



FROM THE CEO

A World of Change

A quarter-century is a long time in most relationships. But 25 years is a couple of lifetimes in the captive insurance industry, and the VCIA has been one of our most important voices during lots of change.

Len Crouse, Tom Stokes and I began our careers in the industry around the time the VCIA started up. Since then, we watched the captive industry transform from existing almost exclusively offshore and insuring a small variety of risks into a cost-efficient, multi-line, multi-domicile powerhouse. And, personally, we moved on from other endeavors and landed with The Towner Management Group, which has grown in two short years to manage more than \$500 million in annual premium.

These are exciting times for Towner Management in the U.S. But they might not have existed without the early efforts of the VCIA, Vermont regulators and other captive pioneers. We congratulate the VCIA on its silver anniversary and offer our best wishes for continued growth and success in the future.

Guy Ragosta, CEO

When Rehabilitation Works for RRGs

When you hear about a captive insurance company or risk retention group entering rehabilitation, we often think of it as code for the beginning of the end. While most captives entering rehabilitation do eventually dissolve, some benefit from restructuring and emerge stronger and revitalized.

"Maybe one in 10 candidates can be rehabilitated," says Guy Ragosta, CEO of TMG's U.S. Operations. "But sometimes, simply going back to basics can help a captive or RRG get back on the right track and become licensed again."

The Rehab Specialist

TMG is developing a reputation as a rehabilitation specialist, counting two success stories in recent months. How can RRGs be rehabilitated?

"(Success) comes down to sound financial and business principles."

— Len Crouse

Some domiciles don't have the dedicated staff and sometimes, all some candidates need to do is go back to basics, look back at why the captive was formed. In recent years, for instance, some RRGs invested their capital significantly in equities when, in hindsight, that might not have been the best investment strategy.

"Maybe your captive has moved on and the reasons you created it aren't applicable anymore," says Ragosta. "Or maybe you just strayed from what made it successful. We know what works and what doesn't. We'll get insured members of an RRG involved in underwriting and claims committees, because who understands their business better than they do."

Staying on Track

To emerge from rehab, captives in this situation have a number of things they can do to get back on track. They include:

- Creating a new or revised business plan and fine-tuning it annually
- Committing to quarterly meetings to measure progress and monitor changes
- Reviewing pricing, but not necessarily reducing it, to retain business as market conditions change

"In Vermont, we would often talk to captives in rehabilitation about why we stopped them from writing new business and offer suggestions about restructuring losses reserves, surplus and expenses so they could write business again," says Crouse.

"If your captive is in rehabilitation, we'll give you an honest opinion about whether you can survive or not," says Ragosta. "It comes down to sound financial and business principles. Rehabilitation won't work for many captives, but it can be satisfying for those who succeed."

Are You Ready for Renewals?

When should you talk to a captive insurance professional? Now is a good time to find answers to that question.

"The best time to examine your risk financing options is definitely not when you are in the throes of renewals," says Thomas P. Stokes, Managing Principal of The Towner Management Group (NY) LLC and Consulting Practice Leader for TMG. "You should have your battle strategy ready in advance, and that means doing your homework. Understanding the true state of the markets and the available alternatives are critical factors to get the most out of the process, and a good captive insurance consultant will definitely help."

Look for experience

So what do you look for in a resource to help you find these answers? Most good consultants have experience. TMG has more than a century of captive insurance experience in the accounting, tax, insurance and regulatory arenas, giving it a depth of experience few firms its size can match. Independence is another key factor. Make sure your consultant focuses on you. TMG, for example, is fully independent, not affiliated with insurance brokers or underwriters.

Finally, and most importantly, creativity should be the differentiating factor. The professionals you choose should listen to you first, identify the issues you face and work with you to create an individualized solution, employing their considerable experience and independence. "We don't take anything for granted" says Stokes. "This is not a one-size-fits-all business. There is so much more that can be done if you have the right focus."

To learn more, contact Towner Management's consulting group at 203-695-2102 or email Tom.Stokes@townermanagement.com

Does Your RRG Need Ratings?

For the past two decades, Vermont has developed a reputation as a domicile that understands risk retention groups and regulates them thoroughly. So is an independent rating necessary for your RRG, too?

"It depends on what you want from your RRG," says Len Crouse, principal with Towner Management's U.S. Captive Operations and a member of the Government Affairs Committee of the National Risk Retention Association." If an RRG has rated paper, it can write business directly."

A Special Niche

Because it understands risk retention groups, Vermont has more RRGs than any other state, according to Crouse, who cites the domicile's RRG-specific examiners and involvement with the National Association of Insurance Commissioners (NAIC) working groups as two reasons for this success. Yet, Crouse says that there are times when an RRG might want a rating from A.M. Best Company, the dominant rater, or Demotech, Inc., to:

- Validate financial strength and capabilities
- Satisfy regulatory requirements, depending on the domicile
- Enhance access to and reduce cost of reinsurance
- Provide greater fronting flexibility
- Help attract and retain members

"Hospitals and physician groups often want ratings because they compete in the marketplace," says Crouse, citing perhaps the top reason for submitting to a rating. "When competing for business in the open marketplace, having a rating can eliminate a competitive disadvantage."

