SHOW DAILY
Vermont CAPTIVE INSURANCE ASSOCIATION
OFFICIAL CONFERENCE NEWS 2009
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Business Insurance®

NEWS IN BRIEF

Hartford refunds some Florida comp profits

The Hartford Financial Services Group will refund or credit $48.2 million to Florida employers for "excess profit" earned on workers compensation policies, Florida Insurance Commissioner Kevin McCarty said. Florida puts a cap on the profit workers comp insurers can reap. Market conditions, meanwhile, sometimes cause insurers to exceed that cap, a department spokesman said, noting that Hartford did nothing improper. In total, insurers have refunded workers comp profits totaling $98.8 million this year.

AIG sells off more assets

American International Group Inc. has sold more assets as part of its efforts to repay federal bailout funds. AIG said its AIG Financial Products Corp. has completed the sale of its energy and infrastructure investment portfolio for $1.9 billion. The purchaser was not disclosed. In addition, AIG said it has sold its Hong Kong consumer finance business to China Construction Bank Asia for $70 million in cash. AIG Finance Ltd. (Hong Kong) is a credit card issuer with more than 500,000 customers as of June 30, with total net loan receivables of $4.8 billion Hong Kong ($619.2 million) and retail deposits of $1 billion Hong Kong ($129 million). AIG said in a statement. The transaction with China Construction Bank Asia also includes the repayment of debt and deposits of about $557 million.

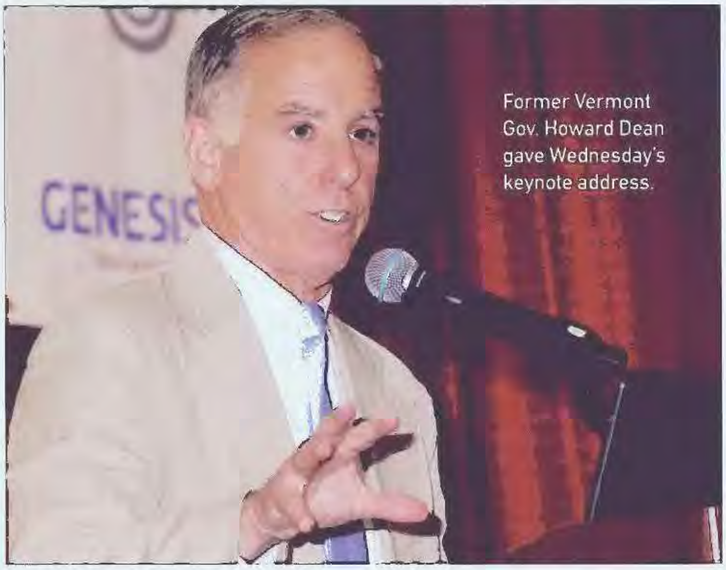
Dean backs Obama health reform

By JERRY GEISEL

BURLINGTON, VT.—President Barack Obama's approach to win public support for the enactment of comprehensive health care reform legislation is the right one, says the former governor of Vermont.

"I think the president has got it right," because his plan gives people a choice between retaining their insurance or getting coverage from a new public health care plan, said Howard Dean.

Delivering the keynote address Wednesday at the opening general session of the Vermont Captive Insurance Assn.'s annual conference in Burlington, Dr. Dean, a physician, made clear that he believes a public health care plan can provide coverage at a lower cost than can private health insurers. But providing coverage solely through government plans, such as by broadening Medicare, will not fly politically, said



Former Vermont Gov. Howard Dean gave Wednesday's keynote address.

Dr. Dean, who served as Vermont's governor from 1991 to 2003 and most recently was chairman of the Democratic National Committee.

While there is broad public support for moving the nation close to

See DEAN page 7

Mr. East

State, industry work together to help domicile thrive: East

By JERRY GEISEL

BURLINGTON, VT.—It is no mystery why Vermont is the largest U.S. captive domicile, says Tim East, incoming chair of the Vermont Captive Insurance Assn.

The state licensed its first captive in 1981 shortly after enacting its groundbreaking law. Vermont had 557 captives at the end of 2008, growth that Mr. East said is the result of several factors.

