

# TACKLING

# THE TALENT CRISIS

## CICA Student Essay Contest

Essays from finalists Megan Moore, Natalie Kojababian, Marissa Dias, Samantha Kane, Magda Olivas Carmona and Rudy Martinez

## Emerging Talent

Steven Lam  
Insurance large commercial lines account manager  
Smith Brothers Insurance

## NEXTGen Task Force

CICA's NEXTGen Task Force chair Erin Hackett discusses what the group has been working on since its launch last year



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With GDP growth on the cards in Latin America, will the region's captive insurance industry follow suit?

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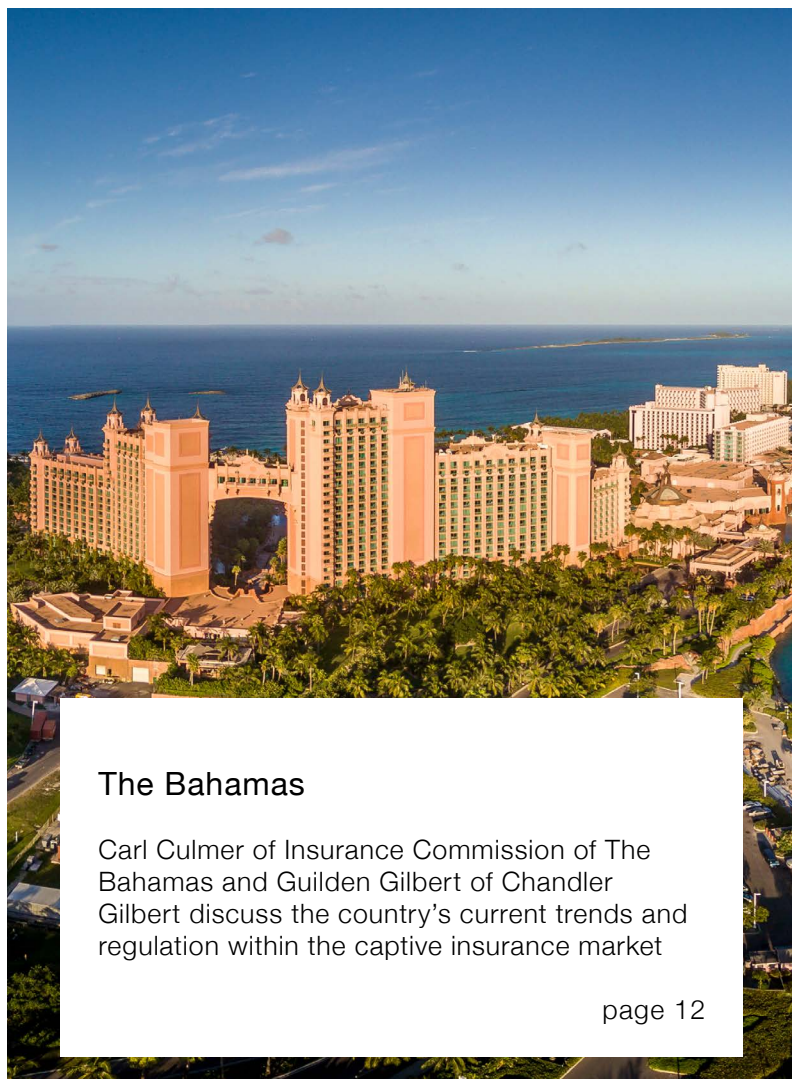
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# CIC Services says IRS’ ‘scare tactics’ left businesses unprepared during COVID-19

CIC Services has suggested that the Internal Revenue Service’s (IRS) “scare tactics” have left businesses unprepared amid the current COVID-19 pandemic.

The captive management company explained that in light of the current pandemic, many businesses “now regret their decision to forgo insuring their business via a captive insurance company”.

CIC Services said that this was a decision “strongly influenced by the IRS’s targeting of certain captive insurance arrangements and its refusal to provide honest taxpayers with any substantive guidance about operating such companies in good faith”.

The firm added that because of such “harassment” many businesses who desperately need captive insurance have declined to form a captive insurance company due to fear of “buying an IRS audit”.

CIC Services said: “Many businesses who once enjoyed the insurance protection offered by a captive insurance company have since shut down their captives for identical reasons. These businesses now find themselves unprotected and uninsured during one of the most profound periods of uncertainty the country has faced in decades.”

The firm also revealed that it has seen its clients hurt by “IRS scare tactics”.

Randy Sadler, who leads CIC Services’ marketing and client empowerment, said: “Over the years we’ve talked with many physicians groups that earn most of their income from elective surgeries. All of them have now been devastated by this coronavirus—they lost their income stream when the states banned all elective procedures.”

He added: “Unfortunately, the IRS’s scare tactics dissuaded many of them from setting up a captive insurance company

that would have helped them endure this interruption to business. But our clients who do have them are mostly thrilled at the movement, IRS concerns or not.”

Earlier this year, CIC Services petitioned the Supreme Court of the US to hear its lawsuit against the IRS regarding IRS Notice 2016-66. CIC Services revealed that its lawsuit continued to gain increasing support from legal scholars and it expects to have a ruling on the petition “within a couple of months”.

“Too many people think of captive insurance arrangements as a tax strategy,” said Sadler.

He concluded: “But while there may or may not be tax benefits in a given instance, there are essential and sometimes business-saving risk management and insurance benefits in every instance. Taxpayers can always enjoy the latter regardless of whether or not they choose to pursue the former.” ■



## NRRA reveals conference dates

The National Risk Retention Association (NRRA) 2020 National Conference will take place on 29 September to 1 October at the Sofitel Magnificent Mile Hotel in Chicago, Illinois.

In the announcement, the NRRA said: “These unsettling times make it even more important that we plan for the future, so we can deal with whatever is coming effectively and resolutely.”

The association’s 20/20 Vision agenda includes panel sessions on service provider think tanks, the changing front of cannabis, the US legal and regulatory system and technology, among others. ■



## Kelvin Re rating outlook remains stable

A.M. Best has affirmed the financial strength rating of A- (Excellent) and the long-term issuer credit rating of “a-” of Kelvin Re Limited (Kelvin Re). The outlook of these credit ratings remains stable.

Kelvin Re is a privately owned company based in Guernsey that provides short-tail property catastrophe and speciality lines reinsurance. The company derives its business using the origination capabilities of Credit Suisse’s insurance-linked strategies team.

A.M. Best said the ratings reflect Kelvin Re’s balance sheet strength, which was categorised as strongest, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management.

However, Kelvin Re has generated mostly negative underwriting results in its short history of operation, having been impacted by catastrophe losses in most years.

Following the publication of the company’s financial results for 2019, A.M. Best noted the negative impact of a number of catastrophe events in the year as well as adverse experience on reserves relating to catastrophe events in 2017 and 2018.

However, the rating company said that the losses are reflective of the

company’s business model and are within its risk appetite.

In line with its business plans, Kelvin Re has modified its underwriting exposures in 2020, which is expected to reduce the volatility in technical performance going forward.

According to A.M. Best, the successful execution of the company’s strategy is subject to execution risk.

Kelvin Re’s balance sheet strength is underpinned by the strongest level of risk-adjusted capitalisation, excellent financial flexibility and a dynamic retrocession programme, A.M. Best noted.

The rating firm said that the capital requirements are mainly driven by Kelvin Re’s exposure to catastrophe risks and the company’s holdings of alternative investment assets.

It added that to address these risks, Kelvin Re maintains a relatively high level of capital and surplus, which stood at \$934.1 million at year-end 2019.

Despite the company’s relatively high investment risk profile, the alternative assets produced a robust performance in the Q1 of 2020, despite volatility in global financial markets. ■



# FERMA calls on the European Commission to learn from COVID-19

The Federation of European Risk Management Associations (FERMA) has sent a letter to the European Commission urging them to use the COVID-19 pandemic as a lesson for any future pandemics by applying good risk management practices.

Speaking on behalf of FERMA, Dirk Wegener, president of the association, outlines in the letter that FERMA can contribute to this critical discussion, by providing “the necessary theoretical framework from organisational risk management and our experience of managing COVID-19 on the ground in thousands of businesses across Europe”.

He explained that risk managers across the member states are already involved in planning for a successful recovery.

He added: “We will collect the feedback and conclusions of this crisis throughout our membership and report our findings to the commission.”

Wegener also urged the “commission to support the development of public-private initiatives to increase financial resilience against future pandemic risks for our economies and our communities”.

He argued that due to the current pandemic, many European businesses will experience a financial loss that their insurance won’t cover, adding that “pandemic risk, like climate change and

cyber risk, is systemic. It is beyond the capital of the private insurance market to provide material capacity for transfer of risk”.

Wegener explained that “it will probably be necessary to create public-private partnerships for pandemic risk on a national basis, but the EU should help member states”.

He commented: “It could, for example, provide expertise, such as modelling and rate setting, and start-up costs. There is also the potential for additional EU support such as an EU backup layer, possibly via the European Stability Mechanism (ESM), allowing the convergence of all national systems to a European standard.”

Europe already has well-established schemes to manage extreme risks like terrorism and natural catastrophe, according to Wegener, using the French Caisse Centrale de Réassurance; Spain’s Consorcio de Compensación de Seguros; and the UK’s Pool Re, as examples.

He said: “These offer possible models for new initiatives, as they have an established process to provide funds to those affected by such risks.”

Wegener concluded: “Thank you for considering our ideas and recommendations. We hope to work with you for the protection of Europe and support of the European economy.” ■



## R&Q acquires captive from Imperial Chemical Industries

Randall & Quilter Investment Holdings (R&Q) has acquired the entire issued share capital of ICI Insurance Company Limited (ICIICL) from Imperial Chemical Industries.

ICIICL was formed in the Cayman Islands in 2003 and licensed as a Class B (i) insurer.

R&Q noted that the residual liabilities of ICIICL comprised primarily of US workers’ compensation and general liability claims.

**“This is another acquisition for R&Q that demonstrates the ability to assist companies in finalising legacy long-tail exposures”**

Paul Corver, R&Q group head of mergers and acquisitions, commented: “We are delighted to have agreed [on] terms to acquire ICIICL. This is another acquisition for R&Q that demonstrates the ability to assist companies in finalising legacy long-tail exposures.”


“R&Q takes pride in providing finality for captive owners either through outright acquisition or partial structured solutions such as reinsurance or novation”, he added. ■

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## Connecticut Insurance Department to partner with accounting firms

The State of Connecticut Insurance Department is set to partner with accounting firms in the state to expand its presence in the captive insurance market.

The insurance department suggested that accounting firms, as the “trusted advisor” to most mid-sized businesses, are “best positioned to assist in the education and communication of the benefits of captive insurance companies to these businesses”.

As part of the expansion plans, the state has engaged The National Network of Accountants (NNA) and Private Insurance Management (PIM) to assist with the design and implementation of the programme.

The state’s goal is to teach accounting firms the benefits of captives and how to identify clients within their practice areas that would be most likely to benefit from the concept.

The NNA, who has been training and providing educational resources for accounting firms across the US for nearly three decades, will be working closely with the state to ensure that Connecticut accounting firms are well prepared.

Janet Grace, programme director of the State of Connecticut Insurance Department’s captive insurance division, said: “With the serious problems our state and our country are facing right now, we couldn’t think of a better time to educate our business community about risk management tools that are available to them, with which they might not be familiar, such as captives.”

“Businesses in our state that currently have captive insurance companies will have a layer of relief during this crisis that others will not. We want to make certain that all businesses in the state are better educated to all the options available to them to protect against future situations that could create catastrophic losses.”

“We believe that working with our state’s great accounting firms is the best approach to providing this type of outreach and education for Connecticut based businesses,” she added.

According to the insurance department, one of the main issues is that commercial insurance coverage will offer little to no reimbursement to most businesses suffering losses due to the COVID-19 pandemic.

Paul Hyl, principal of Private Insurance Management, a captive management company working with the state, said: “Most commercial business interruption insurance policies contain an exclusion for losses sustained as a result of a pandemic.”

