

Benchmarking Your Captive: A “Pure Peer” Perspective

Single parent captive owners are constantly asking “Is my captive operating efficiently and according to its original purpose and plan?” There are a few ways to answer this question. One common and customary way is to benchmark your captive with a set of metrics and by comparing peer-captives globally to see what they are doing from an insurance, financial, solvency, administrative, investment and collateral perspective, among many other variables.

Many captive owners want to be able to demonstrate to management and gain assurances that their captives are operating in line with others, operating economically and efficiently and are achieving the goals that were set when the captives were established. In order to benchmark a captive, one will need to analyze the current plan of operations and the captive’s financial statements and carefully compare it to a peer group (large or small).

~ Michael Serrichio, Senior Vice President, Marsh

One way to achieve this is to undertake an analysis of your captive and compare it to published benchmarking reports, such as the Marsh 2010 Captive Benchmarking Report - Single Parent Captives: Assets and Collateral, which consists of over 750 captives managed by Marsh’s Captive Solutions Group.

Each company may be interested in different aspects of captive operations such as “Is there appropriate capital in the captive?”, “Are operating expenses in line with others?”, “Should our captive be entering into intercompany investments?” among many other critical questions. A few reasons to benchmark, and things to consider when planning to benchmark are:

- Assuring that the captive is financially viable, meeting regulatory requirements, has strong liquidity, solvency and other appropriate financial ratios.
- Assuring that the captive is operating appropriately and efficiently according to its peer groups
- Benchmarking appropriate lines of businesses, capitalization and general and administrative fees.

In conclusion, VCIA’s “Optimizing the Use of your Captive Through Benchmarking” seminar on May 12th should prove to be a valuable experience for captive owners to explore their options and to hear how others have undertaken such benchmarking initiatives.

Note: This guest article was written by a representative of Marsh, one of VCIA’s member companies. See next page for “About the Author.”

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Don’t Miss VCIA’s: “Optimizing the Use of your Captive Through Benchmarking”

May 12, 2010, 2:30 - 4:30pm
Hilton Burlington
Burlington, Vermont

Attend this important session in person or by phone. CPE/CLE credits available!

After the seminar, don’t miss our
Spring Member Mixer

sponsored by
Paul Frank + Collins P.C.
4:30 - 6:00pm

Register today by calling VCIA
at 802.658.8242



Register Online Today
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Success!” VCIA’s 25th
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www.vcia.com

(Continued from front cover)

About the Author:



Michael Serrichio is a Senior Vice President in Marsh's Captive Advisory Group and works in Marsh's Norwalk, Connecticut office. Mike assists clients in the U.S. and globally with the feasibility and organization of single parent captives, as well as risk retention groups and Rent-A-Captives. He is frequently involved with reviewing merger and acquisition transactions where there are

one or more captive subsidiaries and advises on various issues. He handles a wide range of consulting services surrounding various captive issues, such as capitalization levels, new coverages, tax concepts, captive investment opportunities, and cost savings. Mike earned his JD from Western New England College School of Law and a dual BA in criminology and psychology from the University of Connecticut.

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Pose a question, start a discussion, announce captive news, even post a job opening on VCIA's group on the professional networking site LinkedIn! The group name is Vermont Captive Insurance Association. Join today and benefit from all the networking, captive information and professional connections to be made.

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- Charter One Reinsurance, Inc.
- Curtis Insurance, Inc.
- Fireside Inn & Suites Insurance Co.
- HMC Reinsurance Company
- Keystone Indemnity Company, Ltd.
- LCP Insurance Services, Inc.
- Lincoln Reinsurance Company of Vermont I
- M&T Mortgage Reinsurance Company, Inc.
- Merlinos & Associates, Inc.
- Michael Maglaras & Company
- Pennsylvania Acacia Insurance Company, Ltd.
- Phoenix Associated Insurance Co.
- Physicians Reimbursement Fund, Inc. RRG
- RBC Mortgage Risk Assumption, Inc.
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- Third Capital Mortgage Insurance Company
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*Joined between November 17, 2009 and May 1, 2010


Two ICCIE Scholarships to be Awarded in 2010

VCIA, the Housing Authority Insurance Group and ICCIE are pleased to announce two full scholarships that will allow a working professional in captive insurance and a minority student in an accredited risk insurance management program to pursue the industry's Associate in Captive Insurance designation, offered through ICCIE in the coming year.

The full scholarship for the captive insurance professional will be awarded to a staff member of a VCIA member company in recognition of VCIA's substantial financial support of ICCIE. The Housing Authority Scholarship, named in honor of Harry House, will be available to a minority student in good standing who is enrolled in an accredited risk management program at a college or university.

