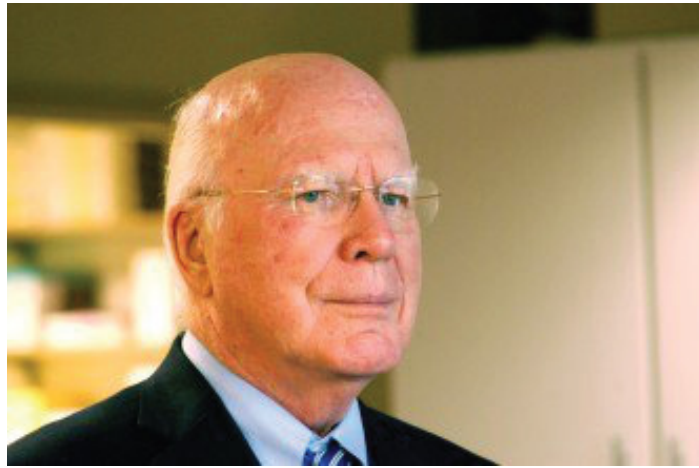




SOUTH BURLINGTON — Vermont’s senior senator is hoping the state will lead the way in how companies protect themselves from cyberterrorism.

U.S. Sen. Patrick Leahy, D-Vt., told a convention of 1,000 captive insurance industry executives Wednesday that he is working with U.S. Sen. Lindsey Graham, R-S.C., to pass a law that would help large companies put money aside as insurance for cyber attacks.



The bill, the Captive Insurers Clarification Act, is one page long. If passed, it would change a section of federal insurance law to allow more companies to insure their risks through captive insurance companies in Vermont.

“We have to strengthen our lines of defense against cyber attacks,” Leahy said. “It’s a common-sense bill, and I think we can do something with it.”

What is captive insurance?

A captive insurance company insures the risks of a parent company or affiliated companies. It operates in the same way commercial insurers do — it is licensed, sets rates for risks, writes policies for risks it insures, collects premiums and pays out claims.

The difference is that a captive insurer can only underwrite the risks of the parent or affiliated companies. It cannot sell insurance to the general public.

Captive insurance companies are less heavily regulated.

In 1982, Vermont began to allow businesses to establish limited liability, captive insurance companies. The Department of Financial Regulation oversees the industry.

Leahy said he wants companies to have the option of setting up captive insurance companies in Vermont so they can self-insure against cyber attacks, instead of paying a third-party insurer. Vermont, he said, is a key player because it established the “gold standard” for captive insurance regulation.

Leahy spoke at the Vermont Captive Insurance Association’s convention held this week at the Sheraton-Burlington Hotel in South Burlington. The 30th annual event drew executives from 40 states and eight countries to the Burlington area, filling up the region’s hotels, restaurants, and tourism establishments for days.

Peter McDougall, chair of the conference, says Vermont has licensed 1,044 captive insurance companies. Parent companies include 48 of the Fortune 100 companies, McDougall said.

That means Vermont is first in the nation and third worldwide for how many captive insurance companies are registered in the state, he said. The top two are Bermuda and the Cayman Islands.

“It’s basically a form of self-insurance where companies can set aside funds for any risks that arise,” McDougall said. “It’s just a very clean industry that has good, high-paying jobs for a number of Vermonters.”

The captive insurance industry in Vermont employs certified public accountants, attorneys and captive managers, he said. The industry has created the intellectual infrastructure to make Vermont an attractive place to domicile a captive insurance company, even if a company doesn’t have a headquarters here.

Leahy said captive insurance is a good way to protect against attacks like what Target and Sony suffered in recent years; he said those types of cyber attacks could be detrimental to some companies.

McDougall said 19 captives in Vermont already insure against cyber risks. “A lot of companies are looking to fund their cyber risks through a captive,” he said. “[They would essentially] put funds aside to address the risk of a cyber breach.”

Susan Donegan, commissioner of the Department of Financial Regulation, said the industry “was a really good idea a long time ago as an innovative insurance tool, and Vermont was an early adopter, almost an inventor.”

“It’s turned into a very important sector,” Donegan said. “Not only does it bring jobs and revenue to Vermont, but it positions Vermont in the global marketplace, and we are the gold standard for captive insurance regulation.”

“We have set the standard,” she said. “We put the resources to being top regulators, and we also demonstrate leadership around the world in this.”

Vermont registered 16 captive insurance companies in 2014, the lowest at any point in its history. The highest number registered was 77, back in 2003.