

# captive **insurance** times

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ISSUE 138 13 December 2017



## London tucks into a slice of the ILS pie

A UK government cross-party committee has approved the UK's Risk Transformation Regulations 2017 and the Risk Transformation (Tax) Regulations 2017, which make up the UK's insurance linked-securities (ILS) legislation.

In the Fifth Delegated Legislation Committee meeting, on 29 November, Jonathan Reynolds, Labour Co-operative MP and shadow economic secretary to the treasury, said: "We should always bear in mind the potential risks around

securities markets, with the ILS being particularly affected during the global financial crisis."

Reynolds explained that this package of measures was announced in the 2015 budget, "a long time ago" in political terms.

He commented: "Now we face an entirely different landscape due to our exit from the EU. I do find it odd that the government is taking this approach to ensure the London market is equipped to compete globally,

while ignoring the elephant in the room, which is that a no deal Brexit would cut off the industry at it's knees."

However, Stephen Barclay, Conservative MP and economic secretary to the Treasury, replied to the shadow minister stating: "It is Brexit that reinforces the benefit of increasing the UK's influence over what is already an established part of the market ... one that is currently off shore. Bringing it within the UK will give UK regulators more influence over this market."

**Read more on p8**

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**Bermuda Monetary Authority report reveals diverse captive industry**

The majority of risk assumed by Bermuda-based captive insurance companies originates in North America, but business lines covered in the jurisdiction remain diverse, according to the Bermuda Monetary Authority (BMA) Captive and Special-Purpose Insurers (SPI) Report 2017.

According to the report, 62 percent of risk originates in North America, while 25 percent comes from Europe. Of European risk, almost half was from Ireland, and 25 percent was from the UK.

The report noted that Bermuda does not focus or specialise on any particular industry or type of business underwritten. This means it has a diverse range of industries that are utilising captives for risk management.

The largest industry is financial institutions, which are parent companies for 18 percent of captives.

This is followed by the shipping, transport and storage industry with 14 percent, and the automotive, manufacturing and retail industry with 11 percent.

Captives that focus on financial institutions take a significant piece, 54 percent, of the premium share of the Bermuda captive market.

Those focusing on shipping, transport and storage take 11 percent, and wholesale and retail captives take 6 percent.

**Inside captive insurance times**

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Of business written by Bermuda captives, 55 percent falls under property coverage lines, while 45 percent is casualty coverage. Of all property coverage, 38 percent is property and casualty catastrophe coverage; 21 percent is for warranty and residual value; and 16 percent was marine coverage, including protection and indemnity, cargo, hull and liability and war coverage.

Casualty coverage is more evenly split, with workers' compensation and employers'

liability accounting for 29 percent; motor coverage accounting for 24 percent; and general liability, including public, products, umbrella and product recall coverage, accounting for 21 percent.

In terms of market composition, the report said 61 percent of captives have a 'pure captive' structure. The next most common structure was 'other', however, selected by 21 percent.

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CBC-7079-03 06/17

Rent-a-captives account for 7 percent, while group captives, association captives and agency captives account for 6, 4 and 1 percent, respectively, and risk retention groups make up less than 1 percent of the market.

Around 17 percent of insurers have segregated accounts, and 15 percent are in run-off.

The report also noted the success of SPIs, following the introduction of the regime in 2009, suggesting it has been “the catalyst” for creation of the insurance-linked securities market in the island.

Bermuda SPIs wrote coverage in 17 regions in 2016, with 69 percent of business coming from North America and 25 percent coming from Europe.

SPI reinsurance covers consisted primarily of catastrophe bonds and collateralised reinsurance, accounting for 44 percent and 36 percent, respectively.

Over 90 percent of premiums were written for property lines of business. Of all property lines, 77 percent was property and casualty catastrophe. Terrorism coverage accounted for 15 percent.

Craig Swan, managing director for supervision (insurance) at BMA, said: “Considering the island’s leadership position in the global captive and SPI space, and its overall importance, there is naturally a level of interest generated from industry participants and peers.”

### **SOBC Sandell acquires American Safety Risk Retention Group**

SOBC Sandell has completed the acquisition of American Safety Risk Retention Group (RRG) after receiving regulatory approval from the Vermont Department of Financial Regulation.

American Safety marks SOBC Sandell’s sixth acquisition.

Stephanie Mocatta, CEO of SOBC, said: “This acquisition builds on the recent transaction in Montana and we are very pleased to be able to provide finality to RRGs in these states. SOBC Sandell has the specialist skills and understanding that enables us to purchase these groups, allowing the previous owners to exit without any future liability. We are actively looking at other opportunities to work with RRGs and captives.”

Rick Ecklord, senior managing director and partner at Sandell Re, added: “We are really pleased with the growth in the group and more particularly the team’s ability to provide solutions for complex, difficult or challenging insurance situations, through the provision of innovative solutions.”

### **R&Q completes RQMA sale with Coverys**

Randall & Quilter (R&Q) has completed the sale of its Lloyd’s managing agency, R&Q Managing Agency (RQMA), to Coverys.

