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Tax revenue, more than jobs, drive law change

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A $7,500 premium tax credit and more flexible regulations are leading some businesses to move their captive insurers to the Nutmeg State.

But the now growing industry doesn't mean new insurance companies with dozens of employees will be suddenly setting up shop in Connecticut.

In fact, very few new jobs will be created in Connecticut in the short run. So what are the economic benefits of Connecticut's aggressive attempts to lure captive insurers?

Experts say the move will bring new revenue to the state in the form of premium taxes, and — if the industry continues to grow — likely spur new job creation at law firms, accounting firms, consultancies and other professions that serve the industry.

"In the long haul we are going to be able to add jobs," said Michael Serricchio, a senior vice president at Marsh Captive Solutions in Norwalk. "Connecticut is thought of as the insurance capital of the U.S. so it makes sense to grow this part of the industry."

Serricchio's firm is one of the largest captive management firms in world; it assists companies in locating their captive. They also help the captive run the day-to-day operations including financial, regulatory and other functions.

Since most of a captive's work is outsourced, it's the professional service firms supporting captive insurers that are most likely to benefit from the new law, Serricchio said.

So far, two businesses have moved their captive insurers to Connecticut, since lawmakers passed new regulations and a tax credit last year to make the state a more attractive place to do business.

Stanley Black & Decker is moving its captive insurance subsidiary, SBD Insurance Inc. from Vermont to Connecticut, while Thomson Reuters has relocated its U.S. insurance subsidiary from Delaware to Connecticut.

Marsh Captive Solutions acts as the captive manager for both firms. Serricchio said Marsh isn't adding new jobs in Connecticut right now as a result of the uptick in business.

But he said he does expect more companies to move their captives to Connecticut, especially since the state is home to so many Fortune 500 companies.

About 85 percent of Fortune 500 companies have a captive insurer, Serricchio said, which they use to self-insure their own risks related to health care, workers compensation, and product, general, and professional liability.

The goal is to gain greater control over costs.

By self-insuring, companies don't have to pay premiums to an insurance company. But they take on more risks because they have to pay claims out of their own pocket.

For years, many companies domiciled their captives outside the United States in places like Bermuda and the Cayman Islands because of their attractive regulatory environments.

But now U.S. states are beginning to alter their regulations to attract more business. Vermont is home to the most captives in the U.S. and now Connecticut is trying to play catch up.

During the special "Jobs" session of the legislature last October, state lawmakers passed revisions to the state captive insurance law that mirrors states like Vermont. The revisions expanded the types of insurance captives that can operate in Connecticut and established a special regulatory unit at the Insurance Department to focus on captives.

Donna Tommelleo, a spokesperson for the Connecticut Insurance Department, said the agency is in the process of forming a special captive unit that will add up to five new jobs within the agency.

There is also a one-time $7,500 premium tax credit available to companies that re-domesticate here.

Thomas Hodson, head of the recently formed Connecticut Captive Insurance Association, said Connecticut faces a challenge in attracting captives because the state is the new kid on the block.

But being the unofficial insurance capital of the U.S. puts Connecticut in a strong position to grow the industry, particularly because the state already has the intellectual capital here as well as the service sector that supports the industry.

"The biggest challenge is letting people know Connecticut is now an attractive domicile," Hodson said, adding that his organization will not only push for existing captives to re-domesticate here, but also convince middle market companies in the state to consider captives as a better way to manage their risks and keep costs in check.

Ted Augustinos, a partner Edwards Wildman Palmer LLP, said having regulators specifically geared toward working with captives makes the business environment more suitable for the industry. Having a captive in the same state where a company is headquartered also makes it easier to manage and oversee.

Augustinos' firm, which has 18 lawyers in Connecticut specifically focused on the insurance industry, served as legal advisors to Thomson Reuters when that company launched its Connecticut captive and provided regulatory advice to Stanley Black & Decker.

"We would expect that Connecticut headquartered companies will either move existing captives here or create new ones here," he said.