

## Governor Promises Support for Vermont Captive Industry

Gov. James Douglas vows to maintain state's position as the industry's 'gold standard' as it navigates through the soft market.



Gov. James Douglas (left) mingles Wednesday with Vermont Captive Industry Assn. attendees on the show floor at the Sheraton Hotel and Conference Ctr.

Gov. James Douglas said Wednesday that Vermont would do everything possible to help the captive insurance industry.

"We're proud to see so many people here once again," the governor said, noting that this year's attendance didn't seem to get hit by the softening economy. "It really says a lot about the captive industry," he said.

He was quick to add that, despite fiscal belt-tightening, the captive industry will continue to see the resources that it needs to remain the 'gold standard' of captive domiciles.

Douglas delivered his comments Wednesday after his traditional walk through the trade show floor of the Sheraton Hotel and Conference Center during which he visited all of the major exhibitors and shook hands with

representatives of vendor firms.

Even this year, having arrived in Burlington at about 4 a.m., after a flight from the West Coast, the governor shared his enthusiasm for the Vermont captive industry. You could see the admiration and appreciation in the eyes and smiles of everyone that came in contact with him on the showroom floor, in their thank yous and earnest hand shakes.

"That was fun," said one captive operator after she met the governor and posed for a photograph with him. "Now I have a picture for my boss." Other conference attendees were sure to ask the governor how his campaign for re-election was going. "I'll tell you in 90 days," the governor responded to one such inquirer.

After his leisurely walk through the trade show floor, Douglas shared his impression on VCIA 2008. His support goes a long way to maintaining Vermont's status in the industry, according to VCIA officials

Molly Lambert, introducing him during the general session Wednesday, called him a "visionary." "He is a terrific supporter of the captive industry," she said.

But Douglas, who is running for re-election, was quick to share any and all credit with the Vermont captive team, which lost its premier regulator earlier this year to retirement.

"I've certainly gotten a lot of compliments walking around here today on the quality of our team," said Douglas, adding that the 'quantity' of the team is also strong—the depth and the experience in the many leaders and their support staff.

—By Matthew Brodsky

## Bursting its Banks

Captive conference, in need of more space, to get UVM help in 2009.

It may be a ho-hum year for captive formations, but the Vermont Captive Insurance Association isn't showing any signs of slowing down as VCIA announced Wednesday that it will expand its annual conference to include space in the 186,000 square feet of the University of Vermont's Davis Center.

"The board has been struggling with this for a number of years," said VCIA President Molly Lambert. She added that the features most likely to be moved to the university's student center are seminars.

The association and the conference will continue holding its conference at the Sheraton Hotel and Conference Center, where it

has been for many years. But the show has grown to the point where some of the events will be held on the university campus.

"The idea is to enhance and maintain what we have," Lambert said.

It's a point that is worthy of repetition and conference organizers are pointing out that despite the harrowing cost of automobile and jet fuel, the conference is expected to match last year's numbers in terms of attendees.

The number of attendees registered for this year's conference will number in the 1,300 to 1,350 range, said Lambert. Of those, 20



percent are first time attendees and 23 percent are captive owners. "We are obviously very happy with the statistics," Lambert said.

The combination of the soft market and the weakness in the financial sector is taking its toll, however. Officials with the state of Vermont indicated that the state has licensed nine captives so far and may make it to 25 by the end of the year, with the busiest time for captive formation still ahead.

—By Dan Reynolds

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DISCOVER<sup>RE</sup>

23<sup>rd</sup> Annual Conference

## Thank You!

What a great event!



Molly Lambert, president, Vermont Captive Insurance Assn.

You have arrived in numbers beyond our expectations from around the country and around the world. You have been "Solving the Risk Management Puzzle" through

your attendance at well prepared seminars and receptions bursting with opportunities to network and trade valuable information. Exhibitors brought their very best products and services and what a privilege to have Governor Douglas extend a welcome and then stay on hand to present our special industry awards to Len Crouse, Derick White and Mike Smith. During the keynote speech, we all learned from enigmatologist Will Shortz that solving a puzzle is all about creativity and focus.

Today will be another spectacular day. Captive governance, the connections between service providers and captive owners, new accounting standards, an IRS update, the claims process, and information about protected cells are the morning fare from which you may choose. After lunch, the discussion of innovative uses for captives; enterprise risk management and the healthcare roundtable will lead up to the finale—the view from Vermont's new regulatory team.

Make sure to join us this evening on Burlington's waterfront at the ECHO Lake Aquarium and Science Center for the closing reception in celebration of our great captive insurance industry.

