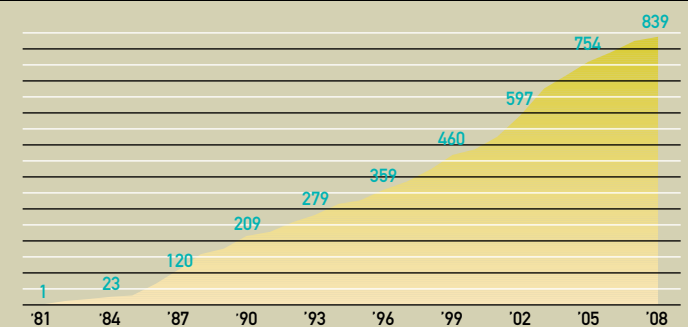
**Q: How significant is Vermont's support for the captive industry in difficult economic times like these?**

We continue to invest in this very valuable sector of our state's economy. We have an experienced financial and legal team in the Captive Division, and when we've found it necessary over the last few years to increase staff there—even though we're downsizing state government overall—

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### BY THE NUMBERS

Vermont captive growth: Total number of captives licensed by year



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

# Green building hosts offsite events

By GEORGE SWEENEY

BURLINGTON, VT.—For the first time, some sessions at this year's Vermont Captive Insurance Assn. conference will be held outside the main conference hotel.

Several events will be held at the University of Vermont's Dudley H. Davis Center, located near the Sheraton Burlington Hotel and Conference Center.

The VCIA made the move because attendance was expected to exceed the Sheraton Burlington's capacity and to "keep (the event) feeling fresh," said Elizabeth Halpern, director of communications for the VCIA.

Events at the Davis Center included Tuesday's preconference workshops. On Thursday a Meet the Reinsurers event will be held there at 1:30 p.m., as will educational seminars at 1:15 p.m. and 3:15 p.m.



Dudley H. Davis Center

Lunch will be available at the Davis Center Marketplace on Thursday, and shuttle service will be provided.

The 186,000-square-foot Davis Center opened in 2007. It was the culmination of a \$61 million fund-

ing effort, \$4.7 million of which was given by the family of Dudley H. Davis, a 1943 University of Vermont graduate.

It's the first student center built in the United States to receive LEED Gold Certification for new construction, a distinction bestowed by the U.S. Green Building Council upon buildings designed to have a minimal impact on the environment. The university has adopted a policy that all new construction meet LEED Silver Certification.

The Davis Center includes such energy saving features as a computerized energy-management system, which uses motion and light sensors to control lighting, heating and cooling systems.

Other features are intended to alter the habits of those using the building, such as showers to encourage running, walking or biking to campus instead of driving.

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# Midyear

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among captive parents and the process of forming a captive often is taking more time, though Ms. Gray said she saw that trend taking hold even before the recession.

"A few years ago, it was basically the risk manager signing off on the whole establishment of the captive," Ms. Gray said. "Now you'll have the CFO and legal and treasury, the risk management department all involved in that process."

Vermont again showed its commitment to its captive industry this year with a one-time \$7,500 premium tax credit for captives formed through the end of 2010 and by increasing the portion of premium tax revenue directed to captive regulation and promotion to 11% from 10%.

This year's captive legislation also tweaked cell captive rules and expanded the forms of accounting that Vermont captives can use. "Specifically, we were looking at (International



Mr. Provost

Financial Reporting Standards) when we did that," Mr. Provost said.

Derick White, president of Strategic Risk Solutions (Vermont) Ltd. in Burlington, said many prospective captive parents continue to see Vermont as their preferred destination. Noting the change among Vermont's top captive regulators, with Mr. Provost replacing Len Crouse as deputy commissioner after Mr. Crouse's retirement last year and Peter Raymond taking over as director of captive insurance in late 2007 after Mr. White's departure, Mr. White said, "People realize Vermont had turnover, but it was seamless."

# Bemi

Continued from page 1

no equal among captive trade associations.

"Frankly, I don't think we have a peer when it comes to the triad of services we provide to captive marketplace participants," Mr. Bemi said, citing the VCIA's annual conference, regional events, hot topic seminars and legislative and regulatory advocacy, among other things.

For example, Mr. Bemi said the VCIA's Legislative Committee works constantly to assess threats to the industry.

One major threat came in 2007 when the Internal Revenue Service proposed stripping a key tax break utilized by hundreds of captives. The VCIA joined with another trade group to battle the IRS, which dropped its proposal.

Despite that effort, Mr. Bemi

said ties with groups such as the Captive Insurance Cos. Assn. and the National Risk Retention Assn. could be improved.

"VCIA is very collegial and communicative with both groups, but it seems that we need to have a crisis issue to rally around...to really interact at a higher level," he said.

Mr. Bemi said attendees at this year's conference will notice several changes, including a second site—the University of Vermont's Davis Center—for VCIA events, additional preconference workshops and a new Meet the Reinsurers session.

In addition, VCIA is offering attendees a money-back guarantee, refunding conference fees to attendees that notify the VCIA in writing by 5 p.m. Aug. 13 that conference seminars didn't provide useful knowledge.

That is a "very attractive financial offer to reassure potential attendees," Mr. Bemi said.

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