“The same goes for loss of key customer or supply chain interruption insurance, which most businesses don’t even maintain because such policies are too expensive in the commercial market. The pandemic exception, or other exceptions, such as the requirement of a physical loss, does not exist in most captive insurance company lines of coverage,” he explained.

“It’s all about education and communication,” said Joseph Tucciarone, founder and chairman of NNA.

Tucciarone added: “If we can get the accounting firms comfortable with the concept, I believe we can have a positive impact on businesses across the state of Connecticut and help them solidify their insurance and risk management planning.” ■





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# Captives in paradise

Carl Culmer of Insurance Commission of The Bahamas and Guilden Gilbert of Chandler Gilbert discuss the country's current trends and regulation within the captive insurance market

**What are the trends are you currently seeing in The Bahamas captive insurance sector?**

**Guilden Gilbert:** With regard to trends in the Bahamas Captive sector, there appears to have been some minor increase in inquiries on the domicile but the Bahamas is still getting the word out that it is indeed a captive domicile with expertise and experience in-country. It is a slow-moving process and that is not necessarily a bad thing because The Bahamas is uniquely

positioned to create a niche market for its captive business long term.

The insurance commission of The Bahamas is very flexible in its approach to reviewing and approving captive applications.

The view is that there is a fairly large market of untapped potential captive owners and the geographic location and time zone of the Bahamas makes it an attractive domicile.

**What is new for The Bahamas in terms of regulation? And is there anything on the horizon for 2020?**

**Carl Culmer:** Presently, the insurance industry is legislated in accordance with two separate acts, the insurance act, 2005 and external insurance act, 2009. To ensure that regulation remains both robust and efficient, the Commission intends to amalgamate these Acts. Given that the process for amalgamating the acts will be a considerable undertaking,



Number of captives (as at 31 December 2019)

Single insurance companies (captives): 11

Segregated accounts companies: 6

Segregated accounts (captive cells): 139

Total captive insurers: 17

the commission in 2019 introduced legislative amendments which expanded the current categories of licensing.

The categories include category A – E and focuses on bringing regulatory parity based on the operations of the insurer and its intended policyholder.

The new categories of licenses serves as the overarching description of an insurer's operations.

The license will then outline the respective classes and sub-classes an insurer may carry on insurance business in The Bahamas.

The addition of license categories is intended to be more explicit on what activities the insurer may conduct while permitting an expanded scope for existing and proposed insurers to further develop their business model.

### **A Bahamas-based captive, 2A Insurance was banned from doing business in the State of Washington - what are your thoughts on this decision?**

**Culmer:** As part of ongoing supervisory monitoring, the commission regulates its licensees and registrants in accordance with its supervisory ladder of Intervention. The ladder of intervention outlines actions that the commission may consider depending on the risk profile of the insurer and the nature and significance of prudential concerns. Once the commission is apprised of any manner that may adversely affect our stakeholders, particularly policyholders and insurers, we engage the parties in accordance with the appropriate level of supervisory intervention. In this matter, the commission adhered to its supervisory ladder by first engaging the licensees

immediately following the notification of the regulatory sanction. Subsequent to our initial correspondence we have followed the developments of this matter and have remained engaged with principals of the insurance manager so that appropriate actions can be proactively taken to prepare for an effective resolution. The matter remains under active review.

### **The Bahamas was removed from the EU 'grey list' and placed on the 'white list' - how will this decision play out for the country? And what requirements did you have to meet to return to the white list?**

**Gilbert:** The Bahamas has always been a quality, well-regulated domicile and the swift removal from the "grey list" and indeed any negative listing of the Bahamas is a result of the deliberate and swift action taken to address stated concerns of the EU. The integrity of the jurisdiction is evidenced by the following:

- A strong anti-money laundering, counter financing of terrorism Regime - The FATF has made the initial determination that The Bahamas has substantially completed its action plan, and merits an on-site assessment to verify strengthening of the effectiveness of its AML/CFT regime
- Tax transparency and cooperation
- US Foreign Accounts Tax Compliance Act implemented
- Commitment to automatic exchange of information/the common reporting standard
- Implementation of economic substance requirements
- Removal of preferential regimes
- Implementation of a beneficial owner register

The Bahamas is now well-positioned to compete on service and to leverage the attributes associated with its enviable location. The unique geographical



“We envision that emerging global risk may give rise to companies seeking alternative mechanisms to minimise operational losses not ordinarily captured in their commercial insurance policies”

Carl Culmer, manager policy and practices,  
Insurance Commission of The Bahamas



location of the Bahamas, just 50 miles off the coast of Florida and positioned as the gateway to the wider Americas, is an undeniable advantage for The Bahamas.

**As we enter the hard market, do you expect growth in The Bahamas captive market? Are you already seeing this happen?**

**Culmer:** For the immediate period, the commission anticipates a flattening in growth of captives given the number of applications submitted. While contraction has occurred in relation to the number of licenses issued and entities registered, we have seen an increased interest from our existing licensees seeking to restructure operations so that their capacity can be expanded to possibly take on additional risk.

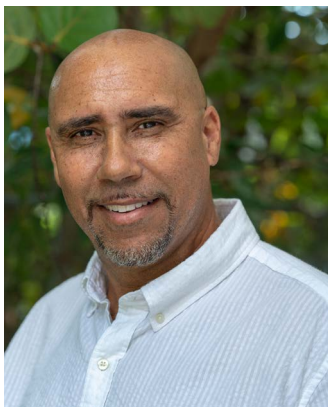
**What other trends do you expect to see in 2020?**

**Culmer:** As with every new year, the commission seeks to supervise its licensees and registrants by assessing the effectiveness of its process and procedures. In responding to global reform, the commission envisages that the current amendment to the categories of licenses and proposed legislative amalgamation will make its regulatory framework more robust and proactive.

We envision that emerging global risk may give rise to companies seeking alternative mechanisms to minimise operational losses not ordinarily captured in their commercial insurance policies or are considerably cost exhaustive. Therefore, the expansion to the legislative

licensing categories may provide opportunities for companies to establish flexible insurance structures that can capture those previously considered ‘once in a lifetime’ losses.

**Gilbert:** For 2020, the expectation is that The Bahamas will grow as a captive domicile and will be assisted in this growth by the turmoil within the Lloyd’s Market. There are syndicates that have significantly increase premiums in lines of business, some have and will cease writing certain classes of business thus driving up the cost of insurance cover creating a hard market, typically we see increased captive activity in a hard market as a measure to control and curtail premium costs and to allow entities to better manage/budget, their insurance costs. ■



“For 2020, the expectation is that The Bahamas will grow as a captive domicile and will be assisted in this growth by the turmoil within the Lloyd’s Market”

Guilden Gilbert, CEO of Chandler Gilbert

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# BUILDING ON THE BEST

## 2019-2020 CICA Student Essay Contest

University of Southern California students Megan Moore and Natalie Kojababian have received first place honours in the Captive Insurance Companies Association (CICA) Essay Contest, winning a cash prize of \$2,500.

Senior Moore and junior Kojababian proposed a group captive insurance solution to provide liability coverage for cannabis association members.

The winners were announced on 21 April during a webinar hosted by CICA Essay Contest sponsor Strategic Risk Solutions.

During the webinar, the three finalist teams presented their essays and fielded questions, followed by the announcement of the winning team.

According to CICA, this year's contest was "very competitive" leading to a tie for second place. Marissa Dias and Samantha

Kane, from Saint Joseph's University, proposed a risk retention group for the Home Healthcare industry; and Magda Olivas Carmona and Rudy Martinez, from St. Mary's University, proposed a group medical stop-loss captive for the Craft Brewing industry.

Both second-placed teams will receive a cash prize of \$1,500.

CICA president Dan Towle said: "Not only did we have more entries this year, but it was also great to see how close the judges' scores were."

"That level of interest and excellence from the students is exactly what we're looking for as we help them learn about the exciting career opportunities in captive insurance."

Both Moore and Kojababian are studying business administration with minors in risk management.

They share a passion for risk management and were interested to see the added benefits captives provide that traditional insurance may not.

Towle added: "Writing your essay is one component of the contest. We also want to give the students the opportunity to present to industry organisations that might become their future employers."

The winners are normally announced at the annual CICA Conference, which was cancelled this year due to the COVID-19 pandemic. Towle said: "[21 April] we were able to have them present and celebrate their success."

Brady Young, CEO of Strategic Risk Solutions, said: "We're very pleased with the students' work and their willingness to dig in and learn about captive opportunities not only for today but for growing and emerging industries that can benefit from captive solutions."

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“We’re very pleased with the students’ work and their willingness to dig in and learn about captive opportunities not only for today but for growing and emerging industries that can benefit from captive solutions”



Brady Young  
CEO  
Strategic Risk Solutions

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**Natalie Kojababian**  
University of Southern California

Natalie Kojababian is a junior at the University of Southern California studying Business Administration and Risk Management. She is a member of USC's Gamma Iota Sigma Omicron Chapter, previously known as Risk Management Society and will be the Diversity and Inclusion officer next fall. Last summer, Natalie was an intern at AmWINS Access in Woodland Hills and will be returning this summer. She is passionate about the risk and insurance industry and is eager to see where she will end up post-graduation.



**Megan Moore**  
University of Southern California

Megan Moore is a senior at the University of Southern California studying Business Administration and Risk Management. While at USC, Moore co-founded the Risk Management Society, now the Gamma Omicron chapter of Gamma Iota Sigma. Moore is extremely passionate about risk management and getting other students involved in the program. After her graduation this upcoming May, Moore will be working at Beazley in their underwriter training program in Atlanta, Georgia.

### **What made you decide to enter the CICA 'Captive Insurance Solutions for Emerging Industries' essay contest?**

**Natalie Kojababian:** Megan Moore, who entered the CICA essay contest with me, asked me if I wanted to join the essay contest with her in autumn 2019. I was considering the essay contest because I was taking two risk management classes at the time and heavily studying Disney's captive as a part of one of my projects. However, I did not know how to enter the contest until Megan reached out and asked if I would like to join her in the CICA essay contest.

**Megan Moore:** I wanted to enter the CICA essay contest because I am very passionate about risk management and wanted to showcase my knowledge through an engaging case competition. One of my insurance classes through USC was taught by an Aon executive, Ward Ching, who specialises in captive solutions for corporations. Professor Ching sparked my interest in captives through his guest speakers and engaging presentations, and ever since taking his class, I have had an extreme interest in the captive field.

### **Why did you decide to write about medical marijuana? And did you have much knowledge on this subject before undertaking your research?**

**Natalie Kojababian:** Megan and I initially started talking about our interest in in-home health care as our topic. However, as we were looking at the other options, we decided to pick the medical marijuana case because we felt that it was often talked about in the insurance field. Also, this was a topic we have both encountered either with our internships or questions that are posed when discussing insurance with other professionals in the industry. There are a lot of policies, new business, and renewals that are lost when trying to provide coverage for cannabis businesses and we were both

interested in learning about exactly why this issue occurs and how we can fix this issue.

I had some knowledge about the subject matter. In summer of 2019, I had applied to an insurance scholarship and one of the questions that were on the scholarship had to do with cannabis and whether it would be beneficial for the insurance industry if marijuana became legal at a federal level.

Though I did not have in-depth knowledge, I was aware of some of the challenges the industry faced when trying to provide coverage for a cannabis business.

**Megan Moore:** Coming from California, cannabis has been a very interesting topic in the news because of all the regulatory issues surrounding it. I found it very interesting how challenging the industry is to operate in, therefore I thought that undergoing a feasibility study for the cannabis industry would be a fun challenge.

Prior to researching and writing our essay for the contest, I only knew what I had learned in class about captives. I simply thought that large corporations had captives because they were so big. After further research, I understood that captives could be a solution to a multitude of problems and that they could be applied to smaller corporations also.

### **Where did your interest in captive insurance start?**

**Natalie Kojababian:** My interest in captive insurance started the first semester of my Junior year at USC when I was taking two risk management classes and learning about captives in both. We had guest speakers from Disney and Gemini present their captives to our classes and how they are developed. It was intriguing to see all the planning and creativity that went into developing and maintaining a captive.

