

BACKGROUND ON BUSINESS

A State That Uses Captive Insurance To Capture Business

(NAPSA)—A growing number of states are taking innovative steps to increase their “business appeal” and spur economic growth.

Some are doing this through tax breaks and other kinds of economic incentives designed to encourage companies to relocate.

Others are doing it by creating a regulatory environment that is receptive to a highly specialized enterprise. Vermont is one of more than 30 states that have legislation to encourage this type of venture.

Vermont began licensing what are known as captive insurance companies in 1981. These “captives,” as they are called, allow businesses to write insurance policies to cover their own exposures by setting up an insurance company that handles only one client—the parent company.

In order for a company to form a captive it needs to go through an extensive licensing process. The company often needs to put significant capital into this new insurance subsidiary to get it started. The captive is operated like an insurance company and is subject to regulatory oversight from its licensing jurisdiction.

The state of Vermont is now home to the greatest number of captive insurance companies in the U.S. and third largest in the world. It is also home to 44 of the companies that make up the Fortune 100, and 19 of the companies that make up the Dow 30 have chosen to form captives in Vermont.

Setting up a captive makes it possible for companies to insure their biggest risks and liabilities. It also gives companies greater



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control and flexibility over managing their own risk. Companies often understand their own risk better than the open market and can put into place better loss-control mechanisms. The savings and control gained by operating a captive can be significant to a company's bottom line.

While captives have traditionally been used to manage risk of large corporations, middle market and even smaller companies have been finding benefits by getting into the captive industry. A company needs to have solid risk-management plan and typically write at least \$1 million in premiums annually.

Vermont recently licensed its 800th captive. Many other states are trying to emulate Vermont's success with captive companies. Captives are used to insure only business lines of insurance including property, workers compensation, general liability, auto, medical malpractice and, in rare cases, employee benefits.

The hospital industry has been

hit particularly hard by rising insurance rates, and forming a captive for them can be very advantageous. Vermont currently has nearly 100 of these hospital captives writing medical malpractice coverage, with approximately \$1.6 billion in gross written premiums last year.

The state of Vermont has been nicknamed the “Gold Standard” by the industry because of its reputation of having the best regulatory environment, a sophisticated infrastructure and accessible government officials.

In addition, Vermont's Governors and state legislature have a history of reacting to changes in the industry. Nearly every year, Vermont passes new laws to keep the state's captives laws on the cutting edge. Creating a receptive environment for revenue-generating business sectors, such as the captive insurance, reflects the state's economic development strategy, which attempts to balance economic growth and quality of life.

The benefits of captive insurance to Vermont and its residents are numerous:

- The captive insurance industry generates more than \$24 million a year in tax revenues for the state of Vermont.

- Directly and indirectly, the industry creates over 1,400 jobs in Vermont.

- Companies are also required to hold a board meeting annually in the state, promoting the tourism industry.

To learn more about captive insurance in Vermont, visit www.VTCaptive.com/Get-Started.