



# Kentucky captive domicile off to the races!

**Dwight Rich** of the **Kentucky Captive Association** discusses how the state, as a domicile, is fast becoming a thoroughbred destination for captives



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is one of the original members of the KY Captive Association and has worked closely with the president, Stuart Ferguson, since its inception. Specialising in captive investment management he has been a guest speaker at two of their annual conferences.

**A**s a captive domicile, Kentucky wasn't even active only 10 years ago. What a difference a decade makes. Since the formation of its first captive in 2002 (a mid-sized group captive of Automobile Dealers addressing their workman's compensation needs), Kentucky has seen exponential growth of in-state domiciled captives at more than 136 captives. And the numbers are growing. Like a Kentucky thoroughbred, this captive domicile is exploding onto the field like a three-year-old from the gates at Churchill Downs on Derby day.

What explains this impressive growth? As a domicile, Kentucky has plenty to offer existing and/or start-up captives – namely excellent service providers, responsive Regulators, convenience, and cost efficiency. This effective combination is translating to well run and efficient captives. “We’re hard wired for this business,” says Chaz Lavelle, Greenebaum Doll & McDonald PLLC.

“I think our secret sauce is our service providers”, says Russell Coy II, captive co-ordinator for the Kentucky Department of Insurance Financial Standards & Examinations Division. He elaborates: “We have a stable of top notch service providers – in fact, some of the top ranked in the country.” With the advantage of experienced local attorneys, insurance advisors, CPAs, and investment advisors, local start-up and existing captives have been able to meet face to face with service providers who work in unison for client needs. The result is better communication which drives efficiency, regulatory compliance, and client satisfaction.

Regional organisations appreciate the convenience of a local domicile. A responsive Kentucky domicile allows companies to keep their captive local. With many moving parts to the captive structure, captive owners enjoy being able to communicate and/or meet with service providers and regulators face-to-face. For many organisations in the Midwest, trips up east or offshore don't make good financial sense with the availability of a time tested captive domicile like Kentucky. Louisville and Frankfort Kentucky are within a less than three-hour drive to major (and minor) mid-western cities/towns, which avoids the added expense and fuss of airline travel and long distance communication. All down the I-75 corridor, captive owners are telling us they like the convenience of being able to take care of their captive administration and still be home in time for little league or other family activities.

Kentucky also offers a cost effective option for captive owners. As a “flyover state”, Kentucky enjoys a low cost of living that allows providers to offer their services for a reasonable price. A quick glance at the real estate pages in the East Coast or offshore and one quickly realises just how more efficient providers can be in the Bluegrass State. In some part, this is why small to mid-sized captives have thrived in Kentucky. Costs matter.

Kentucky has also enjoyed a predictable and consistent regulatory environment. Kentucky enjoys some of the longest standing captive regulators of any onshore domicile. “This provides the predictable regulatory and administrative environment that allows captives to make decisions and act on them in a timely manner,” says Russell Coy. “With this track record and consistency, captive owners feel additional comfort domiciling in the state. “At this point, we have shown that we’re an established domicile. We’re working hard to make sure that Kentucky will be a domicile in perpetuity, which is important because so many domiciles have gone hot and cold.”

Is Kentucky equipped to handle the needs of Fortune 1000 companies? “Definitely”, says Russell Coy. “We’ve had bipartisan support for the captive initiative. Since the legislation was passed in 2001, we’ve had it amended in 2005 and 2010. That’s pretty strong legislative support. And despite budget woes, we’ve continued to add staff to service the industry.”

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## “ MEMBERS OF THE ASSOCIATION PRESENT THE OWNER AND JOCKEY WITH THE TROPHY IN THE WINNERS CIRCLE”

The Kentucky Captive Association was formed to provide education and information about captives and to keep owners, legislators and providers abreast of industry developments and keep the Kentucky Captive Act current. “We cooperate with other domiciles and associations on national issues of importance to captives and RRGs,” says Stuart Ferguson, president and founder of the KY Captive Association. In 2011, KYCIA was the platinum sponsor of the first *CaptiveLive* event in Chicago, which attracted some 300 attendees. An executive education conference has been held for five years now with a opening night reception in Louisville and a conference day hosted at Churchill Downs. Later in the afternoon there is time to meet and discuss the days’ education and opportunities with fellow attendees while taking in the horse races. The Association sponsors the Kentucky Captive Insurance Classic, which is typically the seventh featured race. Members of the Association present the owner and jockey with the trophy in the winners circle.

A question we are often asked is what is on our logo. If you’ve ever seen Goldfinger, then you will recognise the building as the Fort Knox gold depository, which is still there today.

So, let’s look at a recent new captive choosing

to domicile in the Commonwealth. The company had been concerned about enterprise level risk and considering a captive for years. At their insurance broker, attorney and CPA’s suggestion, they began the process of analysing the opportunity. They were pleasantly surprised by the quality of the service providers easily available to them and the costs weren’t nearly what they anticipated they might be based on conversations with others in their industry. After careful analysis, they worked together with the provider team to create a business plan, complete a feasibility study and form the captive corporation. Once they submitted their application for a licence, they found the department of insurance timely, knowledgeable and reasonable. They were able to respond quickly to finalise the acceptance. When the programme was presented to the company’s board of directors, they were pleased they were able to accomplish the goal of creating a captive in a cost effective manner. It gave the company a competitive advantage in the marketplace. Aside from that, they are pleased to be in a Midwest domicile.

In summary, Kentucky is thriving as the Midwest captive domicile of choice and capturing the attention of everyone from the closely held business to Fortune 1000 companies to Risk Retention Groups. The keys to their success have been strong local growth driven by exceptional service providers, predictable regulation, and low relative industry costs. Russell Coy sums it up: “In general, if anyone is considering a captive, they should strongly consider Kentucky as a domicile and our service providers for their expertise.” Domicile your captive in Kentucky and place yourself in the winner’s circle. 🍷