Most notably, "It is about fair but firm regulation," along with close cooperation between regulators, legislators and the captive community to ensure continued, sustainable growth, said Mr. East, who also is director of risk management at

See EAST page 7

INSIDE TODAY'S ISSUE

"QUOTABLE AT VCIA: Anybody who knows someone who has a captive in Bermuda—tell them it's a lot more fun to be in Vermont.
HOWARD DEAN, former governor of Vermont

CLAIMS & OCCURRENCES

BY RODD ZOLKOS

The leadership of the Vermont Captive Insurance Assn. is understandably proud of referring to the group's annual conference as the world's largest captive insurance conference. Judging by the crowds in the exhibit hall and meeting rooms Wednesday, one could be fairly sure this year's gathering upheld that distinction.

In her welcoming remarks, VCIA President Molly Lambert noted that this year's conference drew attendees from 44 states and nine countries. And the 110 exhibitors filled not only the exhibit hall, but also space upstairs.

And next year's conference? It's probably a safe bet it will be well attended as well, if Vermont's pace of new captive formations is any indication. As of Wednesday, Vermont has licensed 18 captives this year, two more than in all of 2008.

Awards honor VCIA, captive work

By RODD ZOLKOS

BURLINGTON, VT.—The Vermont Captive Insurance Assn. Wednesday presented several awards recognizing commitment to the association and to the captive industry during the annual conference's opening general session.

Outgoing VCIA President Molly Lambert was recognized twice. Ms. Lambert, who is leaving the VCIA to become director for rural development for Vermont and New Hampshire for the U.S. Department of Agriculture, was honored with a lifetime honorary membership and received the VCIA's 2009 Industry Service Award.

The honorary membership is awarded to an individual whose contributions have furthered the goals of the VCIA and strengthened the captive insurance industry and the Vermont domicile.

The VCIA's board presents the Industry Service Award to recognize a VCIA member for support of the captive insurance industry and contributions to the overall vitality and welfare of the industry.

The association presented its Captive Crusader Award to both Nikki Wells of Johnson Lambert & Co. and Maria Young of Three Rivers Insurance Co. The Captive Crusader Award recognizes service and commitment to the VCIA.

From left, Maria Young, Nikki Wells and Molly Lambert

The association also presented two scholarships to the International Center for Captive Insurance Education. Renea Louie of Pro Group Captive Management Services Inc. was given the VCIA Distinguished Scholar Award, while Amanda Littlejohn, a student at St. John's University, received the Harry House Scholarship, sponsored by the Housing Authority Insurance Group.

The Distinguished Scholar Award is presented by the VCIA and ICCIE to recognize professional excellence and community service. The Harry House Scholarship is awarded to a minority student of an accredited risk and insurance management program who is interested in pursuing the Associate in Captive Insurance designation from ICCIE.

Leaders upbeat about conference turnout despite dip

By JERRY GEISEL

BURLINGTON, VT.—While the recession has battered attendance levels at many conferences held during the last few months, the number of people attending the 2009 Vermont Captive Insurance Assn. conference is down only modestly, conference organizers say.

This year, about 1,100 people registered for the conference, compared with about 1,300 in 2008.

Given the state of the economy, "We are extraordinarily pleased with the numbers," said outgoing VCIA President Molly Lambert at a news briefing Wednesday.

Ms. Lambert

That modest decline "is a compliment to the quality of the conference," said Tim East, director of risk management at The Walt Disney Co. and incoming VCIA chair.

In fact, the breadth of attendees—who include captive sponsors, managers and other service providers, as well as reinsurers and regulators—hasn't narrowed. The decline in attendance is largely attributable to companies deciding to send fewer executives than previously, Mr. East said.

Meanwhile, VCIA membership continues to hover around 500, with just over half of members being captive sponsors, said Michael Bemi, outgoing VCIA chair, who also is president and chief executive officer of the National Catholic Risk Retention Group Inc., a Vermont-chartered RRG.

Captive growth in Vermont is picking up after a relatively slow 2008, as the economic outlook improves. Eighteen captives have been licensed this year, compared with 16 for all of 2008, said David Provost, deputy commissioner in the Captive Insurance Division of the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

VERMONT FACTS: Since Vermont enacted its captive law in 1981, the captive insurance industry has generated more than $276.1 million in premium tax revenue for the state while creating more than 1,400 full- and part-time jobs in Vermont.

Event helps VCIA members connect with reinsurers

By RODD ZOLKOS

Reinsurance is an important subject for many captive insurance programs, and the Vermont Captive Insurance Assn. hopes this year's annual conference provides a quick way for members to get answers to many of their reinsurance questions.

A new feature at this year's conference is a Meet the Reinsurers session, designed to give captive owners a chance to quickly learn about various products available in the reinsurance market from a number of different market participants.

