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CAPTIVE OWNERS REVIEW THEIR OPTIONS AS LIST OF DOMICILES INCREASES

Costs, ease of doing business drives surge in redomestications

By Jerry Geisel

Two months after Innovative Physician Solutions Risk Retention Group moved to Vermont from Arizona, Chief Operating Officer Mark Tabler said he and the RRG's board of directors are "absolutely thrilled."

"There are significant cost savings and a tremendous captive knowledge base in Vermont," he said.

The move of the 10-year-old RRG, which provides professional liability coverage to about 400 physicians, is among several dozen captives that changed domiciles in the past year.

In Vermont, 11 of the 33 captive insurers state regulators licensed in 2015 were redomestications; Delaware reported 10 redomestications; Tennessee, seven; while Nevada, North Carolina and Texas each had four captives and Georgia had two captives that moved to those states from other domiciles.

"Clearly, redomestications have been on the upswing," said John Lochner, a director at Willis Towers Watson P.L.C. in Hartford, Connecticut.

"There definitely has been an increase in redomestications," said Nancy Gray, regional managing director of the Americas at Aon Risk Solutions in Burlington, Vermont.

A key driver of the moves has been states passing legislation allowing captive formations or enhancing their captive laws, such as reducing their premium taxes, experts say.

That has been particularly relevant for organizations who years ago set up a captive in another state because their home state lacked an attractive captive statute. Today, nearly three dozen states have captive laws.

In some newer domiciles, such as Texas, whose 11 captive formations included four redomestications, captive growth has been fueled in part by the state's ability to attract captives licensed in other states and whose parents are located in states that now have attractive captive statutes, said Texas Captive Insurance Association President Josh Magden.

"So many organizations are based here. They want their captives to be in their home state," said Ellyn Casazza, a senior vice president in Atlanta at Marsh Captive Solutions and president-elect of the Texas Captive Insurance Association.

It's easier to do business in a state where the parent is located, said Irving Pozmantier, president of Alternative Insurance Strategies L.L.C. in Houston, which helped a Texas-based real estate development company redomicile its captive to Texas from Arizona.

Moving a captive to a parent's home state reduces costs and saves time, such as travel to captive board meetings, Aon's Ms. Gray said.

In addition, captive sponsors may look to move their captives to new domiciles for other cost savings.

For example, captive examination fees in Vermont are substantially lower than many other domiciles because the state's captive unit does those examinations rather than contracts them out to outside firms, said Troy Winch, vice president and director of captive insurance at Risk Services L.L.C. in Sarasota, Florida.

Another factor driving parent companies to move captives to their home state is what is known as self-procurement taxes. Many states assess the tax on premiums paid to captives licensed outside their home state. Those taxes can be costly, often 4% to 5% of premiums.

"A company may say, Why should it pay a 4% self-procurement tax?' when it can pay a fraction of that amount if its captive is domiciled where it is based," said Charles J. Lavelle, a senior partner at law firm Bingham Greenebaum Doll L.L.P. in Louisville, Kentucky.

Concerns about offshore domiciles being known as tax havens also have prompted companies to move their captives to the United States.

"It is a perception issue. Some companies don't want to be perceived as doing business offshore," said David Snowball, Utah's director of captive insurance in Salt Lake City.

To be sure, many captive parents have no intention of moving their domicile.

"There are many reasons why we have stayed in Vermont, not the least of which is their well-deserved reputation for being a fair and thoughtful regulator," said Pamela Davis, president and CEO in Santa Cruz, California, for the Alliance of Nonprofits for Insurance Risk Retention Group, which was licensed in Vermont in 2000 and provides a wide range of coverages, including general liability and coverage for cyber liability.

"The regulators are efficient and prompt when we need them to be. We have periodically looked at moving to another state, but after investigating, have consistently confirmed that United Educators is better off staying in Vermont," said Janice Abraham, president and CEO in Bethesda, Maryland of United Educators Risk Retention Group, which has been based in Vermont since 1987 and provides, among other things, general and legal liability coverages.