**Megan Moore:** My interest in captives started in my introduction to insurance

and risk management class, taught by Ward Ching, a captive specialist at Aon.

### **What are your biggest takeaways from entering the contest?**

**Natalie Kojababian:** My biggest takeaway is that I actually ended up learning a lot more than I had anticipated. I read numerous sources, the SRS mentor who helped us polish our essay before submitting the final draft provided us with great sources and knowledge that we would not have found ourselves. Overall, this essay contest has grown my interest in captives and has opened a new perspective for me and my near future.

**Megan Moore:** I am really appreciative of getting the experience and challenge of undergoing a feasibility study for a captive. I had a fun time with Natalie researching and writing for the essay.

### **What advice would you give those who are considering entering the CICA essay contest next year?**

**Natalie Kojababian:** The advice I would give is to plan ahead and set deadlines with your partner beforehand. Setting deadlines between Megan and I (outside of the deadline that CICA provided us with) was extremely beneficial to balance our schoolwork and this essay. I would also recommend researching as much as you can before you put anything together. It is much easier to put your thoughts together after conducting research. Lastly, stay optimistic and open to learning throughout the process. Megan and I entered this essay contest to expand our knowledge about captives and we are extremely grateful that our hard work allowed us to become finalists.

**Megan Moore:** I would encourage all students to enter. It was a great learning experience and challenged me to do something outside of school. ■

I was interested in working with the students to discuss captive risk management for the cannabis industry given its relative newness and constantly changing risk environment. Megan Moore and Natalie Kojababian did an excellent job first providing context by detailing overall industry growth and then addressing the multitude of risk challenges that come with cannabis being classified as a controlled substance.

Their proposed group captive approach delivered a holistic solution that addressed regulatory concerns, banking capacity constraints and overall risk capacity challenges. Their paper addressed subtle challenges such as collateral which help the reader understand key risk/reward tradeoffs and the need for capital to support risk taking. Lastly, they addressed loss control and the need for proactive approaches in concert with a decision to finance risk in a captive.

Megan and Natalie have bright futures based on their professionalism and attention to detail.

**Michael O'Malley**  
**Managing director**  
**Strategic Risk Solutions**





2019-2020 CICA Student Essay Contest

# Captive Insurance Solutions for Emerging Industries

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**CANNABIS INDUSTRY**

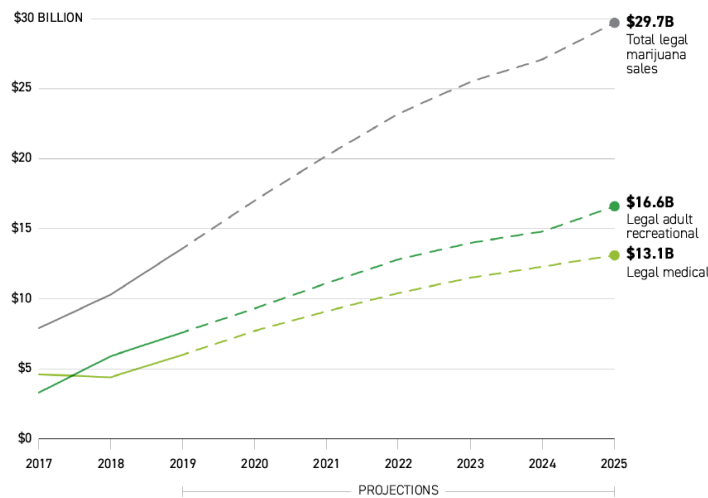


## Introduction to the Cannabis Industry

### RECENT GROWTH

Over the past decade, there has been an increasing demand and supply of cannabis. Although cannabis remains a Schedule I narcotic drug at the federal level, more than 30 states have approved the use of cannabis for medical or recreational use. Thus, this has created a multibillion-dollar industry, with the potential of thousands of jobs. In 2017, the cannabis industry employed 121,000 people. With current trajectory, the number of workers could reach 292,000 by 2020.<sup>1</sup> Additionally, legal sales of medical and recreational cannabis in the U.S. have grown dramatically, where, in 2017, sales were nearly “nine times higher than Oreo cookies and almost on par with Americans’ collective spending on Netflix subscriptions.”<sup>1</sup>

#### Legal sales of marijuana are projected to reach \$30B by 2025



Note: Market projections are based on states that have passed medical and adult recreational legalization as of July 2019. It does not account for additional states that could legalize either usage before 2025.

Source: New Frontier Data

<sup>1</sup> United States, Congress, Cannabis Insurance Working Group of the Property and Casualty Insurance Committee. “Regulatory Guide Understanding the Market for Cannabis Insurance: NAIC White Paper.” 2019.

## INCREASED REGULATION AND BANKING ISSUES

Under the Federal Controlled Substances Act (CSA) of 1970, cannabis is classified as a Schedule I substance. By definition, Schedule I drugs have a high potential for abuse and dependency, with no recognized medical use or value. Further, any possession, cultivation, or use of cannabis is a federal crime. Penalties include fines, prison time, or both. Large scale cultivation and trafficking (transporting or selling cannabis across state lines) suffers harsher penalties.<sup>2</sup>

When understanding federal laws in the cannabis industry, it is also important to note the different categorizations for drugs in the U.S. Schedule I and II drugs are both described as having a "high potential for abuse," which in essence is a vague description that does not rank drugs in the two categories as equal or different.<sup>3</sup> The main difference between Schedule I and II substances is whether the federal government believes a drug has medicinal value. Regardless of the federal laws, more than thirty states have legalized the—either medical, recreational, or both—use of cannabis in their states.

The possession, distribution, or sale of cannabis remains illegal under federal law. Any contact with money that can be traced back to state cannabis operations could be considered money laundering and expose a bank to significant legal, operational and regulatory risk.

The rift between federal and state laws have left banks trapped between their mission to serve the financial needs of their local communities and the threat of federal enforcement action.

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<sup>2</sup> Mnuchin, Steve. "BSA Expectations Regarding Marijuana-Related Businesses." *BSA Expectations Regarding Marijuana-Related Businesses* | *FinCEN.gov*, 2017, [www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses](http://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses)

<sup>3</sup> Fernandez, Jean-Gabriel. "Cannabis Businesses Continue to Struggle with Banking Issues." *Shepherd Express*, B.C. Faculty Press Books, 18 June 2019, [shepherdexpress.com/hemp/cannabis/cannabis-businesses-continue-to-struggle-with-banking-issues/](http://shepherdexpress.com/hemp/cannabis/cannabis-businesses-continue-to-struggle-with-banking-issues/).

While the American Bankers Association (ABA) take no formal position on the moral issues raised by legalizing cannabis, the growing number of states allowing the sale and use raises practical problems. ABA believes Congress and the regulatory agencies need to provide greater legal clarity to banks operating in states where cannabis has been legalized for medical or adult use.<sup>4</sup> Those banks, including institutions that have no interest in directly banking cannabis-related businesses, face rising legal and regulatory risks as the cannabis industry grows.

In addition to growers and retailers, there are numerous vendors, suppliers, landlords, and employees indirectly tied to the cannabis industry. This poses a legal risk for banks serving such entities and individuals, as indirect connections to cannabis revenues are hard, if not impossible, for banks to identify and avoid.<sup>4</sup>

In addition to the laws and rules placed around Schedule I and II drugs, cannabis, in particular, faces the issue of having excess cash on hand. This makes many, if not all cannabis businesses, more susceptible to internal and external theft. As reported in the *New Frontier*, until legislation like the SAFE Banking Act, which is currently in the House of Representatives, shifts the headwinds, cannabis companies will continue to have limited access to financial products (like insurance) which most businesses take for granted.<sup>5</sup> However, certain states such as Nevada are willing to support cannabis businesses by believing they should be placed in a federally registered bank. This coincides with the lack of banking capacity for the cannabis industry, which needs to be expanded.

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<sup>4</sup> Bergin, Sabrina. "Cannabis Banking." *American Bankers Association*, 2018, [www.aba.com/advocacy/our-issues/cannabis](http://www.aba.com/advocacy/our-issues/cannabis).

<sup>5</sup> Rosenberg, Maier. "How Banking Challenges Impede the Growth of the Cannabis Industry Today." *Home - New Frontier Data*, 2019, [newfrontierdata.com/cohnreznick/how-banking-challenges-impede-the-growth-of-the-cannabis-industry-today/](http://newfrontierdata.com/cohnreznick/how-banking-challenges-impede-the-growth-of-the-cannabis-industry-today/).



Thousands of cannabis businesses have been left unbanked and will remain unbanked in ongoing months due to federal and state laws making cannabis businesses more prone to theft due to the large amounts of cash accumulated over time. Statutory capital must be placed in federal banks to decrease the amounts of exposure and risk in the cannabis industry.

The banking regulations add difficulties for any insurance company to offer coverage because there are not fact-based financials to estimate exposures or properly pay out claims. For as long as the cannabis industry stays unbanked and transacted in cash, insurance companies will not be able to provide “full” coverage for anyone transacting within the cannabis industry.

### **LACK OF CAPACITY**

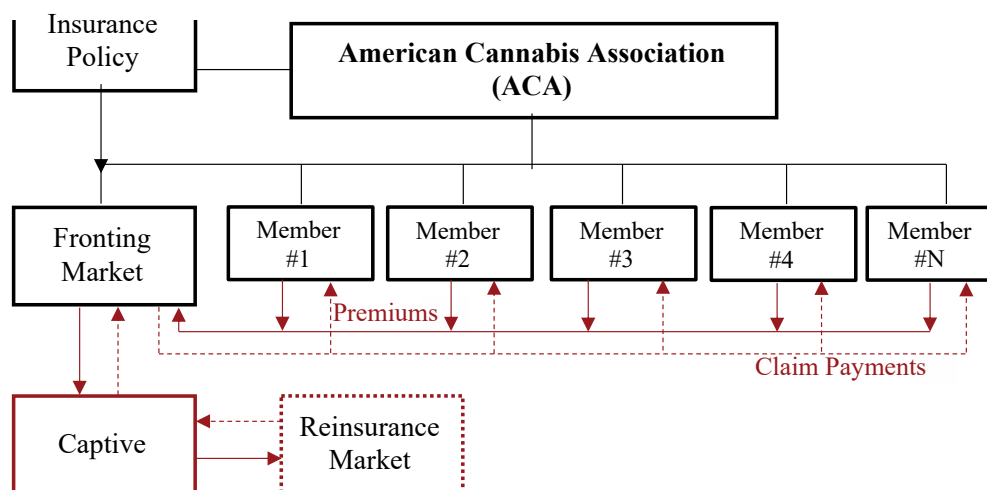
There is insufficient capacity in the traditional insurance market for businesses in the cannabis supply chain. Insurance companies lack loss history to price the risk properly and project future losses accurately. On the surface, it is challenging to quantify the risks the cannabis industry faces, especially when the industry itself faces banking issues and cannot report income properly. Additionally, many of these cannabis operations are new and do not have previous operational excellency. Many insurers are not willing to write cannabis insurance products due to the cannabis industry’s inability to bank, the federal illegality, and the unknown risks associated with insuring cannabis businesses. The purchase of insurance is necessary to the security and safety of cannabis businesses, their employees, and their customers. Lack of insurance for the industry adds layers of unnecessary risk and exposure for all market participants.<sup>1</sup> Therefore, due to all these challenges, it would be in the best interest of a cannabis business to create a captive to essentially self-insure their risks.

## **Group Captive Solution**

### **STRUCTURE OF CAPTIVE**

The American Cannabis Association (ACA) will undergo the following feasibility study for the creation of a group captive to provide the needed liability coverages for its members. The association contains hundreds of growers, transporters, and retailers across the United States. A group captive insurance company might be a viable solution to assist its members in receiving necessary insurance, while addressing banking and regulatory issues in addition to creating top risk management and loss control practices for its members.

