

A Team Effort

Captives require a number of different individuals in order to succeed. **By Alex Wright**



Harmonious teams are key to building captives and managing them.

Setting up and running a captive insurance company is a huge undertaking.

There are so many different moving parts to the process, from the brokers and captive managers to the regulators, actuaries, accountants and attorneys who need to be involved.

But if done well, the benefits that can be reaped far outweigh the challenges involved.

The State of Vermont is a shining example of how this can be achieved, with members of the captives community working collaboratively towards the end goal of successfully forming and managing a captive.

A STRONG PARENT COMPANY

The most important role is that

of the captive owner or parent company, according to Sandy Bigglestone, deputy commissioner of the State of Vermont Department of Financial Regulation's captive insurance division.

Without them, she said, it wouldn't be possible to form the captive in the first place.

"Having that parent interaction and engagement in the process and buy-in from the C-suite, with treasury support, lends itself to good governance of the captive and a solid business plan," said Bigglestone. "As a result, they will derive all the risk management benefits that come with that too."

QUARTERBACK ROLE

Next in the pecking order is the captive manager. They serve as

the main point of contact and coordinator for the captive's service providers, including actuaries, auditors, claims administrators and brokers, as well as coordinating its board and committee meetings, and liaising between the owner, third parties and the regulator.

The captive manager also has to maintain the captive's books and records, preparing regular financial reports for the owners and board of directors, as well as business plan updates, along with supporting pro-forma financial statements.

Additionally, they ensure the captive is run as an insurance company with appropriately credentialed risk and underwriting professionals to support the insurance policy working and issuance, adherence to risk management and loss control efforts, and support for business plan changes.

"The captive manager is the quarterback of the team," said Bill Murphy, EVP of alternative markets at Arch Insurance. "They manage the process with the producer, captive member or group, fronting carrier, TPA, actuary and any other service providers."

It's therefore vital that captive owners do their due diligence and

SUMMARY

- **Everyone — from** regulators to parent companies — needs to work together to build a winning captive insurance solution.
- **Collaboration between managers,** regulators, actuaries and others is key to captive success.
- **Vermont is a** great state to build a captive team.



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find a manager with strong ethical values and whose purpose and goals align with their own, according to Jason Palmer, director at WTW’s captive and insurance management solutions. They also need to be knowledgeable and experienced in the relevant type of captive.

“Strong communication and coordination are key to being a successful captive manager,” said Palmer. “It’s important to know your deadlines, whether they be internal, to the captive owner, the board of directors or regulatory. It is then the captive manager’s responsibility to orchestrate any other third party participants to meet those agreed upon deadlines.”

Bigglestone added: “The core business of the parent company that forms the captive isn’t to run a captive insurance company and know insurance accounting inside out and all the operational needs for that.”

That’s why having a captive manager who can fulfill that role for them is key,” she continued.

That’s critical in Vermont where there’s a law that states every captive must have a principal place of business in the State. But where it isn’t feasible, captive owners can engage a manager to handle all their regulatory reporting and compliance instead.

Going hand-in-hand with the captive manager is the consultant. They carry out feasibility studies to evaluate the options available and identify appropriate solutions.

REGULATORY OVERSIGHT AND ACTUARIAL SUPPORT

Then comes the regulator. Their main purpose is to ensure the captive operates within the regulatory framework and remains stable and healthy.

They review applications and business plans to ensure feasibility and compliance, oversee the captive’s activities, provide education about the regulatory framework, and take the lead on industry and policy matters as well as legislative advocacy.

“It’s crucial in the State of Vermont to make sure that we have a gold standard set of rules and regulations, as well as the appropriate resources to ensure our captives are both highly solvent and well-run,” said Bigglestone. “It also protects our reputation as a regulator and the investment the captive owner or parent company is making in their captive.”

Another integral role is the actuary. They carry out an annual independent audit of the captive, as well as providing up-to-date analysis, advice and reporting.

Next up is the attorney. They play a key role in setting up the captive and ensuring compliance and that it has the necessary corporate protection to develop legal documentation and support the board.

WHERE DOES INSURANCE COME IN?

On the insurance side, the fronting or reinsurance carrier provides

coverage, while third party administrators can be used to handle their underwriting and claims. In a group captive context, carriers are critical in the risk selection process for adding new members, providing claims oversight, performing policy issuance and endorsements, and finance responsibilities of preparing and reconciling captive session statements.

“Group captives require a great deal of back office support that your carrier must provide,” Murphy said. “It is also important that they have a risk appetite for the business you are looking to put in the captive. You want to select a fronting carrier that has the same long-term track record you are looking to build in the captive.”

Dale Sagen, vice president, business development leader, accident and health at QBE North America, added: “The most important piece of running a captive is identifying a risk partner that you can transfer some of your risk to. At QBE, we have 25 captive programs that we support in this way, enabling the captive owner to feel comfortable with the risk and know they have a partner that supports them.”

In addition, investment managers provide the required financing. In a group setting, investment advisers also manage the assets in the trust to help with capital preservation and asset growth.

The final piece of the equation is the broker or agent. They secure the coverage for the captive and ensure



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and objectives, and the leveraging of technology are required across the entire value chain.

“The key to a successful captive is collaboration,” said Hassett. “Collaboration between members, owners, business partners and regulators. A captive will only reach its full potential with all stakeholders rowing in the same direction.”

Bigglestone added: “Every role is highly valued, and when they are all brought together as a whole, they ensure the success of Vermont as a captive domicile. It’s a model that has served us well for the last 42 years in business and will continue to do so moving forward.” &

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that it continues to meet their needs.

“The key challenge in fulfilling these roles is finding the right partners,” said Tracy Hassett, president and CEO of edRISK. “Making sure you have the right people in the right place, at the right time, is critical.

“We in Vermont, where our captive is domiciled, are very lucky. The relationships between the regulators, the State, the service

providers and the Vermont Captive Insurance Association made that easy. Vermont is the top domicile in the world, and that is largely because they have the right people and partners in the right place.”

ONE TEAM

But in order for all these roles to work effectively, collaboration is required. To achieve that transparent communication, shared goals

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