As we wind up the 2008 edition of VCIA's Annual Conference, we are truly grateful for the many contributors to this enormous

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**GOVERNANCE**

**Putting it All Together**

Ever been puzzled about the legal standards governing captive board members' use of management information? Here's

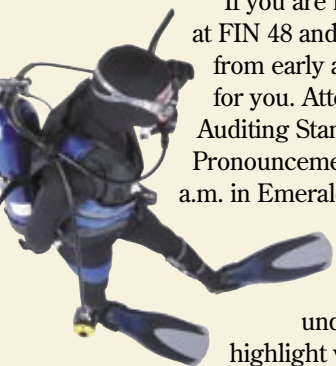


your chance to put it all together at "Captive Governance: Critical Pieces," from 8:30 a.m. to 10:45 a.m. today in Emerald I & II. This session will provide practical advice on how captive board members should consider financial statements, actuarial opinions and claims reports. Speakers include Steven Visner, principal at Deloitte Consulting, Mathew Pifer, senior vice president at Paul Frank + Collins Insurance Services, and Adam Dubuque, manager at Johnson Lambert & Co. LLP.

—Erin Gazica

**AUDITING**

**Examining Your Fins**



If you are interested in taking a look at FIN 48 and learning some lessons from early adopters, this is a session for you. Attend "FIN 48, Recent Auditing Standards & New Accounting Pronouncements," from 8:30 a.m. to 10:15 a.m. in Emerald III, in order to examine a

case study highlighting the potential impact and related disclosure requirements under FIN 48. This session will highlight various approaches taken by captive owners, directors, management

companies and audit partners in response to the heightened consideration of internal control policies and procedures required under the new auditing standards effective for 2007 audits. Speakers are coming from The National Catholic Risk Retention Group, Saslow Lufkin & Buggy LLP, and Johnson & Lambert LLP.

—Erin Gazica

**TAXATION**

**Victory...Now What?**

After beating back proposed IRS regulations the captive insurance industry breathed a collective sigh of relief. But now it's time to look back on the last several months of the captive taxation front and look to the future. Attend "Cracking the Tax Code: An IRS Update," from 10:30 a.m. to 12:10 p.m. in Emerald I & II, for an information-packed but entertaining session. Expect to review recent developments, positions of



the IRS and where the industry stands when it comes to federal excise taxes, risk transfer, risk distribution, corporate ownership forms, and more. This session, geared toward but not exclusive to those with captive taxation knowledge, will be coordinated and moderated by Christina Kindstedt of Willis Management and Edward Koral of Deloitte Consulting. Speakers include James Mannello of Deloitte Tax and Thomas Jones of McDermott, Will & Emery.

—Erin Gazica

**OPENING RECEPTION**

**Reflections on a Tapestry of Light and Texture**

Attendees bask in the setting sun over Lake Champlain and Shelburne Farms as the current market means opportunities for foreign companies looking to buy U.S.-based assets.



where the rolling grassiness of Shelburne Farms meets the clear waters of the lake in nearby Shelburne, the sun broke out in dazzling, almost heart-rending brilliance.

Those who stood about munching Argentine beef and raisin empanadas and savoring the textures, aromas and complexities of Vermont cheeses on crackers couldn't help but stand and stare at what was spilling out of the heavens.

"If the sunset over Lake Champlain at Shelburne Farms doesn't inspire you, I don't know what will," said Molly Lambert, the president of the Vermont Captive Insurance Association the following morning at the conference's general session. In that statement she has a point worthy of serious consideration.

And there was brilliance of a different kind breaking out under the tent on Tuesday evening, as those integral to the operation of the most sophisticated captive insurance domicile in the country got their conversations under way.

As friends and business associates renewed handshakes, the din inside the tent grew almost deafening. Outside the tent, where whole sentences could be more plainly understood, veterans of the annual conference gave their views on where things stand this August.

The long and short of it is, soft and hard markets may come and go, but there is plenty of business to do here in Vermont, whether that be in the management of an existing captive, or in explaining the nuances of captive management to prospective clients.

"We are busy with new business, but more often than not it's the existing captives who need to change what they are doing," said Peter MacKay, the chairman of Global Captive Management Ltd. MacKay, whom others point to as a man who knows the score, said this year's conference will see him at his busiest.

"I've got more meetings this year than I have ever had before," said MacKay.

Clare Bello, the founder, CEO and president of Pittsburgh-based Vertical Claims Management,

As Tuesday afternoon slipped into Tuesday evening, rain clouds gathered over Lake Champlain and nature's mood, at least, was somber.

But as the opening reception of the Vermont Captive Insurance Association's annual conference got under way

said that the softer insurance market is creating plenty of work and meeting opportunities for consultants who are advising clients, whether they be staying pat with their captive or in the act of transitioning some lines back into the commercial market.

"One of the things that we focus on from a claims perspective is that they've got some control over their exposure and their risk when they go back into the commercial market and so how do we bolster that; how do we really put that in the forefront of the captive's mind," said Bello.