The VCIA decided to include the session in this year's agenda in response to members' survey answers indicating they would be interested in focused meetings with reinsurance providers.

Described by the association as "speed dating for captives," Meet the Reinsurers will allow participants to move among various reinsurers' tables at set time intervals to hear presentations and ask questions about the reinsurers' offerings.

The session is scheduled for 1:30 p.m. to 3 p.m. today at the University of Vermont's Davis Center.

Among the intermediaries and reinsurers participating in the session are Swiss Reinsurance Co., Munich Reinsurance America Inc., Partner Reinsurance Co. of the U.S., Maiden Re, Genesis Underwriting Management Co. and Citadel Reinsurance Co. Ltd.

Q&A
David Provost

Vermont's regulatory regime often is cited as a key factor in the state's captive insurance success. Recently, David F. Provost, deputy commissioner in the Captive Insurance Division of the Vermont Department of Banking, Insurance, Securities and Health Care Administration, talked with *Business Insurance* Special Projects Editor Rodd Zolkos about the Vermont captive market.

Q: Is the economy still having an impact on captive business?

I think the problem before was that we were on such a steep downslide that you couldn't predict what your world was going to look like in six months.

Now that we appear to be at the bottom, things are a little more settled and they're more predictable so we're back to pretty much normal.

Q: Will the growing number of onshore domiciles have an impact on Vermont?

What have we got, 28 now? Even if we get to 48...I still want to see every domicile that does this be successful and do it right...and not put a bad light on the rest of the industry.

When it comes down to it, whenever a domicile starts up, if they get one or two captives, the work is probably going to be done in an established domicile like Vermont or South Carolina or Arizona or Hawaii until they reach a critical mass.

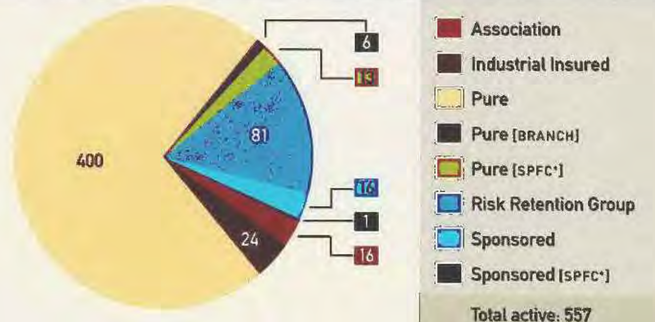
So I foresee the same thing happening with all the (new) domiciles. They'll get some home state business, and I'm sure that's what they're really hoping to accomplish, to keep their home businesses at home.

Q: How great a role does the Vermont Captive Insurance Assn. play in the state's success?

It's huge. That's a tremendous part of why we've been so successful here. The educational programs the conference offers are as good as any conference I go to anywhere. And the road trips that we've been doing for the last few years, it makes it one big community that extends beyond our borders.

BY THE NUMBERS

Vermont captives by type: Active captives as of Dec. 31, 2008



*Special-purpose financial captive
Source: Vermont Department of Banking, Insurance, Securities and Health Care Administration

Financial crisis spurs captive rethink

By RODD ZOLKOS

While many suggest the financial crisis began last September with the collapse of Lehman Bros. and the sale of Merrill Lynch to Bank of America, a panelist on a session today examining the financial crisis' impact on captives says one could start looking much earlier.

"You've had lots and lots of issues over a long period of time that all feed into this," said Richard D. Wilder, vp at J.P. Morgan Chase Bank N.A. in New York.

One could look to J.P. Morgan Chase's purchase of Bear Stearns in March 2008 to save that firm from collapse, Mr. Wilder said. Or, back a year earlier to the beginning of the subprime mortgage crisis.

Earlier in this decade there were issues with the regulation of Fannie Mae and Freddie Mac, Federal Reserve policies that led to the real estate bubble, and, in 1999, the Gramm-Leach-Bliley Financial Services Modernization Act, which broke down Glass-Steagall Act prohibitions on the combination of banking and insurance. One could even look to elements of the Community Reinvestment Act of 1977 for some of the roots of the financial crisis, Mr. Wilder said.

> **"We've seen a number of captive refeasibility studies.**
> JOHN LOCHNER, TOWERS PERRIN

The session focusing on the financial crisis' impact on captives and strategies for the future is set for 8:30 a.m. today.

