



## Legislation Text

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### Interoffice Memorandum

**DATE:** July 12, 2024

**TO:** Mayor Jerry L. Demings and County Commissioners

**THROUGH:** Lisa Snead, Assistant County Administrator

**FROM:** John Petrelli, Director of Risk Management and OPS

**CONTACT:** Susan Martin, Risk Management Administrator

**PHONE:** 407-836-9639

**DIVISION:** Risk Management Division

**ACTION REQUESTED:**

Approval of formation of Orange County Captive Insurance Company. The captive will be domiciled in Vermont and will be structured to maximize the County's ability to retain earnings and underwriting profits to make the County's risk transfer program more sustainable in the future. (Risk Management Division)

**PROJECT:** Orange County Captive Insurance Program

Since its inception in the early 1980's, the Risk Management Division has collaborated with its contracted commercial insurance brokers to develop a risk transfer program that includes aspects of self-insurance as well as commercial insurance policies.

The self-insurance portion of the program includes the self-insured retentions of our workers' compensation, liability and property policies. Since April 1, 2014, the County has been totally self-insured for workers' compensation claims. The self-insurance program is well capitalized in that separate loss reserves have been established and are adjusted on an annual basis based on the findings of a certified actuary. In FY 2023-2024 the County is maintaining loss reserves of approximately \$81.3 million dollars. These loss reserves are currently funded at a 75% confidence level and assume a 3% investment rate.

For those exposures that are catastrophic in nature the County purchases commercial insurance policies. These policies include various deductibles or retentions and limits based on conservative risk management practices and approved by the Risk Management Committee.

Over the past 20 years the County has paid out approximately \$104.6 million in premium dollars for all commercial insurance policies combined. When you compare this to the \$3.2 million in carrier payouts you can see that the commercial insurance market is making a substantial profit from the County's program. Property underwriters that used to base pricing on coastal and flood exposures are taking a more global approach to how they underwrite their programs shifting their focus to values at risk as opposed to loss experience. Unfortunately, this does not benefit the County, who has a significant portfolio of property values but very little loss experience. This has prompted the Risk Management Division to look for alternative ways to transfer risk. One of the options being considered was to form the County's own captive insurance company. Captive insurance companies have several advantages including:

- Increased coverage and capacity in a hard market

- Investment income to help fund losses

- Direct access to reinsurance markets

- Underwriting flexibility and retention of profits

In August of 2023, the Board approved an amendment to our current broker services contract allowing Artex, a subsidiary of Arthur J Gallagher, to perform a study outlining the feasibility of the County creating its own captive insurance company. The study included an actuarial study using the same parameters that are currently used in our self-insurance program. The study also looked at various U.S. domiciles for incorporating the captive insurance company and it was determined that Vermont had the most positive key decision factors. Vermont is the world's largest domicile in the world with 659 captives, 17 of which are governmental entities.

From a cost standpoint the County will reallocate the funds currently used to pay premiums for property and liability policies into the captive insurance company. Initially, the County's captive will insure the first \$1 million of any property loss and the first \$6 million of any liability loss. The feasibility study indicates that this scenario will result in a five-year profit of \$39.7 million with retained earnings of \$36 million.

**BUDGET:** One additional staff member will be needed to facilitate the activities associated with the captive. Risk Management included a new position request in its FY 2024-2025 budget submission.