Application materials can be found on ICCIE's website at www.iccie.org. The scholarship recipients will be selected by a group of panelists appointed by ICCIE. The winners will be announced during the VCIA's Annual Conference in Burlington, Vermont, August 10 - 12th, 2010. For further information, contact Mitch Cantor at 1.802.651.9051 or mitch@iccie.org.

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President's Message

Dear Members and Friends,

Springtime is upon us (even up here in Vermont!) and our focus turns toward preparing for our annual meeting. If you haven't already, mark your calendars for August 10th – 12th! This year's theme is "Vermont: Passport to Captive Success."



Rich Smith,
VCIA President

We are excited to add some new types of programs to the conference that are designed to stimulate more discussion between captive owners and industry professionals. "Meet the Markets" will be back this year, and a "Peer Group" roundtable is planned for the banking and insurance industries. As always, the conference is not all seminars. There are plenty of opportunities to network, ask questions of the experts, and have fun. The conference will conclude with a luncheon and closing keynote speaker, John Jacobs, co-founder and entrepreneur of the company Life is Good. Keep your eye on www.vcia.com for all of the details.

VCIA's legislative package which was put into the Vermont's department of insurance (or BISHCA) "Housekeeping Bill" has passed the Senate with all the language intact. The House has taken up the bill and made some amendments presented by the department. The next step in the process is for the Senate to review the House changes and bring the bill to the Governor for his signature. At the federal level, there continues to be discussions about insurance regulation in general and Risk Retention Groups in particular. Items to watch are issues potentially affecting captives in the administration's budget and the financial services reform bill being shepherded through the Senate, as well as a draft bill that would expand the risk retention act to include property coverage. The NAIC continues its discussions on the regulation of Risk Retention Groups. We will continue to monitor these items.

In discussion with many of you these past few months, the outlook for captives in 2010 is positive, but guarded based on how the economy shapes up over the next 12 to 18 months. VCIA will continue to look for ways to add value for our members through educational seminars and networking opportunities at our events throughout the year. VCIA's Road Show we will be in Houston in October and Cleveland in November as well as New York City in spring 2011. We hope to see many of you at our "Benchmarking" seminar and Annual Spring Mixer May 12th!

Sincerely,

Challenges supporting medical professional liability operations turning your world upside down?



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Meet the Markets!

~Robert Quinn, Wells Fargo Insurance Trust
and John Loud, Dwight Asset Management

Is your captive being confronted with risk financing issues?

Unsure how to navigate the market? Today's fixed income investment marketplace is characterized by a low yield environment, steep curve between short-term and long-term rates, demand that anchors the long end and interest **rates** that have witnessed significant compression since the credit crisis of 2008. Looking for yield have abandoned Government debt in favor of yield advantages available in other high quality fixed income assets. Inflation concerns abound despite the fact that inflation continues to follow a benign trend so far in 2010.

Unsure who has the best cost on an LOC? Captive insurance companies looking for letters of credit (LOCs) these days may feel like they're navigating a maze. On one hand, they need an LOC. On the other hand, the LOCs they are looking at are often doubling or tripling in cost. Wouldn't it be better to put all the providers in one place and compare them side by side.

Unsure about alternative ways to collateralize a captive? The Insurance Trust (also called a Reg. 114 Trust, Collateral Trust, Security Escrow, etc.) offers captives a way of collateralizing their programs while saving money and satisfying the regulatory requirement of collateral. And it is accepted by most (if not all) insurance carriers (be it fronting carriers or otherwise).

Want some advice from the experts? Come Meet the Markets at the VCIA Annual Conference. This is a great opportunity to gather information from Investment Managers as well as providers of LOCs and Reg 114 Trusts and get answers to all your questions!

Don't Miss "Meet the Markets" at the VCIA Conference!

On August 12th during the Annual Conference, a group of Investment Managers as well as Lenders Offering (LOCs)/Regulation 114 Trusts will be welcoming interested clients at "Meet the Markets." Interested clients will have the opportunity to move among the vendors' displays to hear presentations and ask questions. Mark your calendar for this special session! Those interested in exhibiting, please contact Barbara Casanova at casanova@vcia.com.

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Business Insurance's Official Show Daily of VCIA 2010 If it's going on, it's getting in.

Business Insurance - the world's most respected commercial insurance news brand - will bring its editorial superiority and timely news coverage directly to attendees of the 2010 VCIA conference.

Our coverage will include:

- Breaking news and in-depth analysis from the event
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- Coverage of the scenes and activities surrounding this annual gathering.

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Upcoming VCIA Events:

May 12th
**Benchmarking Seminar &
 VCIA Board Meeting**
 Burlington, VT

August 10 – 12, 2010
VCIA 2010 Annual Conference
 Sheraton Hotel and UVM Davis Center,
 Burlington, VT

October 2010
**VCIA Captive Road Show
 in Houston, TX**

November 2010
**VCIA Captive Road Show
 in Cleveland, OH**

Details www.vcia.com

Seeking Feedback!