The proposed group captive will be domiciled in Bermuda. Although individual US states such as Vermont have a strong history of supporting captive insurance companies, domiciling the captive outside of the US in a more captive-friendly state with less US federal oversight will ensure long-term success for the group captive. Additionally, Nevada has addressed their interest in supporting and sponsoring a cannabis association; however, they require collateral and capital to be placed in a federally registered bank—lowering potential success rate of a captive for cannabis being successful in Nevada. The captive will be organized by a sponsor and run by a captive manager, but in the direction of the member-owners. The following flow-chart depicts the proposed structure of ACA’s group captive.



ACA can benefit from this structure long-term. Members will pay premiums to the captive, through the fronting market, where the captive will then reinsure the policies from the standard market. Additionally, when a claim occurs, payments will be paid out to members of the association. In this scenario, the risk premiums are pooled, and the losses are shared with members of the association.

Similarly, the utilization of a fronting market will be a feasible solution, where a licensed, admitted insurer will issue the insurance policy on behalf of a self-insured organization or captive insurer without the intention of transferring any risk. Using a licensed insurance organization will allow ACA's captive to better comply with the financial responsibility laws imposed by many states that require evidence of coverage written by an admitted insurer. Also, specific business contracts with other organizations, such as leases, service contracts, and construction contracts, require evidence of coverage through an admitted insurer. Therefore, fronting will allow the members of the ACA to be more compliant in business and regulatory issues. We recognize that it may be very challenging to find a fronting market to support this



captive, as the chance of this captive failing, and payment of losses may lead to brand reputations for insurance companies. Thus, many insurance companies may require the captive to provide collateral to the front to eliminate the credit risk. On the other side, if an insurance company fronts this captive, they may have a highly competitive advantage due to being first to market.

A captive solution will be more productive and viable than a Risk Retention Group (RRG). RRGs were created from a federal act, and they have a smaller scope of coverage they can provide. Additionally, captive insurance companies can be domiciled anywhere in the world, while RRGs can only be domiciled in the United States. As aforementioned, establishing a cannabis captive in the US is infeasible due to federal regulations regarding cannabis' drug classification.

#### **ADDRESSING CAPACITY NEEDS**

Cannabis cultivation, processors/harvesters, manufacturing, retail, distribution, testing labs, and microbusinesses are all operations within the cannabis supply chain. There are a multitude of liability insurance policies, including Automobile, Commercial General Liability, Crime Insurance, Disaster Coverage, Director and Officer Liability Employment Practices Liability, Errors and Omissions, Excess/Umbrella, Product Liability, Premises Liability, and Workers' Compensation, which are required for such supply chain members in the cannabis industry.<sup>1</sup> ACA's captive will hold all of the policies as aforementioned for members of the association.

Due to the insufficient capacity in the traditional insurance market for businesses with cannabis operations, a captive could increase capacity for ACA's members. "As more states continue to legalize cannabis, the need and demand for cannabis insurance will only continue to increase. There are substantial gaps in insurance coverage for the cannabis industry, which

means that consumers, workers, vendors, owners, and investors face risks that are not covered as they interact or engage with the cannabis industry.”<sup>1</sup> The group captive will have the adequate capacity for members as there is no restriction on what can be written through the captive. The member-owners will use their discretion to supply better-priced insurance policies for its members.

### **ADDRESSING BANKING NEEDS**

As there are only a handful of banks who accept cannabis businesses as clients, companies have trouble with keeping their money secured. “Currently, hundreds of licensed and regulated businesses do not have access to the banking industry and are unable to accept credit cards, deposit revenues or write checks to meet payroll, [buy proper insurance,] or pay taxes,” says a representative from a cannabis advocate organization.<sup>3</sup> Therefore, a captive solution will help those members in the supply chain duly purchase the needed insurance coverage. The transfer or payment of premium will stay internally within the organization, thus, accommodating the banking laws for cannabis businesses. On the other hand, if association members are multi-state, where there are members purchasing insurance in different states, a captive solution may not be feasible due to the anti-money laundering laws. If the ACA decides to utilize a group captive, they will need additional legal support to understand such federal laws applying to such captive.

### **RISK MANAGEMENT PRACTICES AND LOSS CONTROL**

The implementation of a captive will help encourage loss control and the development/sharing of best risk management practices among its members. The captive will contain strict rules in place for underwriting criteria, therefore incite loss control for its members. Additionally, the captive will require a member’s active participation in the group captive’s

affairs. These strict requirements will allow for the better flow of information and best practices to be shared among members enabling the overall cannabis industry to adopt these practices.

### **Conclusion**

In conclusion, a group captive is the best solution to assist members of the America Cannabis Association in purchasing necessary liability coverages. Furthermore, a group captive can contribute to help its members with gaining affordable insurance, banking, and regulatory issues while creating top risk management and loss control practices for its members. Thus, the ACA should move forward in the creation of a group captive for their members.

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**Rudy Martinez**  
St. Mary's University

Rudy Martinez, a student attending St. Mary's University, is a senior studying Finance and Risk Management in the Greehey School of Business. During his time at this educational institution, he has had five paid internships, has volunteered in the community, has become a leader on campus, and is committed to being a servant leader and making a lasting impression on the world.



**Magda Olivas Carmona**  
St. Mary's University

Magda Olivas graduated from St. Mary's University in December 2019 with a double major in Accounting and Finance and Risk Management. During her time at St. Mary's, she had 3 paid internships, participated in different competitions, was part of various programs and organizations on campus, and volunteered in many community organizations to endure the Marianist mission of serving and giving back to others. She is highly motivated in expanding her knowledge and growing personally and intellectually.

**What made you decide to enter the CICA 'Captive Insurance Solutions for Emerging Industries' essay contest?**

**Rudy Martinez:** As a student attending St. Mary's University studying Finance and Risk Management, I've had the opportunity to receive a unique education that prepares me for a variety of challenges in the financial services industry. The CICA Essay Contest was an ideal opportunity to apply my knowledge in finance, risk management, and insurance and develop solutions that have real-world implications for small to medium-sized businesses.

**Magda Olivas Carmona:** My professor Dr. Sommer, who is amazing and very supportive, told me about the essay contest. I was familiar with SRS because they sponsored me to attend a conference in Vermont in 2019, where I learned more about captives. I was very excited about learning more about captives while writing the essay. I immediately said yes and looked for a teammate to take part on the journey.

**Why did you decide to write about craft brewing? And did you have much knowledge on this subject before undertaking your research?**

**Rudy Martinez:** I favoured the craft brewing case due to its focus on employee benefits. Coming from a university where I receive an education grounded in faith, values, and service, I knew that developing an alternative risk structure for the Craft Breweries Association would be the perfect opportunity to use my education and expertise to help people across the country in a way that saves money for the association members and their employees.

My undergraduate education in the Greehey School of Business covered various areas of the risk management and insurance industry. Included in this education were lessons that touched on captive insurance

and its ability to provide an alternative means of risk transfer; however, there wasn't a deep dive on how to truly structure this solution. My understanding and impression of this subject has definitely improved due to the additional knowledge I now have after conducting research and formulating this case.

**Magda Olivas Carmona:** I felt a strong connection to the craft brewing case because it involved employee benefits. Health care is often very expensive. This case had an opportunity to change that for the Craft Breweries Association's members through the creation of a medical stop-loss captive. I did not have much knowledge about this subject before developing this essay. My coursework was limited to captive insurance. My impression changed after researching and putting ideas together into the essay. Captives bring many solutions to employers that help them deliver better results for its members.

### **Where did your interest in captive insurance start?**

**Rudy Martinez:** My college coursework has been a combination of finance, risk management, and insurance material. During my course in enterprise risk management, I had the opportunity to analyse risk for organisations and provide recommendations on how to best manage those risks. While learning about tackling insurance problems and developing solutions for organisations, one topic covered was a captive arrangement. I thought it was fascinating, and when my partner Magda reached out to me about the CICA Essay Contest, I thought it would be a great opportunity to continue learning.

**Magda Olivas Carmona:** My undergraduate risk management coursework related to my accounting degree in some ways. I found a combination of my double major in

Accounting and Finance and Risk Management in the captive industry. I was honoured to be one of the four selected Strategic Risk Solutions Scholars in August 2019 and attended the VCIA 2019 Annual Conference in Vermont. I developed a strong desire to learn more about captives after attending the conference.

### **What are your biggest takeaways from entering the contest?**

**Rudy Martinez:** My biggest takeaway from entering the contest is being able to recognise the opportunities within the captive insurance industry. I now see the many opportunities for young talent to start a rewarding career, tackle a variety of risk management issues that organisations are facing, and develop captive solutions for a wide variety of industries all over the world.

**Magda Olivas Carmona:** This essay challenged me to learn more in-depth about how captives are formed and all the regulations that are required. It was not until researching and formulating ideas for this essay that I discovered the complexity of captives but also the great benefits they bring to employees and employers such as lower premiums and higher cash flows. I read about captives in several books and online articles. I discovered what a fronting company is and how it applies to captives. I found cost-containment strategies that the health insurance industry can implement through a captive. It amazed me to know about the cost-containment strategies such as what Grand Rounds does to reduce costs of future unnecessary surgeries.

### **What advice would you give those who are considering entering the CICA essay contest next year?**

**Rudy Martinez:** I would advise the future student teams to start early, to keep the momentum going as the essay contest

moves along, and to really take time to learn the variety of ways captive insurance is ideal for organisations. Additionally, I would advise future student teams to do their research and choose a case that resonates with them, a case that presents an issue that they are motivated to solve.

**Magda Olivas Carmona:** Do it. Connect with a topic that relates to you and is important in the impact you want to create in the world. Start writing and you would be surprised how much you learn and how much you put into your essay. Say yes and do it. ■

I was cautiously optimistic that there'd be interest by the students to select the case study focused on employee benefits and medical stop-loss, seeing these areas are not typically a focus of curriculum within a risk management college major. Magda Olivas Carmona and Rudy Martinez not only excelled in developing the appropriate captive structure but also delivered comprehensive solutions to help the craft brewing industry association members control health plan costs.

They delivered a thorough, well-thought process for forming the captive, carrier selection, underwriting and cost containment strategies – all elements needed for a successful group medical stop-loss captive programme. Their professionalism certainly shined through.

I'm sure they'll both have a bright professional future and I hope to see them consider careers in the captive industry!

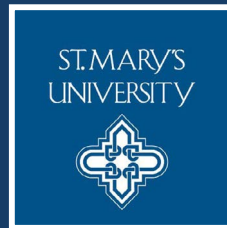
**Wendy J. Dine**  
Associate director/employee  
benefits practice leader  
Strategic Risk Solutions



2019-2020 CICA Student Essay Contest

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**ST. MARY'S UNIVERSITY:  
Magda Olivas Carmona and  
Rudy Martinez**

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**CRAFT BREWING INDUSTRY**





### Captive Insurance Solutions : Craft Brewing



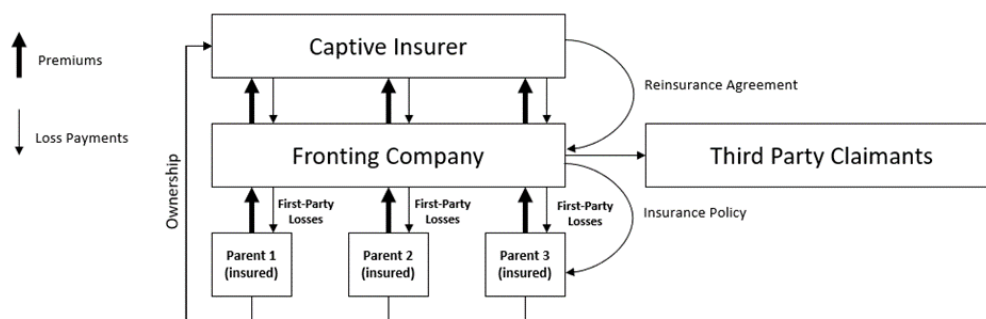
The objective of this essay is to present an alternative risk structure that enables the Craft Breweries Association (CBA) to develop a health benefit program for its 6,300 members and enhance their ability to reduce and stabilize health insurance costs for themselves and their employees. Through the utilization of a captive insurance company and the implementation of a long-term medical stop-loss coverage strategy (group medical stop loss captive), the Craft Breweries Association will enable its members to achieve an appropriate balance between risk assumption, risk control, and risk transfer to proactively manage their risk.

