



TMG
The Towner Management Group

TOWNER CAPTIVE UPDATE

News and Insights About Alternative Risk Management

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FROM
THE CEO
All Grown Up

As the Vermont Captive Insurance Association celebrates its 24th conference this August, I think about my years in the business and the road from there to here. When I first began in the industry, captive insurance was in its infancy in the United States; it was almost all offshore. Then the growth in Vermont's captive insurance exploded and the VCIA matured along with it.

I'm proud to have been a small part of an association that is now one of the leading voices in the captive insurance industry. My congratulations, as the VCIA moves toward its silver anniversary.

In this newsletter, you'll read a little about and from Tom Stokes. I've known Tom as a colleague and a coworker for the past three decades. Tom joins TMG as a principal in our New York office and head of our management consulting practice. He'll take our clients to the next step, and few people know more about captive

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HR 5792 May Finally Provide Uniformity for RRGs

After a couple of decades of fighting for uniformity in how states regulate them, risk retention groups (RRGs) may finally have something to cheer about as Congress considers amending the federal Liability Risk Retention Act of 1986. The bill before the House Financial Services Committee, Increasing Insurance Coverage Options for Consumers Act of 2008, is sponsored by Rep. Dennis Moore (D) of Kansas and amends the 1986 law to cover risk retention groups that offer commercial property insurance.

"This legislation has been needed for some time," says Len Crouse, Partner with Towner U.S. Operations and a former long-time captive insurance regulator in Vermont. "First, the bill expands the scope of business that RRGs can write. We'll also get uniform corporate governance standards, something the NAIC has been trying to achieve for a while. Finally, I believe this bill adds safety and soundness to RRGs.

The effect of the bill, if passed, will not only make regulation of RRGs more uniform, but coverage more affordable, especially in the case of natural disasters.

Vermont Passes S. 42

As the Vermont legislative season drew to a close, governor Jim Douglas

signed into law BISHCA (Department of Banking, Insurance, Securities & Health Care Administration) Housekeeping Bill, which included amendments to the state's captive laws. The bill included a premium tax credit of \$7500 for captives newly licensed this year and next and technical amendments that reinforce requirements for sponsored captive insurance companies and clarify the insurance insolvency laws regarding this particular captive entity.

The legislation also allows Vermont captive insurance companies owned by foreign parent companies to use the same accounting methods as used by the parent. Finally, another part of the legislation increases from 10% to 11% the percentage of premium tax revenue the Department of Economic Development receives to promote Vermont's captive insurance industry.

"My administration continues to recognize how critical the captive insurance industry is to Vermont and the need to continue investing in our infrastructure and innovating in our regulation," Douglas said. "We intend to maintain Vermont's position as the gold standard of captive domiciles by continuing our strong and stable regulatory system, and making the investments necessary to sustain that."



FROM THE CEO All Grown Up

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insurance than he does. You'll see that in his article this issue about insuring terrorism risk – an example of how captive insurance continues to expand. You'll also read about other happenings both in the states and with our partner company in Barbados.

Tom's article on using captives to assume a portion of terrorism risk is one example of how TMG produces innovative solutions to meet all of our clients' risk financing needs. I wish you all continued success in meeting these and other risk management challenges.



Guy Ragosta, CEO

Stokes Leads TMG's Captive Consulting Practice



Captive insurance is the perfect vehicle for business entities to develop responsive risk management programs at extremely competitive cost. Few people understand how captives and cost-savings go together better than Thomas P. Stokes, a 20-plus-year veteran of the tax and captive insurance industries.

Towner Management Group welcomes Tom to the fold, where he is now managing principal of The Towner Management Group (NY) LLC and leader of Towner's captive consulting practice. "Tom will anchor the consultative portion of the practice," says Christopher Towner, founding chairman of TMG, "and his experience will help round out the services we offer our captive insurance clients."

"Tom will take our clients to the next step," adds Guy Ragosta, CEO and Partner of TMG's U.S. operations. "He's a really smart guy with impressive credentials. With the addition of Tom to the U.S. operations, we now have about 90 years of experience just among Tom, Len (Crouse) and myself."

Most recently, Stokes was managing director and practice leader – Risk Finance Consulting for Aon Global Risk Consulting. There, he headed up the alternative risk arm of AGRC's business. Previously, he was

Managing Director for Willis of New York. In these two positions and his previous two-plus decades in the captive insurance industry, Stokes developed methods and standards in captive and risk evaluation analysis, new uses for captive structures and overall thought leadership that have made Stokes a leader in the industry.

"Why be at the mercy of a hard commercial insurance market or have to pay for insurance whose price is dictated by factors over which you have no control?"

Nimble and quick

"I'm really looking forward to further developing our consulting capabilities with Chris, Guy and the whole Towner team," says Stokes. "The attraction of Towner is that it has big-firm handling capabilities, yet is nimble enough to identify and react quickly to opportunities in the market to the benefit of our clients – all with a personal touch that many larger firms simply cannot match."

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Stokes Leads TMG's Captive Consulting Practice

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Stokes has a B.S. in accounting from Central Connecticut State University and a Masters of Science in Taxation from the University of Hartford. Additionally, Stokes completed a condensed Harvard MBA program for corporate executives and is a member of the Tax Executives Institute.