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— Len Crouse

What Matters

That depends on the rating. When Best rates an RRG, according to Crouse, it looks at four key components: risk-adjusted capital, operating performance, market profile and an assessment of management. "This helps to determine the rating, which measures potential impairment rather than quality," says Crouse, "Although it will also recognize unique characteristics of each insurer."

Still, not every RRG will need one of these ratings, particularly those that do not have to market extensively outside a close circle of members. An RRG's domicile, when it has strong regulation and knowledge of the RRG structure, can also convince an RRG that a rating may not be necessary.

Towner Management has extensive experience working with RRGs. To learn more about our services for RRGs, call Len Crouse or Mary Richards and Towner Management at 802-861-2930.

Barbados: The Little Country That Could

Just as the *Little Engine That Could* pulled the train up and over the mountain in the classic children's story, Barbados is the little domicile that not only could, but does, by offering many financial advantages to captive insurers and other business entities.

Sometimes overshadowed by Bermuda and Cayman Islands because they have more registered captives, Barbados is widening the advantages it enjoys over its major Caribbean competitors in both the tax and regulatory arenas.

Robust Regulation

Ranked seventh worldwide by *Business Insurance* in number of captives, Barbados is no small

player in the captive insurance industry. Its ranking in other areas, touching on business acumen, its economy and quality of living, also stand out. For example, Barbados ranks:

- Fifth in the Americas for the Index of Economic Freedom's most open economy
- Fifth in the Americas by Economic Intelligence Unit's Quality of Life Index
- Third in the Americas by Transparency International's Corruption Perception Index, topped only by Canada and the U.S.

More important than these rankings to business in Barbados are the

domicile's tax laws, particularly as they apply to captives and other offshore business. As the global economy struggles to recover, countries around the world, including the U.S., promise greater oversight and demand greater transparency from offshore businesses. In this area, Barbados stands out as an offshore captive domicile that is ahead of its time.

Barbados on OECD White List

Barbados is considered a white list country by the Organization for Economic Cooperation and Development. White is the highest ranking, signifying jurisdictions that have substantially implemented the internationally agreed tax standard.

Barbados also has dozens of reciprocal tax treaties. Panama and Mexico most recently inked double taxation treaties with Barbados, joining the U.S., Canada, China, the United Kingdom and a growing number of countries in the euro zone and Americas.

"Barbados has enacted more tax treaties around the world than any other domicile in the Caribbean," says Ricardo O. Knight, president of The Towner Management Group (TMG) in Barbados. "Our domicile offers many financial advantages to captives, not the least being transparency. We believe we are competitive with any domicile in the region."

For more information about establishing a captive or other business entity in Barbados, contact TMG at 246.432.4000.



What is a Risk Retention Group?

A risk retention group is a group that typically forms for the exclusive purpose of insuring the similar liability risks of its members. Members are usually of the same industry and take an ownership interest in the RRG.

Authorized by the federal Liability Risk Retention Act of 1986, RRGs give members more control over their risk costs and ensure a potentially stable insurance market—something they can't guarantee when they buy insurance on the open market.

Big Captive Opportunities for Smaller Companies

While captive insurance has historically been dominated by large, corporate-owned captives that often do business around the globe, smaller companies are finding they can take advantage of captive insurance opportunities, too. This is especially true in the New York City area, where Towner Management has an office headed by Tom Stokes, Managing Principal of The Towner Management Group (NY) LLC and Consulting Practice Leader of TMG's U.S. operations.

"In the past, middle market and even small companies assumed they couldn't realize the same benefits as large, pure captive owners have in the past," says Stokes. "But with group captives and protected cell legislation in many domestic and offshore domiciles, smaller companies can find captive insurance solutions that meet their needs."

Tough Times

There are plenty of reasons to consider captive insurance. Product liability and directors and officers (D&O) insurance is in many instances prohibitively expensive through commercial insurers. While a soft market still exists in some lines, markets can and do change quickly, making coverage more unpredictable and expensive. And New York-area companies shouldn't be reminded of the need for comprehensive terrorism coverage, but many find the capacity they need either unaffordable or unavailable.

"With budget deficits common at all levels of government, I expect to see increased tax burdens on all business entities," says Stokes. "Commercial insurance markets will experience turbulence in the near to mid-term as they pass along these higher costs, and catastrophic

losses, such as the active hurricane season predicted for 2010, could cause even more uncertainty. This makes insuring risk through your own captive a timely opportunity, allowing you to insulate your exposure to these events and concentrate on your own business."

Advantages for Small Firms

For some smaller companies, additional opportunities might include a group, association or protected cell—also known as rent-a-captive solutions. Each has advantages and drawbacks. The bright side is that with so many options, there is likely a solution that can benefit your business at minimum cost.

"With so many options, there is likely a solution that can benefit your business."

— Tom Stokes

Single parent captives offer the most autonomy, but capitalization requirements and operating costs may not be cost-effective for smaller firms. "Group-type captives include multiple companies, helping to spread the risk," says Stokes. "While sharing risk with others strikes fear into many, getting into the right group with like-minded businesses can statistically reduce your overall exposure. You need to do the homework and learn what solution is best for you."

For more information about how your middle market company can reap the benefits of a captive insurance structure, contact Tom Stokes at tom.stokes@townermanagement.com or at 203-695-2102.

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