The Craft Breweries Association will create and take ownership of the captive insurer providing medical stop loss coverage to its 6,300 member breweries. The captive will follow a fronted structure, offering regulators an assurance that all claims will be paid to claimants. The fronting company will provide each of the association members a stop-loss policy, meaning that each member brewery will have their own sponsored health plan; thus, providing a means of self-insuring health risks and adding a layer of protection from inordinately high individual or aggregate health claims. The medical stop-loss captive will use a licensed, admitted insurer to issue an insurance policy on behalf of the association and then transfer all the risk to the captive; thus, allowing the captive insurer to retain the risk of loss. Each employer will have their own specific and aggregate deductible. If an employer has, for example, 50 employees in the plan, the employer would pay a \$20,000-\$25,000 specific deductible as directed by the coverage purchased from the fronting carrier issuing that policy. The captive will be assuming the risk of the fronting carrier up to a certain point. The captive will reinsure up to 125% of expected claims at which point the fronting company will assume the excess. The ultimate liability will remain with the fronting company; if the captive is unable to pay for any claims, the fronting company will honor the obligations stated in the policy. Of course, the fronting company will charge the

### Captive Insurance Solutions : Craft Brewing



captive a fee for this credit risk. The captive is considered an unauthorized reinsurer and in order to avoid the credit risk, the fronting carrier will want the gap between premium and ultimate claims to be collateralized. The fronting company will provide excess coverage so that there is a smaller gap between the captive’s premium and the ultimate exposure of the captive. Moreover, by implementing a fronting arrangement with a licensed insurer, the Craft Breweries Association will be able to “use their paper” to comply with regulations enforced by the 50 states in which its members are operational, states that may demand proof of medical stop loss coverage written by a licensed insurer.



Additionally, in order to select the correct fronting company that will enable the captive to serve as stop-loss carrier for its members, the captive needs to consider its own financial profile. This profile is molded by the risk tolerance for each of its 6,300 members, its claims experience, and its ideal requirements for a carrier that is being evaluated for selection in a fronting arrangement. With appropriate due diligence in this selection, the captive will ensure the success of the medical stop loss captive program it is implementing for the benefit of its members. Effective fronting companies work well with all stakeholders (brokers, cost-containment vendors, PBMs, and TPAs), working seamlessly to create a smooth administration process. Among some of the key attributes of a strong and specialized fronting carrier are:

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- High financial ratings and years of experience that demonstrate a capability to excel at handling cases properly
- Ability to cover the largest claims and ensure claims payment accuracy
- Ability to listen and communicate to the captive and to each employee while delivering a high-quality service
- Strong commitment to the insurance industry
- Ability to perform premium audits
- Constantly keeping up with new regulations and licenses in all states, navigating the difficulties related to rising minimum attachment requirements that make it complicated for smaller organizations to establish a self-funded risk structure (i.e. New Jersey)

Stop-loss coverage enables each employer in the group captive to mitigate a portion of the overall risk that self-funding carries with it. This stop-loss insurance protects against losses that exceed an attachment point. Based on employer size, the Craft Breweries Association should consider providing aggregate and specific coverage. Specific coverage will protect the captive's members from large claims that stem from an individual employee. Aggregate coverage, on the other hand, will complement specific coverage by protecting the captive's members' funds from a situation in which the cost of all claims under the specific deductible is higher than expected. Factors such as changes in employers' risk tolerances, new industry coverage trends, changes in federal and state laws, a decrease or increase in brewery personnel, employee demographics, claims history, and medical costs in different geographic locations will need to be considered in order to determine the stop-loss coverage and deductible levels that will be appropriate for the plan.

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The captive's financial solvency is no less important to consider than with any other insurance company. Besides setting aside a sufficient amount of capital to cover future losses, the captive will need to develop strategies that will maintain its financial solvency. The captive will need to monitor reserves that are recorded when there are estimates of losses incurred and reported but not completely settled or when losses might have occurred already but have not been reported yet. Lastly, it is critical that the captive appropriately adjusts reserves for past losses to reflect loss development resulting from economic, legal, and demographic factors that affect the ultimate cost of past losses.

A Captive Program Manager (CPM) ensures that a captive has an internal adjudicator that can implement loss control strategies, develop program structuring, and utilize broker and benefits consultants to ensure successful handling of member breweries' claims. The captive owned by The Craft Breweries Association will hire a CPM who will conduct an analysis of the risk and loss profiles of the captive. The CPM is going to decide what cost containment strategies are going to be used and who is going to determine how the program is structured. In addition, the CPM will make recommendations to the captive regarding how to plan and execute strategies that will ensure that it holds enough funds for the provision of benefits and maintains the effectiveness of the captive program. For example, should an employee of a member brewery suffer a health problem and incur costs on behalf of their employer, the funds that are expertly maintained in reserves will provide sufficient medical services to the employee. A strong CPM is necessary to assure effective and efficient operations of the medical plan. Partnering with consultants will enable the captive to constantly identify new ways to lower claims costs. The Captive Program Manager will need to demonstrate a strong understanding of employee benefits, more specifically medical stop loss to provide a variety of cost-containment services and



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consulting advice that enhances the employers' self-funding and benefits strategies. Senior and knowledgeable adjusters must handle the more complex claims.

By adopting a protected or rental cell captive, the members of the Craft Breweries Association will benefit by participating in the captive agreement without having the responsibility of ownership, governance or management. A rental cell captive will also save money on the statutory capital and must have the risk gap covered. The Craft Breweries Association (the captive's owner) will have a board specialized in the industry that will make the most appropriate and thoughtful decisions that satisfy each of its member's interests. The captive will be domiciled offshore in Bermuda and will submit a license application to the Bermuda Monetary Authority (BMA), which will include a business plan and a 5-year financial projection. The association captive will be in the category of Class 1 Insurers and subject to the lowest regulatory oversight. There are several convincing reasons why the captive should be offshore in Bermuda. Among the primary advantages are an established infrastructure, flexibility, ease and speed of entry, tax advantages, cost savings, and less burdensome legislative requirements than onshore captives for solvency and initial capitalization. Tax reform and tax considerations will need to be reviewed frequently due to possible shifts in Bermuda tax conditions. The captive will be subject to ongoing regulatory and legal requirements such as maintaining a minimum margin of solvency, performing and filing financial statements audits with the Bermuda Monetary Authority, and satisfying compliance with the code of conduct applicable in Bermuda. The BMA will need to approve any change the captive decides to do that involves a change in shareholder control, declaring or paying dividends, or reducing the captive's total capital.

With the implementation of cost-containment strategies, such as medical claims audits and dependent eligibility audits, among others, the captive will keep expense levels low to

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prevent unnecessary spending and reduce expenses without causing harm to employees' medical care services. By engaging employees in wellness programs, members' employees will be highly encouraged to live healthy lives, and this will consequently reduce health plan costs. Exercise activities inside and outside the office and other healthy activities will avoid sedentary lifestyles, reducing future healthcare costs for the employee and the members in the captive. In addition, programs that enable internal education should be fostered. These programs will enable employees to save money on prescriptions. If employees purchase generic brands that provide the same benefits as other more expensive brands, the captive can save substantial amount per year. Some of these internal education programs may also promote chronic condition maintenance to reduce or avoid medication while improving overall health. Lastly, another cost-containment strategy that the captive can adopt is the utilization of available data to identify what each member of the captive should provide to its employees to ensure a better health plan experience while reducing costs. For instance, members having individuals with untreated chronic conditions will pay more in the future for health insurance than those who are assuring that their employees are treating these chronic conditions. The employer may reduce its costs in the future if it finds and addresses these situations and provides its employees with information and help to live healthier lives.

To better control medical costs, the captive can also look at third party advisor options like Grand Rounds. Grand Rounds is based in California and coordinates expert opinions, medical advice, and in-network treatment for employees across all states in the United States. Grand Round matches patients with local providers to get them the best quality health care. Grand Rounds bases its recommendations to patients on associated institutions, training, research, and patient outcomes to deliver the best option for each patient's needs. Grand Rounds

### Captive Insurance Solutions : Craft Brewing



can save organizations thousands of dollars a year by providing more specialized treatment that may reduce costs such as costs for unnecessary surgery.

The services provided by a Pharmacy Benefit Manager (PBM) will benefit the captive members by offering them better prices for medications. A PBM like CVS will offer the captive and its members a seamless way to access negotiated pricing, standardized member eligibility verification in real-time, multiple vendors to choose from, and a simplified billing and payment process. In fact, CVS announced in June 2019 the availability of the service Vendor Benefit Management, which was created to help CVS' PBM clients to manage and choose easily their wellness benefit solutions both digital and non-digital. CVS Health and its merger with Aetna gives the PBM more market share that will benefit the captive members and its employees offering more networks of more pharmacies, more affordable brand medications, and negotiated rebates from drug manufacturers and discounts from drugstores.

The goal of The Craft Breweries Association captive is to share risk between the captive, its members, and its members' individual employees. For cost reasons, the captive should only cover full-time employees. The captive should offer a plan to full-time employees that benefits the captive's long-term sustainability, follows its cost-containment strategic priorities, and enhances its members' ability to meet their employees' medical and health needs. Therefore, the captive will offer a health plan package that couples a Qualified High-Deductible Health Plan (QHDHP) and a Benefits Enhancement package that offers incentives, like waived deductibles, for specified networks, lowering overall costs for the member breweries and their employees. These enhancements would encourage individual employees to seek necessary medical and health services, enabling member breweries to proactively avoid high health claims in the long run.

### Captive Insurance Solutions : Craft Brewing



In the same way that the captive insurer executes strategies in its effort to contain costs when providing coverage to its member breweries, the captive insurer must also place a priority on thorough underwriting of each brewery to ensure that the captive takes on an acceptable and fine-tuned level of risk exposure at an appropriate rate for the coverage being offered. Competent underwriting of each employer is crucial to forming a robust captive program and will ensure that the captive meets constantly changing regulatory and tax examiner standards. Furthermore, in-depth and systematic underwriting of each member brewery is important because the captive must generate enough premium to build adequate capital that enables members to have confidence that all claims they incur will be covered in the long-term. Underwriting each employer in the group is also important because member breweries may have different loss experiences, wellness programs, and financial conditions that impact the risk they pose to the captive. This means that it is in the captive's best interest to strategically address member risks so that The Craft Breweries Association may price these risks in a manner that ensures greater stability, flexibility, and control over costs.

The captive program and its availability to members of the Craft Breweries Association will be heavily marketed and will also include numerous educational efforts to launch the opportunity to members. There will be a need for a critical mass of a significant portion of members wanting to join from the beginning because the captive needs to use the law of large numbers to predict losses and spread the risk. Further actuarial analysis will be needed to determine exactly the minimum number of members required. However, it will definitely need to be launched to a certain critical mass to get started.

## Captive Insurance Solutions : Craft Brewing



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**Marissa Dias**  
St. Joseph's University

Marissa Dias is a senior studying Risk Management and Insurance, with a double major in Business Intelligence and Analytics at St. Joseph's University in Philadelphia. Her education at St. Joseph's University, coupled with campus events sponsored by Gamma Iota Sigma, solidified her interest in not only business, but specifically the insurance industry. Upon graduation, Marissa will be working at Crum & Forster in its specialty and surplus lines division.



**Samantha Kane**  
St. Joseph's University

Samantha Kane is currently a senior at Saint Joseph's University in Philadelphia, PA. She is a Finance and Risk Management & Insurance double major and has recently decided to pursue a career in the insurance industry. This decision stemmed from Samantha's courses and countless Gamma Iota Sigma events that she attended through Saint Joes.