Joining Mr. Wilder on the panel will be Skip Neilson, downstream team lead-Americas at Shell Oil Co. in Houston. John Lochner, principal at Towers Perrin in Weatogue, Conn., will moderate the session.

The financial crisis, along with the soft traditional insurance market, has been a factor in slowing captive formations, Mr. Lochner said. It's also caused many companies to look at the capital committed to their captives.

"We're definitely seeing an increase in the number of companies looking at their captive, looking at them in a fresh light," Mr. Lochner said. "We've seen a number of captive refeasibility studies."

"I think captive companies have to be cognizant of who they're owned by and what the agenda is of those parties, because those entities might face their own challenges," Mr. Wilder said. "You've got to make sure your management understands the benefit of the captive and how it provides benefits and capital, if you will, to the parent in the form of insurance."

ON THE WEB VCIA: The Vermont Captive Insurance Assn. Conference Show Daily produced by *Business Insurance* is available online. To share conference news or revisit information after the event, visit *www.businessinsurance.com*.

VCIA SIGHTS

Upcoming VCIA Events:

Earn CPE/CLE Credit!

September 30:
Educational Audio-conference:
"Extracting Value from your Captive"
2:00 - 4:00 pm

October 21:
VCIA Original Captive Road Show
Denver, CO

November 18:
VCIA Original Captive Road Show
NYC

December 9: **VCIA Hot Topic Educational Seminar**
(also available by audio-conference)
and **Holiday Reception** Essex, Vermont

www.vcia.com

Dean

Continued from page 1

universal coverage, that support would plunge if individuals who now obtain health insurance coverage through their employers were forced into a public plan, Dr. Dean said.

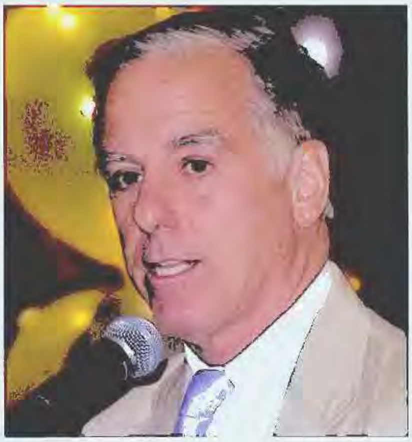
But knowing that a public plan always would be available would provide great comfort to Americans, Dr. Dean said. In addition, the availability of such a plan would boost competition in the health insurance market, he added.

He rejects arguments made by many congressional Republicans that creating a public health plan option will force private insurers out of the market. "The private sector will not go away."

Debate over health care reform legislation has turned ugly over the last couple of weeks, Dr. Dean noted, referring to several town hall meetings where reform opponents shouted down reform-minded lawmakers.

But confrontational tactics likely will backfire, Dr. Dean said, especially among the under age 35 population, which prefers a more conciliatory approach to resolving differences.

"Young people want to talk, not fight," he said.



Dr. Dean

Dr. Dean acknowledges that the health care reform bills working their way through Congress are silent on tort reform. One reason for that omission is practical politics, Dr. Dean said.

If tort reform were included in the health care bills, it would galvanize opposition from a hugely powerful interest group—plaintiffs attorneys—and that opposition could sink the legislation, Dr. Dean said.

In addition, tort reform is an area that individual states can handle without the involvement of the federal government, he said.

East

Continued from page 1

The Walt Disney Co., the parent of two Vermont-chartered captives.

The fact that Vermont is a small state is a plus for the captive industry, Mr. East said. That small size, coupled with the boost the captive industry provides the state's economy, means state legislators not only have a deep understanding of the industry but also are accessible to discuss issues, Mr. East said.

"You have interest and accessibility. They know the issues," he said.

State legislators on several occasions have reduced captive premium taxes, heeding industry warnings that reductions were needed to keep Vermont competitive with other domiciles.

This year, a new law provided a small tax break to captives licensed this year and next and boosted the percentage of premium taxes used to support captive regulation and promotion.

While the annual conference is by far VCIA's biggest event, it's just one way the association serves its 480 members. Mr. East noted that as a large and diverse trade group, the VCIA can be far more effective in the legislative and regulatory arena than any individual company.