VCIA is considering putting together an educational seminar on how the new International Financial Accounting Standards will impact captives and their parent companies. We are currently trying to gauge if this issue is of great concern to our members, and we're interested in hearing from you!

If you have ideas about this topic, and thoughts about its importance, please send an email to Diane Leach at leach@vcia.com.

Thank you!

Federal Updates

Jim McIntyre, VCIA's Washington counsel reports on the following highlights. For a full report, please go to VCIA's member section at www.vcia.com:

- **McCarran-Ferguson** – H.R. 4626, the Health Insurance Industry Fair Competition Act, passed the House of Representatives and would repeal the McCarran-Ferguson antitrust exemption only for health insurers. It does not include medical malpractice insurance companies.

- **Tax of Reinsurers** – Congressman Neal's (D-MA) bill, H.R. 3424, which would increase the tax on certain foreign reinsurers by potentially disallowing the deduction of a portion of the non-taxed reinsurance premiums paid to offshore affiliates for U.S. risk, is getting a lot of visibility, although the bill is not moving.

- **Financial Services Reform** – The Senate is debating Senator Dodd's (D-CT) financial services reform bill S. 3217. The bill contains the nonadmitted insurance and reinsurance reform or "surplus lines provisions" that passed the House last year (H.R. 4173). The bill also contains a provision to establish an Office of National Insurance. The Senate is expected to debate this financial services reform bill for about two weeks.

- **Risk Retention Groups** – On March 10, 2010, H.R. 4802 was introduced to amend the Liability Risk Retention Act of 1986 (LRRRA) to: (1) authorize risk retention groups to offer commercial property coverage; (2) establish a process for settling disputes between risk retention groups and states over the applicability of the LRRRA; and (3) establish corporate governance standards for risk retention groups. Senator Tester (D-MT) plans to introduce similar legislation in the Senate in May 2010.

- **NAIC Update** – The National Association of Insurance Commissioners (NAIC) held its spring meeting in Denver, Colorado, March 25-28, 2010. Here are some highlights:

- **RRG (E) Task Force** – The Capital Adequacy for RRGs (E) Technical Subgroup is considering how it might develop a capital adequacy standard regulatory tool that would be applicable to captive RRGs that do not meet certain criteria for exemption from the tool. The subgroup is looking at criteria for risk retention groups that are adequately capitalized that would exempt them from filing risk-based capital (RBC) reports. The (E) Task Force also discussed how new accreditation guidance would be reviewed for applicability to risk retention groups.

- **The Financial Regulation and Standards Accreditation (F) Committee** – The committee considered comments received regarding the (E) Task Force recommendations to adopt the Part B and Part C accreditation standards as applicable to RRGs licensed as captives. Surprisingly, there was no debate about this issue at this meeting, and the (F) Committee adopted the Part B and Part C standards for accreditation as proposed by the (E) Task Force. The (F) Committee also discussed a letter from the RRG (E) Task Force regarding clarifications of the previously adopted Part A standards.

ICCIE Receives the CICA Distinguished Service Award

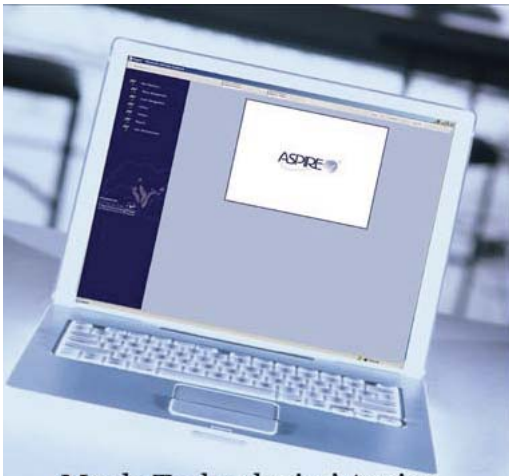
At the CICA Annual Conference last month, CICA gave its biggest annual award to ICCIE, in recognition of the institution's significant contributions to the growth and success of the captive industry. "No organization has done more for education in the captive industry and created a core group of qualified professionals than ICCIE," wrote CICA President Dennis Harwick in a press release announcing the award. ICCIE is the first organization to receive the CICA Distinguished Service Award, which has been awarded in previous years to prominent individuals such as Hugh Rosenbaum, Len Crouse, Tom Jones, and Kate Westover.

"This award is tremendous recognition for the dozens of industry leaders who devote their time to teaching ICCIE courses, or serving on our Board, or contributing to the vision of the organization through our working committees," says ICCIE Executive Director Mitch Cantor. "It's a great honor to be part of an industry that so values a highly-educated workforce," he adds.