As part of the acquisition, RQMA will be renamed as Coverys Managing Agency.

On completion, a cash payment by Coverys of \$22.6 million will be paid to R&Q, which, after costs and related incentive payments, will result in estimated net proceeds of £13.1 million. R&Q expects to generate a gain of \$11.8 million over the group’s carrying value of RQMA.

The net proceeds of the sale will be deployed to help finance R&Q’s legacy transaction pipeline, especially in the US and Lloyd’s, and to generate valuable commission income from the use of Malta’s direct licenses.

RQMA’s core business is the management of Syndicate 1991, which writes niche small and medium-sized enterprise property and casualty business, mostly through delegated underwriting authorities.

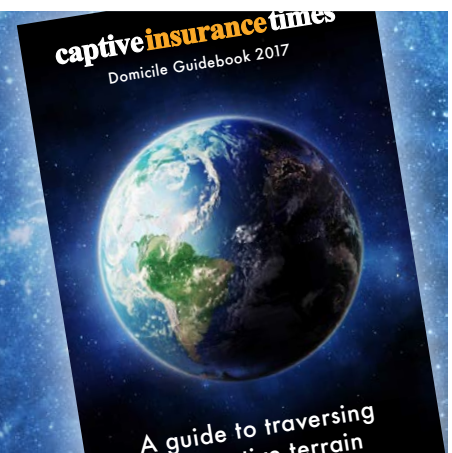
It also manages Syndicate 3330, which provides reinsurance to close and other reinsurance solutions for legacy business within Lloyd’s.

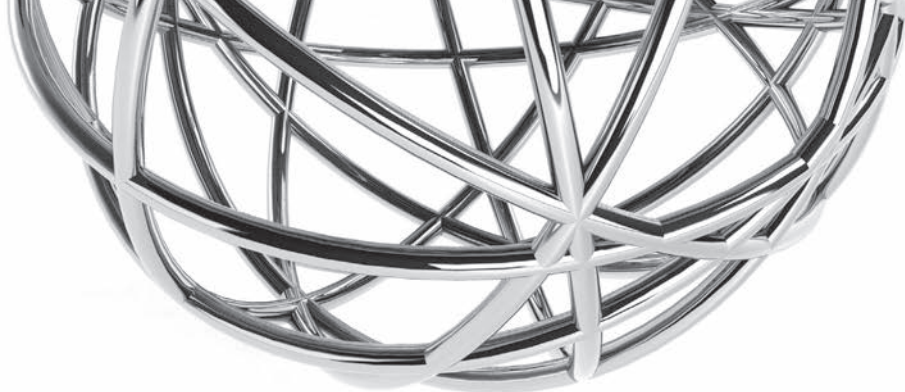
Ken Randall, R&Q chairman and CEO, commented: “We are pleased to have concluded this transaction with Coverys which is a key element of our strategy to focus on legacy acquisitions and the writing of quality program business, which is mostly reinsured to highly rated reinsurers.”

Gregg L Hanson, CEO and president of Coverys, said: “Through the acquisition, Coverys will inherit the continued responsibility to support the syndicates currently under management with RQMA.

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The acquisition additionally allows Coverys to assist new underwriting syndicates that seek to launch their business at Lloyd's, while also maintaining business operations for existing syndicates.”

**ERI Re receives 'good' ratings**

A.M. Best has assigned a financial strength rating of “B+ (Good)”, and a long-term issuer credit rating of “bbb-” to Barbados reinsurer Energy Risk Indemnity Reinsurance (ERI Re).

ERI Re is a Barbados-based start-up reinsurer, originally established in 2013 as a segregated cell company (SCC) focused in energy risks.

Between 2013 and 2015, ERI Re conducted business as an SCC, however, in 2016 management changed its license to a qualify as an insurance company to diversify its book of business and to underwrite a broader range of risks in the Latin American property and casualty market.

The ratings of ERI Re reflect its strong capital base for the purpose of developing a diversified property and casualty book of business throughout Latin America.

According to A.M. Best, the business plan of the company is “well structured”, but is dependent on reinsurance, a key factor considering the expositions the company wants to take geographically in Latin America.

The ratings agency explained that the property and casualty lines it is targeting, such as bonds, property, oil and mining, require strong reinsurance protection.

ERI Re is currently structuring its reinsurance programme and will remain a key factor for future rating assessments.

A.M. Best said: “While the company is targeting reasonable premium volumes, due to the start-up nature of the company, execution risk limits the ratings; nevertheless, the company has a strong management and

underwriting team to execute its business plan and to develop the company’s risk capabilities as its business grows.”

It added: “Positive rating actions could take place if the company is able to achieve its goals in terms of premium volume and profitability while maintaining a strong risk-adjusted capitalisation. Negative rating actions could take place if the company fails to meet its financial performance to a level that impacts its capital and therefore its risk-adjusted capitalisation.”

**VADA to use CHSI Technologies**

Virginia Automobile Dealers Association (VADA) Group Self-Insurance Association (GSIA) is set to implement the CHSI Technologies cloud-based suite of configurable core systems software.