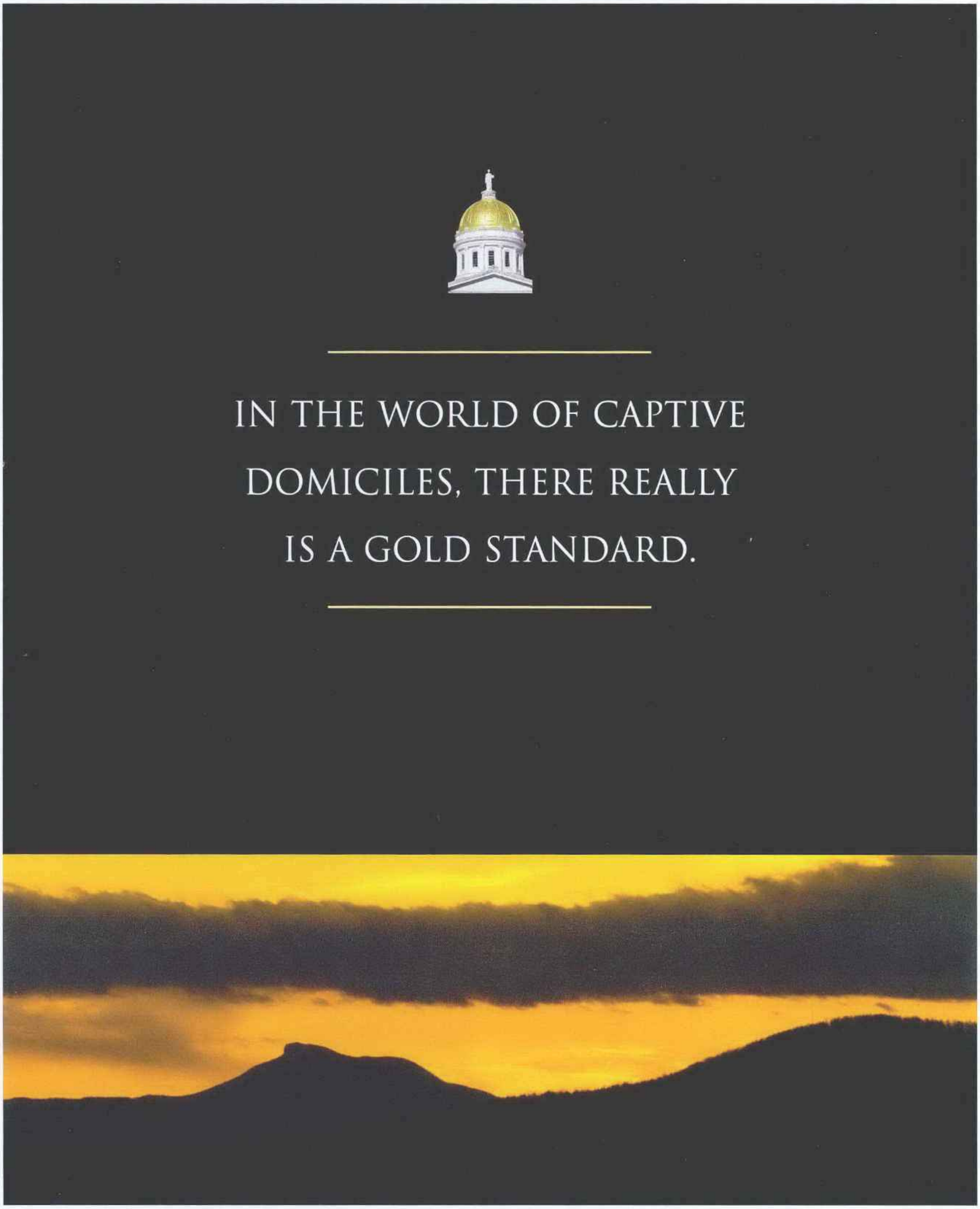
"There is strength in numbers," he said.

Still, challenges remain.

One is finding a successor to VCIA President Molly Lambert, who resigned earlier this year to join the Department of Agriculture as state director for rural development for Vermont and New Hampshire.

"Molly was a true leader and an incredible asset," Mr. East said.

Several promising candidates to succeed Ms. Lambert have been interviewed, he said.



Camel's Hump, Vermont

In Vermont, when the sun sets at the end of the work day, it sets on a state committed to delivering some of the most knowledgeable captive experts in the world, a flexible regulatory environment, and a responsive, proactive government. Which is why you'll see the real beauty of doing business in Vermont is not only in our sunsets, but in our commitment to set a higher standard of service. Find out today how much Vermont can bring to your captive insurance company by visiting us at: www.vermontcaptive.com

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