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Captive insurers fill variety of coverage needs for sponsors
By Jerry Geisel

BURLINGTON, Vt. — Forming a captive insurer can meet a wide variety of needs, especially as a reliable and cost-effective source of coverages for the captive's owner, according to a panel of experts speaking Tuesday at the Vermont Captive Insurance Association's annual conference in Burlington.

"Nothing was available in the market. We needed a vehicle to insure our risks, and we had no other options" other than forming a captive insurer, said Leslie Ratley-Beach, vice president In Montpelier forAlliance Risk Management Services L.L.C., a service provider for Vermont-based Terrafirma Risk Retention Group L.L.C., which provides coverages for several hundred land trusts across the United States.

In addition, captives can provide pricing stability to owners, in contrast to the pricing and availability swings in the commercial markets.

"Insurance pricing swings were so erratic. That meant busted insurance budgets," said Mary Ellen Moriarty, vice president of property and casualty for Chicago-based Educational & Institutional Insurance Administrators Inc., an administrator of two Vermont-based captives that provide a range of coverages to colleges and universities.

But determining whether or not to form a captive insurance company is not a decision or a process that sponsors should make quickly.

Forming a captive "needs to be a thoughtful approach because it can have an impact on the entire organization," said Anne Marie Towle, a senior vice president with Willis North America Inc.'s global captive practice in Chicago, who also spoke on the panel.

Regulators say they are not impressed when sponsoring organizations file to have their captive applications approved in situations where they have spent only a short amount of time analyzing whether they needed a captive.

"I don't want to review an application" for a captive that was organized in only a few weeks, said Sandra Bigglestone, director of captive insurance with the Captive Insurance Division of the Vermont Department of Financial Reregulation in Montpelier.

A basic but big issue for potential captive owners is where they want to base the captive. "Think about what kind of relationships you can establish with regulators," Ms. Towle said.

In addition, captive sponsors need to consider how operational costs, such as travel-related expenses, will vary by domicile.

Sponsors also should analyze what type of captive makes the most sense. For example, risk retention groups — a special type of group captive authorized by Congress through legislation passed in 1981 and 1986 — can operate nationwide after meeting the licensing requirements of just one state.

An RRG is "licensed in one state but can do business in any state," Ms. Bigglestone said.

That eliminates the time-consuming and costly need to meet the licensing requirements of other states in which an RRG has policyholders, unlike the licensing requirements for captives.