Harwick presented the award to members of the ICCIE faculty, Board, and Cantor during the conference's opening general session. See photos on page 10. Congratulations ICCIE!

Seeking Connections for Road Shows!

If you are an active member of RIMS, ASHRM, CPCU, AFP, etc. and could put us in touch with a contact person for partnering on an educational monthly meeting, it would be great to hear from you! Presently, we especially need connections in Houston, Cleveland and NYC as we map out our Road Shows there. If you can help, please drop an email to Diane Leach at leach@vcia.com. Thank you!



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Register Today for VCIA 2010: Your Passport to Captive Success!

~ Clare Bello, VCM LLC, VCIA Conference Committee Chair



Clare Bello

Burlington, Vermont!

The VCIA Annual Conference is well known in the industry as one of the top conferences for the educational sessions offered over the course of two and a half days. Don't forget – CPE and CLE credits are offered throughout the conference and the cost of the credits is included in the registration of the seminar. Come and get your credits and experience the value of the VCIA educational sessions!

We have many new and exciting seminars to attend as well as networking events geared to help you mingle and meet your peers in the industry. Fifteen seminars and roundtables will be offered over the course of the conference. Come explore sessions with experts in the industry addressing topics such as: the continuing effect of the Financial Crisis on captives; the analysis and coordination of reinsurance contracts; advanced tax events which will affect your captive; connecting the dots between the insurance program and the risk management professionals; predictive modeling and much more!

For a terrific overview and introduction to captives, newcomers are welcomed to the industry through our extended introduction sessions: Captives 101 and Captives 102 (basic Tax). These sessions will be featured on the first day of the conference at no additional cost.

Come watch the "Captive Jeopardy" Game Show! See how the industry experts compete with each other over issues which are both entertaining and relevant to our industry. Meet with your peers in the "Peer Groups" and explore hot topics in the Roundtable sessions. We'll be looking for membership input as to the topics which are hot for you, so please let us know your thoughts! (email:leach@vcia.com)

The event opens on Tuesday morning with VCIA's Annual Vermont Captive Open Golf Tournament at Vermont National Country Club. That evening, we'll be holding an opening reception with our exhibitors on both levels of the Sheraton Exhibit Hall. Wednesday evening's reception will be held at Waterfront Park, a scenic and centrally located venue overlooking Lake Champlain. The conference will conclude on Thursday with a luncheon and our closing keynote speaker and entrepreneur, John Jacobs, positive thinker and co-founder of The Life Is Good Company.

Conference Highlights:

- The captive industry's largest education and networking event, with attendees from around the globe and over 100 exhibitors
- 60 expert panelists with critical information on the changing economic and regulatory world
- Top quality seminars and roundtables for every level of industry experience. CLE and CPE credit offered
- NEW! Peer-to-Peer Forums" for two select industry groups
- "Meet the Markets" featuring investment managers and lenders offering LOC / Reg I 14 Trusts
- Tuesday's opening gala will be held on both floors of the exhibit hall at the Sheraton
- Special "Captive Jeopardy!" General Session on Wednesday morning
- The conference will close Thursday with a festive luncheon and keynote speaker John Jacobs of The Life is Good Company

The VCIA Annual Conference in Burlington, Vermont is everything you need in an industry conference – convenient and economical venue; substantive education sessions with CPE/CLE credits; and terrific networking opportunities among the captive experts in the industry. The conference is a "must attend" for you this year. Register today at www.vcia.com!

Sponsorship, advertising opportunities and exhibit opportunities for the 2010 conference will yield terrific benefits. Please contact Barbara Casanova at casanova@vcia.com for more information.

Complete information and online registration at:

www.vcia.com

VCIA and Vermont at RIMS 2010:

Right: Sandy Bigglestone, State of Vermont, and Gary Osborne, USA Risk Group, at RIMS



Below: The State of Vermont staff at the Vermont booth; Phil Fagan, Pete Raymond, David Provost, Sandy Bigglestone and Dan Towle



Above: Dan Towle, State of Vermont, and VCIA Board Chair Tim East, The Walt Disney Company

Left: Paul Obolensky, Chartis Insurance Management Services, Inc. and David Provost, Vermont's Deputy Commissioner of Captive Insurance

ICCIE Wins CICA Award:

Right: VCIA President Richard Smith and Mike Meehan, Milliman Inc.



Below: Steve Killoran, Maple Capital Management, Inc, Rebecca Beers, KeyBank, and Bill Riley, Paul Frank + Collins P.C.



ICCIE won the CICA Distinguished Service Award at the CICA Conference in March. Right: Mitch Cantor, ICCIE Executive Director, accepts the award. Below: The ICCIE Board of Directors gathers on stage to accept the award. Dennis Harwick, Director of CICA, is at far right.

