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Contact: ELLIOTT JACOBSON
(302) 674-7303
(202) 294-3266 cell
MICHAEL GOULD
(302) 674 -7305

"CAPTIVE" INSURERS SEEN AS TAX BASE

Taking cue from Vermont, Delaware looks to generate revenue for coffers

By ERIC RUTH • The News Journal • August 28, 2009

Delaware makes millions taxing big corporations that don't actually have much presence here. The next goal is to do the same thing in the complex and arcane field of "captive insurance."

It's an effort that has been talked about for years, but which is only now getting under way at the Delaware Insurance Commissioner's Office, which has created a new division and hired a team of well-connected outside experts to help burnish Delaware's image worldwide.

Captive insurance companies are essentially "paper" companies that are created and owned by corporations seeking the financial advantages of self-funded health plans and other types of insurance. They create tax revenue for the states they incorporate in, despite their lack of a "brick-and-mortar" presence.

Delaware starts its effort with 42 existing captives, compared with more than 700 for the leading state -- Vermont. In Vermont, which has a population somewhat smaller than Delaware's, captives generate about 1,500 jobs.

That's welcome potential at a time when Delaware's budget is stretched during a time of global economic crisis. The attorneys, accountants, actuaries and managers that oversee day-to-day functions of a captive also are all relatively lucrative professions, noted Steve Kinion, a veteran captives attorney and director of the state's new Bureau of Captive and Financial Insurance Products.

With the help of newly streamlined regulations, its new high-profile contract talent and an intensified effort, Delaware believes it can become one of the big-league players in the game, currently dominated by Vermont.

"We're trying to take Delaware's dominance in incorporations and corporate law and add on the insurance," said Richard Klumpp, president of the Delaware Captive Insurance Association and the leader of a Wilmington Trust unit that provides captive insurance company management.

In the state's view, it's a prize that's best sought with top talent -- Kinion and the bureau's new director of strategic development, Ed Ianni, are both attorneys with broad industry contacts. Under their contracts with the state, each will be paid \$16,000 a month, including expenses, but receive no benefits.

"We just need the talent to honor Delaware," and to successfully establish a market that attracts more sophisticated -- and more lucrative -- captives, Insurance Commissioner Karen Weldin Stewart said.

Though Delaware doesn't hope to compete directly with long-time leaders like Vermont, state officials believe Delaware's corporate law reputation will give it allure, and see potential for captive insurance business from the many big-name companies already incorporated here.

"I would like them to have more tools to deal with their clients, and I want those tools to be in Delaware," Stewart said of the state's existing ranks of corporate law professionals. "Because we do have the attorneys here and the corporate structure and the laws on the books, we're just a great place to do that kind of business and do it responsibly."

The state already has signed on a company that's expected to generate \$75,000 in tax revenue a year, and hopes to add two more in the next couple of weeks. "And we just got started," said Elliott Jacobson, the insurance commissioner's chief of staff.

"It's really how fast and how hard we work," Jacobson said. "A lot of it has to do with the economic climate. But we think that Delaware has assets that very few states have."

Delaware sees health insurance as a particularly attractive niche. There's also a strong chance that Delaware can expand its captives business to other investment niches within the insurance business.

Note: Go to [Delaware Online](#) to see the article that originally appeared on the News Journal.

ON THE WEB

Bureau of Captive and Financial Insurance Products: <http://captive.delawareinsurance.gov>.

Delaware Captive Insurance Association: www.delawarecaptive.org.