### **What made you decide to enter the CICA 'Captive Insurance Solutions for Emerging Industries' essay contest?**

**Samantha Kane:** I heard about the CICA Essay Contest from asking one of my professors a question after class one day. After my question, he told me that I should research this contest and submit an essay. I never thought that I would be in the position I am in now when I first left that classroom, but when I went home and started researching,

I realised how incredible this contest really was. I saw an opportunity to use my knowledge from the classroom in a real-time case study and I knew that I had to take it. Doing this contest allowed me to open my eyes to a unique industry that I never knew I would enjoy so much.

**Marissa Dias:** I learned about the CICA Essay contest from one of my professors at Saint Joseph's University. The potential to learn more about the captive insurance industry, coupled with being able to apply my knowledge gained from both classroom and internship experience, motivated me to participate in the CICA essay contest and come up with the best solution for our chosen industry.

### **Why did you decide to write about home healthcare? And did you have much knowledge on this subject before undertaking your research?**

**Samantha Kane:** Marissa and I decided to write about the home healthcare industry because we both had a personal tie to the matter. We each have family members that we have watched grow older and begin to need care. We see Home Healthcare as an amazing industry that allows for much better experiences for our loved ones. With technology being continuously on the rise, the elderly population has been able to live longer and longer which is a large component of why this is such an emerging industry.

Being a Risk Management and Insurance major at Saint Joseph's University, I have been exposed to captives, but not to the extent of this competition.

I have been able to expand my knowledge on captives and understand how exactly they work and why we would want to use them. After participating in this contest, I understand how beneficial captives can be, as they insure the risks of their owners and ultimately the insurers benefit.

**Marissa Dias:** Honestly, all the industries that we were able to choose from really interested me, as they are all emerging industries on the rise. I chose to write about the home healthcare industry based on trends in this industry and that our population is living longer and longer.

Seeing family members age and needing continuous care, I wanted to further research home healthcare, as it would be a better experience for them if they were able to remain in the comfort of their own home to receive care, instead of spending countless nights in hospitals or assisted living communities.

I was exposed to captives, reinsurance and other alternative forms of risk management/risk financing techniques that companies can use to protect themselves financially while having more control over how they are insured through my Risk Management and Insurance curriculum at Saint Joseph's University. However, I did not have the extensive knowledge on this subject prior to undertaking research for this contest. My impression of the captive industry has changed greatly from furthering my knowledge on this subject, as I now understand how vast the industry.

There are tons of different types of solutions, as well as solutions that can be paired together to create the greatest benefit, which I think is a fun challenge that also requires people to be creative.

### **Where did your interest in captive insurance start?**

**Samantha Kane:** My interest in captive insurance started when I began my research on this contest. While reading about CICA and researching what captive insurance entails, my interest continued to grow.

**Marissa Dias:** My interest in captive insurance started from my classes at Saint Joseph's University but can mainly be attributed to this essay contest. This contest required me to dig deeper by comparing different types of captives to determine which solution would make the most sense for the home healthcare industry.

### **What are your biggest takeaways from entering the contest?**

**Samantha Kane:** The following are two of my biggest takeaways from entering this contest: the future of the captive insurance industry and the Home Healthcare industry is bright and shows no signs of slowing down anytime soon; and captives have the ability to insure unique risks and fill gaps where commercial markets are unable to do so which is why they are so valuable.

**Marissa Dias:** My biggest takeaway from entering this contest is how much the captive insurance industry has to offer, and the potential that captives have for providing coverage in such emerging industries.

### **What advice would you give those who are considering entering the CICA essay contest next year?**

**Samantha Kane:** Don't hesitate, do it! This contest allowed me to take the skills that I have learned in the classroom to a whole new level by applying them to real-world situations. I now have a more robust knowledge about the insurance industry as a whole and how incredibly unique and diverse it truly is. Through this essay contest, I have been able to further my

interest and love for the industry and have no doubt that I would like to be a part of this industry for the rest of my life.

**Marissa Dias:** The CICA essay contest has opened my eyes to how big and diverse the insurance industry truly is. I really enjoyed being able to put myself in the shoes of an insurance company and figure out how I could provide benefits to employees and try to minimise losses in the home healthcare industry. ■

Marissa and Samantha selected arguably the most challenging topic, which required them to develop a holistic solution from several angles: preserving the tax status of financially challenged insureds from an association, treating complex exposures, and creating an attractive programme that would provide value to participants. They did an excellent job of laying the groundwork by leveraging both macroeconomic information and demographic trends as well as more specific data sets from the healthcare industry to hone the focus of their response. I was pleased they did not fixate on a single approach, discussing a traditional group captive, sponsored captive, risk retention group, etc. and even considering a hybrid treatment of more than one alternative risk vehicle. They confronted some advanced concepts that, quite frankly, typically take years of training and experience to fully understand and properly deploy. Kudos to them for meeting the challenge head-on and dealing with a very difficult case study. That kind of fortitude has obviously served them well in their studies and will be a valuable quality in their professional careers, which I hope will be in the captive insurance industry.

**Jesse Olsen**  
**Director**  
**Strategic Risk Solutions**



2019-2020 CICA Student Essay Contest

**Captive Insurance Solutions  
for Emerging Industries**

Sponsored by



**SAINT JOSEPH'S UNIVERSITY:  
Marissa Dias and Samantha Kane**

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**HOME HEALTH CARE  
INDUSTRY**



**Executive Summary:**

The Insurance Industry is sophisticated and offers a vast variety of products and services to aid companies in pleasing their clients. For companies with big complex exposures, traditional commercial insurance policies are not economically practical or feasible. Captive insurance companies provide a more customized approach to financing those complex risks. Captives provide protection and offer numerous cost related benefits. Captives have the ability to offer customized coverages, provide reduction in insurance expenses, avoid multiple state filing and licensing requirements, eliminate rate redundancies, increase company stability, and retain profits from members and policyholders (see image below). Additionally, captives provide tremendous claims and loss control measures, which is very important for industries exposed to large expensive catastrophic losses<sup>1</sup>.

The home healthcare industry can benefit from captives because their main exposures that would result in large losses are professional liability, workers compensation, and auto liability claims.



<sup>1</sup> “Risk Retention Groups: An Important Segment of the Captive Industry.” *Risk Retention Groups: An Important Segment of the Captive Industry* | *Captive.com*, [www.captive.com/news/2018/10/03/risk-retention-groups-important-segment-captive-industry](http://www.captive.com/news/2018/10/03/risk-retention-groups-important-segment-captive-industry).

***Home Healthcare:***

In 2018, the global home healthcare market was valued at 305.78 billion and is expected to reach a compound annual growth rate (CAGR) of 7.8% by 2026. Growing cases of chronic diseases coupled with the rise in the senior citizen population is anticipated to contribute and fuel this market growth increase. According to an article from the United Nations in 2017, the geriatric population accounted for about 13% of the global population and is predicted to increase by 3% annually<sup>2</sup>. The elderly population is particularly prone to chronic diseases, increasing the need for more healthcare services.

For example, about 65% of Medicare recipients reported that they suffer from more than one chronic condition. About 43% reported that they endure three or more chronic conditions. This translates to a growing workforce pertaining to home healthcare services due to increasing demand. Statistics published by the U.S. Bureau of Labor projected personal care and home care professionals to reach 13 million by 2020, representing a 70% increase from 2010<sup>3</sup>.

Emerging technologies coupled with innovative home healthcare equipment is projected to influence growth opportunities for the market. In 2018, diagnostic equipment accounted for more than 38% of the overall market and is expected to increase steadily due to the vast amount of cases of diabetes, cardiovascular and cardiopulmonary diseases. The steady growth of chronic conditions that require continuous monitoring, technological advances and personalized medicine are key drivers in the forecasted demand for home healthcare services, as depicted below<sup>4</sup>.

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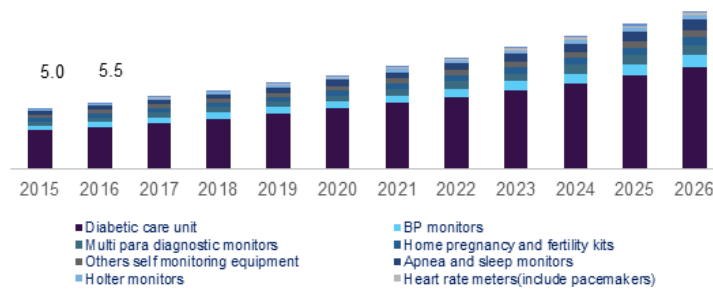
<sup>2</sup> “Home Healthcare Market Size: Industry Growth Report, 2019-2026.” *Home Healthcare Market Size | Industry Growth Report, 2019-2026*, [www.grandviewresearch.com/industry-analysis/home-healthcare-industry](http://www.grandviewresearch.com/industry-analysis/home-healthcare-industry).

<sup>3</sup> “Home Healthcare Market Size: Industry Growth Report, 2019-2026.” *Home Healthcare Market Size | Industry Growth Report, 2019-2026*, [www.grandviewresearch.com/industry-analysis/home-healthcare-industry](http://www.grandviewresearch.com/industry-analysis/home-healthcare-industry).

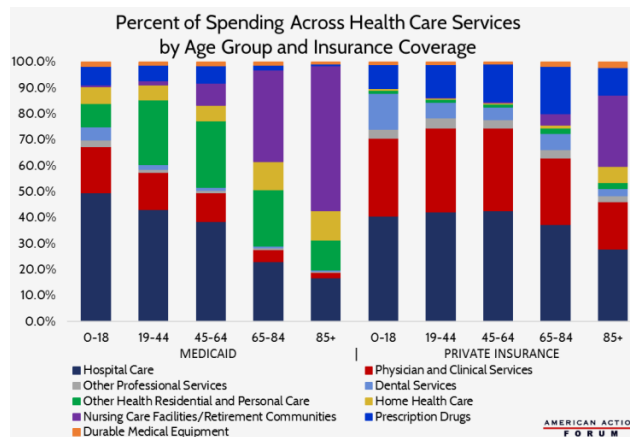
<sup>4</sup> “Home Healthcare Market Size: Industry Growth Report, 2019-2026.” *Home Healthcare Market Size | Industry Growth Report, 2019-2026*, [www.grandviewresearch.com/industry-analysis/home-healthcare-industry](http://www.grandviewresearch.com/industry-analysis/home-healthcare-industry).



U.S. home healthcare diagnostic equipment market, by type, 2015-2026, (USD Billion)



The visual below depicts the breakdown of one's health care expenditures for each type of health care service used by individuals enrolled in Medicaid, compared to individuals who are covered by private health care insurance<sup>5</sup>.

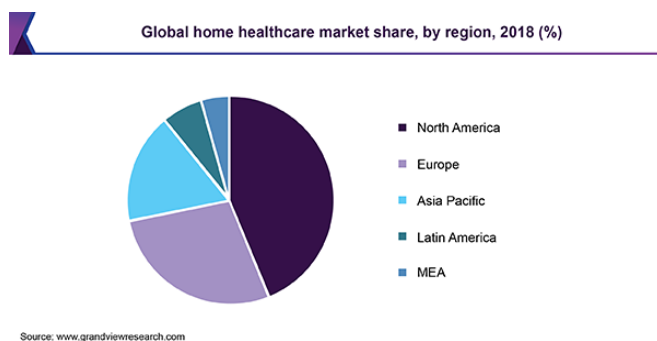


Individuals enrolled in Medicaid tend to spend a greater portion of their expenditures on hospital, residential and personal care. For Medicaid beneficiaries 65 years+, nursing facilities and retirement communities consume more than double the amount of an individual's share of health care expenses, compared to those individuals covered by private insurance. Privately insured individuals have a much higher percentage of their health care dollars going towards

<sup>5</sup> Hayes, Tara O'Neill, et al. "Health Care Spending by Age and Type of Coverage." *AAF*, 17 Aug. 2016, [www.americanactionforum.org/weekly-checkup/health-care-spending-age-type-coverage/](http://www.americanactionforum.org/weekly-checkup/health-care-spending-age-type-coverage/).

physician and clinical services. Home healthcare is a cost-efficient alternative to an expensive hospital stay. According to a study conducted at Brigham and Women’s Hospital and Faulkner Hospital, the health care costs associated with home care are nearly 52% less than hospital stay costs for patients<sup>6</sup>. This difference in spending between the two groups highlights the need among the two populations, as well as portrays the differences in the cost drivers.