There is so much to do here, so many people to put together, that it seems as if the two days or more some have to devote to this conference, just won't be enough.

As Vermont's Gov. James Douglas pointed out at Wednesday's general session, due to the



Noted enigmatologist, puzzle master and keynote speaker Will Shortz.

softened economy, attendance at many business conferences is down this year, but that does not seem to be the case with VCIA's Burlington party.

What with 21 out of the Dow 30 companies owning captives here, and 44 out of the *Fortune* 100, there is plenty of serious business to conduct.

"We are known as the gold standard for domiciles and we take that very seriously," said Douglas in pointing to his government's commitment to holding on to Vermont's reputation as home to some of the best regulators in the business.

That's a reputation that may be gleaming even more for business interests across the pond, according to another veteran of the Vermont captive industry who managed to escape the roar of the Shelburne Farms hospitality tent for a brief chat.

Nick Parillo, VCIA's immediate past chairman and president of the Mollyanna Co., the Vermont-based captive for the Netherlands-based food retailer Royal Ahold, for which he is vice president of global insurance, said a weak dollar means more European and Asian companies will be looking to buy U.S. companies and will find Vermont's risk management acumen very appealing.

"They are going to buy these companies and they are going to want to maximize their capital efficiency; Vermont is a great place to do it," said Parillo.

—Dan Reynolds

**VCIA GOLF TOURNAMENT**

# Scaling 'Green' Mountains

Members bring their sticks and take their best swings.

According to locals, it's been raining straight for two months here in Burlington. But Tuesday, the clouds parted for the 17th Annual Vermont Captive Open Golf Tournament.

Held at the verdant, challenging and soggy Vermont National Country Club, the tournament featured two tee times, nearly 200 excited (yet soon to be frustrated) players, and the appearance of hall-of-fame hockey god Ray Bourque.

Jack Nicklaus designed the course in his customary risk-and-reward fashion—meaning that great players can dominate if they're up to taking the challenging shots over the vast wastelands of impenetrable brush and flowers and sandtraps shaped like the breakers on Waimea Bay, instead of shooting around them and just laying up for a chance at bogie.

Surely some of the VCIA golfers were up to these risks. After all, those in the captive industry are experts at staring danger in the face for their companies. Why not on the links too?

So here are your top risk-breakers and reward-takers in the tournament: coming in as the third place team, with a score of 61, were Dave Cazealt, Jamie McAdam, Michael O'Malley and Steve Kirsche. Tied with them at 61 was the team of Mike Betti, Erik Matson, Chad Saipetch and Lisa Trubiano. And in first place, with a score of 60, were Sarah Connerford, Chris Ervey, Chris Theriault and Troy Winch. Other winners include Jim Haug and Lisa Trubiano (again) for closest to the pin; and Eric Piurkowski and La Donna Neuhaus for longest drive.

—Matthew Brodsky

# Crouse, White Top VCIA Awards

Captive industry celebrates those who have made a difference.



In a ceremonious and befitting presentation, two of Vermont's most well-known former regulators, Len Crouse and Derick White, were honored with awards at yesterday's general session.

Crouse was presented with the Industry Service Award, while VCIA presented Derick White with the Captive Crusader Award for their contributions to the industry. Crouse is a partner at Tower Management Group and White is president of Strategic Risk Solutions' Vermont operations.

In addition, Gov. James Douglas' soon-to-retire Secretary of Administration, Michael S. Smith, was bestowed with the Honorary Member Award. With a lengthy background in public service, Smith was recognized for his strengthening of the Vermont captive industry through his position with the governor as well as through his service as director of a risk retention group and CEO of Yankee Captive Management.

Other items announced at the general session

were the awards presented in conjunction with the International Center for Captive Insurance Education (ICCIE), an educational organization for the worldwide captive community.

Presented jointly by VCIA and ICCIE, the Distinguished Scholar Award went to Jen Ryan of HSBC Insurance Management (USA). In addition, the first annual Harry House Scholarship, sponsored by the Housing Authority Insurance Group, was awarded to Samit Shrivastava of the Robinson College of Business in Risk Management and Insurance at Georgia State University.

The Distinguished Scholar Award is presented annually to a VCIA member who excels in their profession and provides outstanding service to their community. The Harry House Scholarship funds a minority student of an accredited risk management or insurance program to pursue ICCIE's Associate in Captive Insurance designation.

—Erin Gazica

## Thank you

*Continued from page 1*

success. Thank you to the Conference Committee chaired by Diane Hanson, to the panelists and moderators, to the hundreds of volunteers, to our exhibitors and sponsors, to our board and staff, and especially to each of you. You have brought the interest and intelligence to this gathering that allowed each of us to make some progress in "Solving the Risk Management Puzzle."