As the captive insurance industry has matured, Stokes believes risk managers now more than ever look first to their captives for solutions. "Why be at the mercy of a hard commercial insurance market or have to pay for insurance whose price is dictated by factors over which you have no control?" asks Stokes. "With tax rates sure to rise, government budgets becoming tighter and credit still tough to get, everyone is looking at their expense budgets more closely. Captives can help deliver a positive impact to that budget.

Terrorism Risk Spurs U.S. Captive Activity

by Tom Stokes

Two recent events may make insuring a portion of terrorism risk through a United States-domiciled captive an effective way to provide proper coverage at a good price. Congress updated its terrorism risk bill in 2007 and commercial insurers responded by developing companion terrorism risk insurance products. Combined, these three components – captives, commercial insurers and the federal government – can work to deliver a cost-effective financial cushion to protect against terrorism risk.

When Congress enacted the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), it differed in two primary ways from the original Terrorism Risk Insurance Act (TRIA) enacted after September 11. First, it extended the sunset provision until 2014. Second, the new bill includes coverage for foreign-sourced and, for the first time, domestic-sourced terrorism events on United States soil. This addition is key, as it would now provide coverage for events such as the Oklahoma City bombing.

With a more predictable TRIPRA backstop, commercial insurers

stepped in with innovative products to cover some of what the TRIPRA provisions do not. In concert with a U.S.-domiciled captive, here's how the federal government and commercial insurers work together to assure adequate terrorism capacity.

TRIPRA Coverage Elements

While the federal terrorism risk coverage is a vital backstop for property owners, it is not cost-free. TRIPRA provisions will not respond to events that cause total damages of less than \$100 million. Events causing larger losses will then trigger the TRIPRA provisions (including the first \$100 million). TRIPRA coverage also requires a 20% deductible based on insurance premiums and a 15% co-pay on resulting losses.

A key point is that TRIPRA also responds to losses caused by nuclear, biological, chemical and radiological (NBCR) events. Commercial insurers will not offer coverage for these events. They do, however, offer coverage that pays deductibles, co-pays and trigger amounts not covered by federal insurance, among other features.

Commercial terrorism risk insurance is not a requirement for accessing the federal backstop, but can broaden coverage and minimize overall exposure. In fact, combining commercial insurance with the federal backstop can help eliminate most terrorism exposure. This is particularly important for many insureds because adequate commercial coverage may not be available at any price.

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Smith, Williams Gain ACI Designation

Gregory Smith, vice president, and Lisa Williams, account manager for TMG in Barbados, have completed their Associate in Captive Management, a certificate that will be presented to the Towner associates at the VCIA conference in August. They are the first Barbadians to earn this certification. Smith has been with TMG for seven years, while Williams has spent four years with the company.

Also in Barbados, Lois Inniss, vice president, and Richard Barrow, senior corporate administrator, completed their Institute of Chartered Secretaries and Administrators qualifications. This is a professional Canadian qualification that promotes sound governance and corporate compliance procedures necessary to conduct required meetings. Barbados is the world's leading domicile for Canadian captives.

"We believe that continuing education allows us to continue our leadership position in the captive insurance industry," says Ricardo Knight, president of Towner Management in Barbados. "These qualifications illustrate our associates' drive to remain at the leading edge of our industry."

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Maximizing Coverage

Towner Management Group's clients establish captive insurance companies both to help manage risk and cut costs. The latter aspect is particularly relevant when a captive insurer combines with TRIPRA and commercial insurance, as savings can be significant. However, a property owner can approach terrorism risk in three ways.

First, use commercial insurance only, which is limited to non-NBCR events and the capacity of the insurer. On a hypothetical \$1 billion exposure, you might pay \$550,000 for premiums, which would include the insurer's direct access to TRIPRA.

Second, you might use a captive insurance company only. On the same amount of risk, costs would range around \$85,000. Remember, the captive gets to keep the premiums when claims experience is good. Commercial insurers keep the premiums you pay them, regardless of claims experience. This approach maximizes savings.

Using a captive in combination with a commercial insurer to reinsure the deductible and co-pay would cost a bit more – say \$125,000, but it maximizes coverage.

Benefits With a Captive

These rough examples illustrate how an integrated approach to terrorism risk – of which captive insurance is the foundation – can provide multiple benefits to clients at least through 2014.

The current administration in Washington has indicated that it will likely conduct a review of the TRIPRA provisions as part of the overall budget process, but no specific changes have been discussed. While anything can happen, it is likely that the backstop would continue in some form both to and after 2014, even if Congress tinkers with deductibles and co-pays. The legislation is designed to keep the insurance markets – and the broader economy – working in the event of a terrorist attack. It is hard to see how that position might change in the future.

Now is a good time for existing and prospective captive owners to consider the benefits of combining a captive insurance company with the federal backstop and commercial insurance to insure against as much potential terrorism risk as possible.

Stay Informed

While the U.S. Treasury Department has not provided much official guidance regarding TRIPRA, it has provided feedback on some very important factors. Now that TRIPRA has been extended to 2014, Treasury will have time to formulate and promulgate regulations. Monitoring these developments as they occur will help keep your captive in the best position. Consult with Towner to make sure that using a captive in this capacity is appropriate.

Tom Stokes is Practice Leader, Risk Consulting, for Towner Management Group and managing principal of The Towner Management Group (NY) LLC.