To help ease the costs of medical expenses, tailored captive solutions for home healthcare insurance may be a viable solution. As portrayed below, North America in 2018, held the largest revenue share of home healthcare due to the presence of complex medical infrastructure, high patient awareness, and large health expenditures. Research analysts at Market Data Forecast have predicted that the size of home healthcare in North America is predicted to reach \$147.45 billion by the end of 2023, reaching a CAGR of 7.5%<sup>7</sup>.



<sup>6</sup> “Home Healthcare Market Size: Industry Growth Report, 2019-2026.” *Home Healthcare Market Size | Industry Growth Report, 2019-2026*, www.grandviewresearch.com/industry-analysis/home-healthcare-industry.

<sup>7</sup> “Home Healthcare Market Size: Industry Growth Report, 2019-2026.” *Home Healthcare Market Size | Industry Growth Report, 2019-2026*, www.grandviewresearch.com/industry-analysis/home-healthcare-industry.

***How a captive can help the home healthcare Industry:***

Forming a risk retention group (RRG) would be a helpful captive insurance solution for the National Home Healthcare Association because of the similar risk exposures throughout the industry. As a company comprised of a network of 500 homogeneous independent organizations, forming a RRG will be beneficial for insuring the risks of its members while benefiting at the same time from the underwriting profits.

In a risk retention group, good results are rewarded, and bad results are penalized, which will force the RRG to increase their risk control because they will have a larger stake in the game. Putting an RRG in place will ensure more cost effective solutions because the NHHA and its professionals will be able to retain insurer profits and have controlling costs put in place if an event occurs. A risk retention group will allow the company to control market cycles and increase their members' ability to self-insure their own risks. The homogeneity of risk will make it easier to establish consistent rates and predict loss experience. This will provide a tailored solution for the members and offer an unbeatable level of customization with very little changes in premiums<sup>8</sup>.

Additionally, the underwriting profits and gains from the invested premiums, that would otherwise be held by an insurer, are retained by the RRG. With underwriting success, the insurer will eventually be able to use this retained surplus to reduce member premiums or pay dividends to the insureds.

The risk retention group could be structured to be a limited liability insurance company domiciled in Delaware. Risk retention groups are federally regulated under the Liability Risk

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<sup>8</sup> "Risk Retention Groups: An Important Segment of the Captive Industry." *Risk Retention Groups: An Important Segment of the Captive Industry* | *Captive.com*, [www.captive.com/news/2018/10/03/risk-retention-groups-important-segment-captive-industry](http://www.captive.com/news/2018/10/03/risk-retention-groups-important-segment-captive-industry).

Retention Act of 1986, which preempts state regulation. After meeting the licensing requirements of one state, risk retention groups can register to be admitted in other states. This allows RRGs to provide coverage to professionals in any state and eliminates the need for fronting insurers to issue admitted policies. Although, a front may still be desirable for its financial strength rating until such time as the RRG may be rated. Being domiciled in Delaware will allow the captive to receive a flat rate premium tax structure while also being able to issue policies anywhere in the United States. Delaware is one of the fastest growing domiciles for captives because of its flexibility with respect to legalities and better than average tax rates on premiums.<sup>9</sup> Having this tax favored treatment of insurance will allow the captive to reduce the costs of providing benefits to members. This will lower rates for individual professionals while granting the captive the means to provide more extensive coverage.

### ***Challenges:***

Although forming a captive of this kind will allow the NHHA to control claims and loss exposures, it is important to understand the extra cost that will be needed in order to implement a risk retention group. Before forming the RRG, the organization needs to make sure it is meeting all requirements and that the benefits outweigh the additional expenses. During the initial formation of the RRG, there will be various start-up costs that must come out of the NHHA's financial resources. At least half or 75% of the parent company's premiums will be spent in order to form the RRG. There is also a required capitalization put in place by the domicile's regulatory process<sup>10</sup>.

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<sup>9</sup> "The Delaware Advantage." *Image Widget*, 2018, [www.delawarecaptive.org/i4a/pages/index.cfm?pageid=3278](http://www.delawarecaptive.org/i4a/pages/index.cfm?pageid=3278).

<sup>10</sup> "Captives: An Overview ." *Cicaworld.com*, [www.cicaworld.com/docs/default-source/cica-publications/download-your-copy-of-the-captives-an-overview-publication-.pdf?sfvrsn=0](http://www.cicaworld.com/docs/default-source/cica-publications/download-your-copy-of-the-captives-an-overview-publication-.pdf?sfvrsn=0).

In addition to the financial challenges that the company will have to face, there will also be an increased administrative burden on the NHHA. Management will have to invest time and money into making sure the RRG is correctly formed and overseen. In order to have the most productive type of captive solution possible, administration will often hire outside experts to take control of the insurance related details.

All of these challenges will end up reducing the amount of premium that is able to be saved within the NHHA at the inception of the RRG.

### ***Future Considerations:***

Captives have the ability to insure unique risks and fill gaps where commercial markets are unable to do so for our members. Risk retention groups cannot write property insurance, including collision and comprehensive coverage for autos, or workers compensation insurance. As a result, the NHHA would have to utilize other solutions for non-liability lines of coverage.

To fund retained losses via the RRG, a deductible reimbursement policy will be issued to the professionals. The premium is agreed upon between both parties, and the professional agrees to reimburse the RRG for losses within the agreed deductible. This policy will provide indemnification, workers compensation coverage and commercial casualty insurance. These continue to be the major overhead expenses for home healthcare companies. This deductible reimbursement plan allows the professionals to realize their upfront premium savings while having their RRG handle claims and insure the large deductible<sup>11</sup>. The captive is able to defer income by deducting underwriting profit. The professionals would be able to deduct the

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<sup>11</sup> "Funding Benefits through Captive Insurance Companies Continues To Grow." *Funding Benefits through Captive Insurance Companies Continues To Grow* | *Captive.com*, [www.captive.com/news/2017/11/15/funding-benefits-through-captive-insurance-companies-growing](http://www.captive.com/news/2017/11/15/funding-benefits-through-captive-insurance-companies-growing).



premiums paid to the company, similar to the premium paid to a workers' compensation commercial insurer.

Taking past losses into consideration, the NHHA's track record has been doing well overall with only a few exceptions. With the loss ratio ranging from 40-70%, it is likely a RRG could be profitable. There were three significant auto accidents that occurred last year. In the home healthcare industry, there are very few auto claims that reach \$1 million - \$5 million, giving the company the perfect opportunity to provide a \$500K additional limit. Because of this, we recommend the NHHA's RRG provide excess policy limits for personal auto claims. In this scenario, members can purchase low limits for personal auto coverage, and the RRG will cover large claims if they occur.

By tapping into the reinsurance market, the RRG can transfer some of its own insurance liabilities to another insurance company. This mechanism can allow the RRG to lower their risks and reduce their exposure to large catastrophic events, such as major auto claims. Having too much exposure to a potentially costly event can cause the captive to shut down or go bankrupt if they are not able to cover losses<sup>12</sup>.

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<sup>12</sup> "How Do Captive Insurers Use Reinsurance?" *How Do Captive Insurers Use Reinsurance?* | *Captive.com*, [www.captive.com/news/2019/05/20/how-do-captive-insurers-use-reinsurance](http://www.captive.com/news/2019/05/20/how-do-captive-insurers-use-reinsurance).

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# Building your professional network

CICA's NEXTGen Task Force chair Erin Hackett discusses what the group has been working on since its launch last year and her advice for young professionals looking to start a career in the captive industry

**You were recently appointed to CICA board of directors and to chair the NextGen programme, what do you aim to do as chair?**

I'm very fortunate to be the chair of a committee with members who have a lot of ideas and experiences that vary from my own. I see my job as the chair of the CICA NEXTGen committee as helping to facilitate the involvement and collaboration of the members. We have a lot of really exciting and lofty initiatives that we're focusing on from both a short-term and long-term perspective. My aim is to make sure we're keeping all of the initiatives in perspective as we continue to promote young and new professionals in the captive insurance industry.

**After launching last year, what has NextGen achieved so far?**

We launched as a Task Force under the supervision of CICA and CICA's president Dan Towle in August 2019. During most of that time, we focused on brainstorming areas we felt could benefit young and new professionals and then honing in on specific objectives to increase awareness of opportunities in the industry, promote young and new professionals as they progress in their careers, and find opportunities for us to network and support each other as a peer group in the industry. We've already taken significant steps in promoting our professional advancement through increased speaking opportunities at industry conferences and

published content. Although our official launch party that was scheduled to take place at CICA's annual conference was cancelled, we had several in-person networking events as a Task Force during the autumn of 2019 and plan to continue these on a larger scale once we're able to safely do so.

**NextGen is now an official committee, what role does it play?**

As an official committee supported by CICA, I see our role as being an ongoing and constant advocate for young and new professionals in the industry. Although I have no doubt we'll be able to achieve many of our short-term initiatives, there will continue to be room for advocacy

of young and new professionals and I believe we'll continue to re-evaluate our goals with the needs of our peers and those entering the industry in conjunction with the goals and objectives of CICA. It is great to have such strong support from CICA as we move these initiatives forward and we are excited about what we can accomplish.

### **What has the committee worked on to help young professionals?**

In addition to the launch party, we had planned at CICA's annual conference, there were two sessions planned that originated from and aimed for the participation of young and new professionals. One of those sessions was able to be transformed to a webinar recording that will be part of CICA's webinar series and is a fun conversation among myself and a few other young professional panellists about how we found ourselves in the captive insurance industry.

We'll continue to seek out these types of sessions at future industry conferences and other events to spotlight young professionals and also provide relevant content to those attending.

### **What can the wider community do to help promote and involve young and emerging talent in the industry?**

There are a lot of small things that everyone can do, but I believe the first step is simply awareness of the number and level of expertise of young professionals currently in the industry. Many times the level of professional that attends conferences and other industry events are more experienced because organisations can't afford the cost or time of sending multiple people. Also, our world is very virtual and our industry is worldwide so you may not always see or be aware of how many young professionals there actually are. I would

say to start within your own organisation and find ways to give that emerging talent an opportunity by bringing them along with you to an in-person meeting or the chance for a speaking engagement, become a mentor or encourage them to take on a stretch project. These seemingly small opportunities build up the stepping stones of an engaged and experienced professional.

Also, one thing that interested individuals can do is for them to get involved with our NEXTGen initiative. We are currently collecting contact information from individuals who would like to get updates and you can do that by signing up on CICA's NEXTGen page. We expect to be building out programmes and potential opportunities for others to get involved with the committee.

### **What is your advice to young professionals looking to get into the captive insurance industry?**

My advice to a young professional looking to enter the captive insurance industry is to create and value relationships. There is a lot to be learned from relationships with experienced professionals already in the industry and peers from other organisations.

This is a very unique industry where captive owners, service providers and regulators are extremely collaborative and learn from each other to make the industry better for everyone. Building long-lasting relationships will pay dividends for the rest of your career and give you knowledge and perspective you otherwise may miss out on.

One great way to start building relationships outside of your own organisation is to get involved with your local domicile association and through associations like CICA. It helps you with your continuing education and building your professional network.

*“We are thrilled by the enthusiasm and effort put forth so far by Erin Hackett and the full committee. It is great having her on the CICA board and chairing the NEXTGen committee. I have no doubt that their efforts will produce significant results for our industry”*

**Dan Towle**  
President  
CICA

Another recommendation I have is to find a mentor or better yet, get involved in CICA's mentorship programme, as that is a key way to further build your professional development.

### **What are your aims and objectives over the next 12 months?**

My aim over the next 12 months is to take my own advice and continue to develop relationships with my peers in the industry. I believe that through the NEXTGen committee, I'll continue to learn from the other committee members and we'll work to facilitate networking events to expand our circle of young and new professionals across the industry. ■

# Steven Lam

## Insurance large commercial lines account manager Smith Brothers Insurance

**Personal Bio:** Born and raised on the island of Oahu, I am from Honolulu, Hawaii. I currently reside in West Springfield, Massachusetts. I am a man of faith and spirituality, who also has a natural curiosity of how things work, more specifically in business, economics, and information technology.