And finally, join us throughout the year as VCIA expands on its commitment to excellence in the service of the captive insurance industry professional. Whether it's here in Burlington next August 11-13 as we expand our annual conference venue to the new Davis Center, on the road during our six-city tour, during legislative activities or educational seminars, your participation makes the difference.

Here's to another great year!

Molly Lambert, president, VCIA

**CELL STRUCTURES**

## Lucky 13

How do you decide if an owned captive program—or an alternative—is best for you? Attend "What Are 13 Letters for a Good Captive Opportunity? Protected Cell" today from 10:30 a.m. to 12:10 p.m. in Emerald III. This session will help determine what factors might lead to the decision to utilize a protected cell company for a captive insurance program. Jeff Kenneson of USA Risk Group and Peter Peterson of TD BankNorth Insurance Agency Inc., will help participants understand the advantages and disadvantages of participating in a protected cell program.

—Erin Gazica

**HEALTHCARE**

## Beyond Med-Mal

What does the future hold for companies in the healthcare insurance market? The medical malpractice crisis might be a distant memory for some, but others are already focused on what's next. Attend the Healthcare Roundtable from 1 p.m. to 2:45 p.m. today in Valcour to find out what opportunities lie ahead for healthcare organizations. Tim Padovese, president and CEO of Ophthalmic Mutual Insurance Company will facilitate the discussion. This session is open to anyone, but is designed for healthcare captive owners or prospective owners.

—Erin Gazica



**REGULATION**

## A New View



David Provost

Fresh faces will be at this year's "View from Captive Regulators" session from 3 p.m. to 4:45 p.m. today in Emerald III. The new deputy commissioner of captive insurance, David Provost, will lead the panel, which also includes Peter Raymond, director of captive insurance, Sandra Bigglestone, director of financial examinations, and Dan Towle, director of financial services in the state's Department of Economic Development. Attending this session is a great opportunity to ask Vermont's regulators about the current market environment and industry trends.

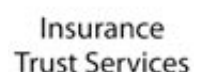
—Erin Gazica

Risk & Insurance's VCIA Show Daily is published by LRP Publications Inc. and sponsored by Discover Re. It is made available to all attendees and sponsors of the 2008 VCIA Annual Conference.

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# CAPTIVES – CONTROL, FLEXIBILITY AND THE ART OF RISK MANAGEMENT.

## WHY IS CONTROL SO IMPORTANT IN A CAPTIVE?

Simply put, control allows insureds to structure their insurance program to meet their own requirements. In fact, for the majority of risk managers, control – over claims and safety, unstable markets, a fickle economy – is the primary reason why they are attracted to captives in the first place.

This is especially true of unbundled captives which place even more control in the hands of the insureds. Allowing them a greater say in what many refer to as their “insurance destiny.” Other benefits include:

- Ownership of captives by insureds.
- Greater say over claims handling and safety management.
- Potential for improved customized risk management structure.
- Control over who manages the captive – allows for the possibility of partnering with a particular captive consultant/manager familiar with your business.
- Coverage that’s tailored to fit your needs and appetite for risk.

## FLEXIBILITY AND FINANCIAL GAIN.

Flexibility provides captives with two key benefits. The ability to tailor coverage to meet exact program needs. And a high degree of latitude as to the type of risk it can insure, if structured and financed adequately.

This, in turn, leads to:

- Financial stability – when managed correctly, captive programs tend to provide a financial return and safer work environment as a result of lower losses.
- Appropriate spread of risk with predictable losses.

- Claims control – by using a captive, insureds can un-bundle claims administration services to Third Party Administrators (TPAs), who work hand-in-hand with them to manage claims.
- Good loss experience and loss control programs – underwriting results managed via targeted and rigid loss control and safety programs.

## WHY AT DISCOVER RE, FLEXIBILITY IS SYNONYMOUS WITH CONTROL.

At Discover Re, our business is 100% unbundled. This is how we give our customers greater control. It’s what allows them greater flexibility in their choice of TPA partners. And it’s what made us the authority on unbundled captives.

By working with a wide variety of business partners, we provide insureds greater control over who they want to help manage their captive. Greater access to reinsurance markets is yet another way we put more choices and control back where it belongs. In the hands of our clients. With 17 years in the business, we stand ready to provide excellent service to our clients – as well as the fact that we are 300 employees strong, and our organization is licensed in all 50 states with broad filings.

Our ability to be highly flexible is beneficial on a number of different levels. First it allows us to tailor each deal to a client’s individual appetite for risk. Second, it can help us manage different kinds of risk within that captive. Finally, in a world where control, flexibility and creativity are at a premium, we enable our clients to elevate risk management to an art, providing our clients with a true advantage.

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