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**Professional Profile:** I am a graduate from the Shidler College of Business from the University of Hawaii at Manoa. I hold a bachelor's in business administration degree with a concentration in accounting. I studied accounting not because I wanted to become a certified public accountant, but because I knew understanding its principles and concepts would provide an advantage to understanding business a little bit better.

Previously, I have held roles as a staff accountant, sole proprietor and an insurance commercial lines account administrator, before taking on my current role as an insurance large commercial lines account manager.

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### How did you end up in the captive industry?

When I was studying for my Associate in Risk Management designation, it really opened my eyes to learning about captives. My real experience came from when I relocated from working in property and casualty insurance in Honolulu, Hawaii to working in property and casualty insurance in Glastonbury, Connecticut. Ann Smith, Bill Wittman, Carol Pandiscia of Smith Brothers Insurance took a chance on me and it was this opportunity that led me to managing two construction captive accounts.

### What has been your highlight in the captive industry so far?

My highlight in the captive industry is all the professional connections I've made from captive managers, producers, and clients. It is genuinely gratifying to collaborate with these professionals and in helping to deliver the products and services to each one of them.

I especially appreciate the assistance I provide to clients' insurance questions, concerns and needs. This feeds to my curiosity of finding solutions to problems and supporting the captive industry.

### What/who have been your influences in the captive industry?

The biggest influence to me in the captive industry has been the producer who I worked with from the very beginning, Bill Barton. His depth of knowledge in the captive industry is unparalleled and I have learned a lot from him in a short amount of time.

It is relieving to learn, understand and apply something new but to be able to do all these things from a very dependable base really makes it that much more enjoyable.



**“My highlight in the captive industry is all the professional connections I’ve made from captive managers, producers, and clients”**



“Steve has been directly involved in handling accounts that are part of a construction captive which is domiciled offshore in the Cayman Islands. These accounts are written through a captive manager. As the account manager Steve has established a great working relationship with not only these insureds but the captive management group as well.

Steve’s involvement includes the collection of exposure information from insureds which he then reviews and puts into a spreadsheet for the captive manager. Steve works with the captive manager on coverages throughout the year in order to meet contract requirements. He also gets involved in directing claim reviews with our claim department and finally overseeing year-end audit reviews”

**Bill Barton**  
Client executive  
Smith Brothers Insurance

**What is your impression of the industry?**

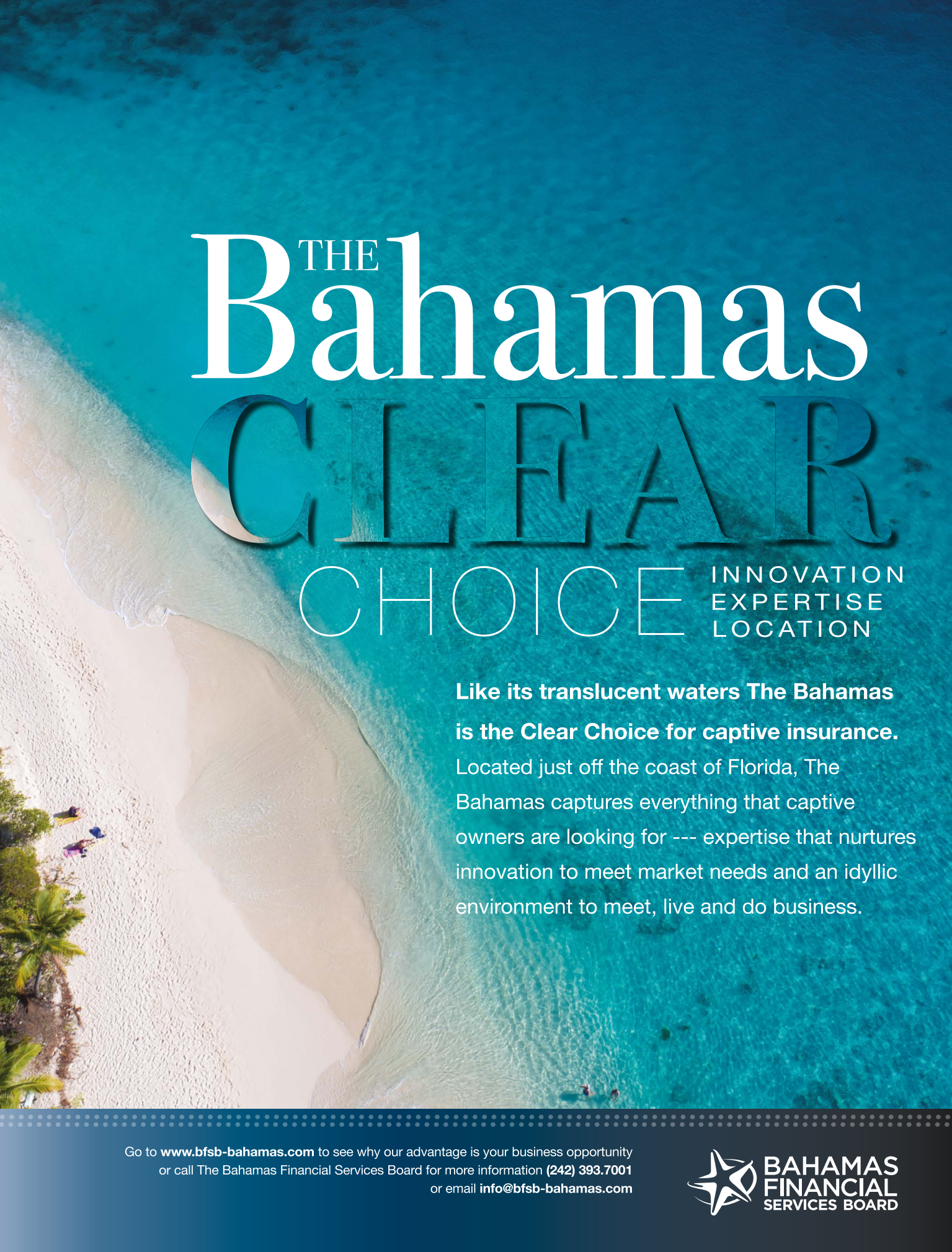
Reliable, creative, and valuable are words that come to my mind. The captive industry will support you if you support yourself and your business. The industry is systematic where it is methodical, it is authentic where you manage your outcome, and it is resourceful where, under the right circumstances, it can be an option.

**What are your aspirations for your career in the captive industry?**

I want to be in a position that can make a change in the captive industry. Big, medium or small changes, I want to be in the position to help the industry adapt to perpetual change. Growth and support are what I bring to the table in hopes to keep the captive momentum moving. Technological advancements, a changing of the guard in our generations, and new economies of scale are all opportunities that arise.

**What advice do you have for someone considering a role in the industry?**

Be prepared. This is not to sound daunting or fearsome, but rather because preparation is the key to success. Whether you know what to prepare for or whether you are preparing for essential skills to have, preparation is what is going to get you from where you are now to where you want to be. Learn a need, refine your technical abilities, or network with like-minded professionals – strategising a plan will make your success happen. ■



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## The latest moves in the captive industry



**Ian Davis has been appointed senior vice president, captive insurance relationship manager at the People's United Bank.**

Davis will be responsible for business development, qualification, expansion and overall relationship management for the bank's captive insurance portfolio.

He takes on the new role after recently stepping down as director of financial services at the Vermont Department of Economic Development, where he led the marketing and business development activities in support of the state's captive insurance industry.

Prior to that, Davis spent two years as economic development policy specialist, where he grew the department's strategic initiatives, with an emphasis on business recruitment, retention and expansion.

Cris Sigovitch, senior vice president, head of treasury management, People's United Bank, said: "We are excited to have Ian [Davis] join the People's United team and look forward to him driving our captive insurance business."

He added: "Ian [Davis] is a well-respected industry-leader who will work alongside Mary Santor, senior vice president, People's United, who for over 30 years has grown the bank's captive insurance division into a very meaningful business."

Commenting on his new role, Davis expressed: "People's United Bank has a strong reputation in the captive industry, and I am eager to apply my knowledge and networks to achieve our goals. I am very excited to be joining such a quality organisation and look forward to contributing to the team." ■

## Reinsurance Collateral Trusts

The limitations and costs associated with traditional collateral options such as Letters of Credit have dramatically fueled the growth of alternative risk transfer strategies amongst insurers, reinsurers, captives and corporations. Fluid regulatory, financial and risk management environments demand lower-cost collateral solutions – solutions that afford maximum flexibility with minimal effort to set-up and maintain.

It's a need that has given tremendous traction to the insurance-linked securities (ILS) market and in particular the emergence of reinsurance collateral trusts.

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#### Donny Tong

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212.590.0976  
donny.tong@suntrust.com

#### Joseph Monaco

VP, Client Management  
212.303.1746  
joseph.monaco@suntrust.com

#### Barbara Aubry

SVP, Business Development  
212.303.4164  
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**Strategic Risk Solutions (SRS) has appointed Andy Hulme as part of an expansion in underwriting capabilities and services.**

Kerr has been serving as the state's insurance commissioner since his appointment by Governor Asa Hutchinson in 2015.

Based in the UK, Hulme will provide underwriting support to SRS clients globally.

Most recently, Hulme worked as chief underwriting officer for Builders Insurance Holdings, an insurance and reinsurance subsidiary of Hochtief, Germany's largest construction company.

Prior to that, he served as executive vice president of JLT Insurance Management in Bermuda and London.

Commenting on his appointment, Hulme said: "I am excited to be returning to the captive management industry and working with a variety of clients to solve their risk financing needs. SRS has built a strong captive business, particularly in North America. I am looking forward to expanding the firm's underwriting and advisory services and growing the presence in Europe."

Brady Young, president and CEO of SRS, added: "Andy Hulme brings extensive experience in structuring and underwriting a broad range of coverages for captives. His expertise will help our clients in both Europe and globally gain more from their captives." ■



**AXA XL has named its new leadership team and proposed changes to the operating model of its insurance business following a strategic review.**

The key proposed changes to its operating model include the creation of a single global insurance underwriting function and the establishment of three geographical business units across the Americas, Eurasia, and the UK and Lloyd's market.

The underwriting function will be led by a global chief underwriting officer and will be working to design the structure of the proposed new model.

The chief underwriting officer will be responsible for underwriting governance, pricing, profit and loss and the management of the global heads of business lines in order to define and drive product strategy.

The three geographical business units will be led by CEOs, who would be responsible for the balance sheets of their geographies and managing talent.

The new leadership team includes Nancy Bewlay, chief underwriting officer; Joseph Tocco, CEO of Americas; Scott Gunter, interim CEO of Eurasia; Sean McGovern, interim CEO, UK and Lloyd's market; Charles Cooper, CEO of reinsurance; Brent Hoffman, chief claims officer; Karen le Duc, chief human resources officer; Matthieu Caillat, chief operating officer; Noel Richardson, chief risk officer; Rainer Schoellhammer, chief



finance officer and; Sean McGovern, general counsel.

Commenting on the new team and proposed changes, Gunter said: "AXA XL is the result of acquisitions and mergers and with our increased scale, now is the time to optimise our structure by striking the right balance between local and global decision making so we remain agile and flexible."

He continued: "I have spent my first 60 days as CEO considering our priorities and our structure and assembling the right team to drive AXA XL forward. We want to continue to serve our clients and brokers to the very best of our ability while being a simpler organisation to navigate."

"The regional structure would mean decisions can be made faster in the country, while the global functions would mean our clients and brokers continue to benefit from our global expertise and experience," Gunter added.

"This leadership team is an international, highly experienced team of individuals: around half the team have a background at legacy XL Catlin, while the other half bring diverse and valuable experience from across the AXA Group."

Gunter added: "This is a positive step forward for AXA XL and I strongly believe that this new leadership team will ensure we are the insurance partner of choice across business lines and around the world." ■

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