VADA GSIA provides its members with effective workers’ compensation coverage. According to Michael Allen, general



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manager of VADA GSIA, the implementation is part of a larger plan to take all six of VADA's operations to the cloud.

Allen said: "Like a lot of self-insured groups, we've had a policy administration server in place for more than 25 years, and CHSI's offering of their configurable core systems modules via Microsoft's Azure cloud platform will help us realise our larger plan."

"The [workers' compensation] formula is the formula, so our goal is to become as efficient as possible in order to offer competitive pricing and cutting-edge claims and loss control services. To do that we need to get off the server and move to modern systems that run in the cloud."

**Beijing and Guernsey partner up on captive insurance venture**

Beijing Airport Captive Management Consulting (BACM) and Guernsey-based insurance manager Alternative Risk Management

(ARM) have partnered up on captive insurance project for Chinese businesses.

As part of the joint venture, ARM will work alongside BACM to create a series of captive structures and the provision of captive management services for Chinese businesses.

Currently, BACM is the only captive insurance consulting group in China and is backed by the Beijing Airport Economic Core Zone (BAECZ), a key hub for China's business, industrial and creative sectors.

In March, Guernsey Finance signed a memorandum of understanding with the BAECZ on behalf of Guernsey's finance sector.

According to Charles Scott, managing director of ARM, captives are going to be at the forefront of innovation in China's insurance market.

Scott said: "Chinese companies with international operations and those looking

at expanding overseas are considering ways to use captive vehicles for their risk management needs rather than having to insure through the commercial market."


He added: "It is therefore an opportune time to have established a key partnership on the ground in Beijing. The fact that Guernsey Finance signed an memorandum of understanding with the BAECZ in March really facilitated our own agreement."

Last week, Guernsey Finance announced the establishment of Brilliant Reinsurance, the island's first Chinese insurance company.

Managed and established by ARM, the insurance company will focus on business being retroceded from the Lloyd's of London market.

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# The ILS pie

Over the past two years, the UK Treasury has worked with the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the London Market Group's ILS taskforce to develop a "fit-for-purpose" ILS framework for the UK.

Nicolas Aubert, chairman of the London Market Group, said: "Looking back at where we started in April 2015, our original wish list has pretty much been delivered in full and we appreciate the support that we have received from HM Treasury, the PRA and the FCA."

Malcolm Newman, chairman of LMG's ILS Taskforce, added: "Undoubtedly the regulations will evolve over time as the ILS market itself evolves, and we are encouraged by the PRA's willingness to engage in pre-application dialogue with parties interested in using the new regulations. This dialogue should minimise any issues applicants may have with the regulations."

"The taskforce has consistently said that it seeks to grow the ILS pie ... As an industry we need to be more vocal about the social good of insurance, demonstrating the resilience and critical support an insurance policy gives to its holder in the event of a disaster. Through doing this the pie will grow and there will be opportunities for London market players to generate growth via both traditional cover and new ILS solutions."

The new regulations allow for insurance and reinsurance firms to transfer risk to the capital markets, meaning that risk can be managed more effectively for businesses and consumers.

According to William Hogarth, legal director at Clyde & Co, this is a "great step forward" for the UK's insurance market.

Hogarth noted that London is in a "strong position" when it comes to attracting ILS business as it is home to some of the "world's best and brightest insurance talent".

Following the government's initial consultation on ILS, the second consultation, published in November last year, proposed to create a protected cell company (PCC) regime for multi-arrangement insurance special purpose vehicles (ISPVs).

Hogarth suggested that the PCC model for ILS is attractive because it allows investors to "ring-fence risk; with each individual cell of a PCC effectively operating like a separate insurance vehicle".

He said: "Each cell is fully funded for the risk or portfolio of risks for which it is designed, but is isolated from other cells within the PCC, ensuring there is no cross-contamination."

ILS has been gaining popularity over the last two decades and growth is set to continue.

He added: "The strength of London's reputation will serve as an advantage given recent disclosures around offshore tax havens, some of which have already become established ILS centres." **CIT**

## ILS timeline

- At the March 2015 budget, the government revealed that it would work with the insurance industry and the UK's regulators to develop a new "competitive" corporate structure and tax regime allowing ILS vehicles to be domiciled in the UK.
- A year later on 1 March 2016, the first public consultation was launched on the government's approach to the authorisation and supervision, corporate structure and taxation of ILS vehicles in the UK.
- A second consultation was then launched later in November 2016.
- The introduction of ILS legislation was delayed after UK Prime Minister Theresa May called for the snap general election that was held on 8 June. A final version of the UK's ILS framework was expected to be published Spring 2017, but May's decision to call a general election delayed the process.
- The UK Treasury published new rules for ILS in July this year.
- On 29 November, a Delegated Legislation Committee in Parliament approved the UK's Risk Transformation Regulations 2017 and the Risk Transformation (Tax) Regulations 2017, which make up the UK's ILS regulation.





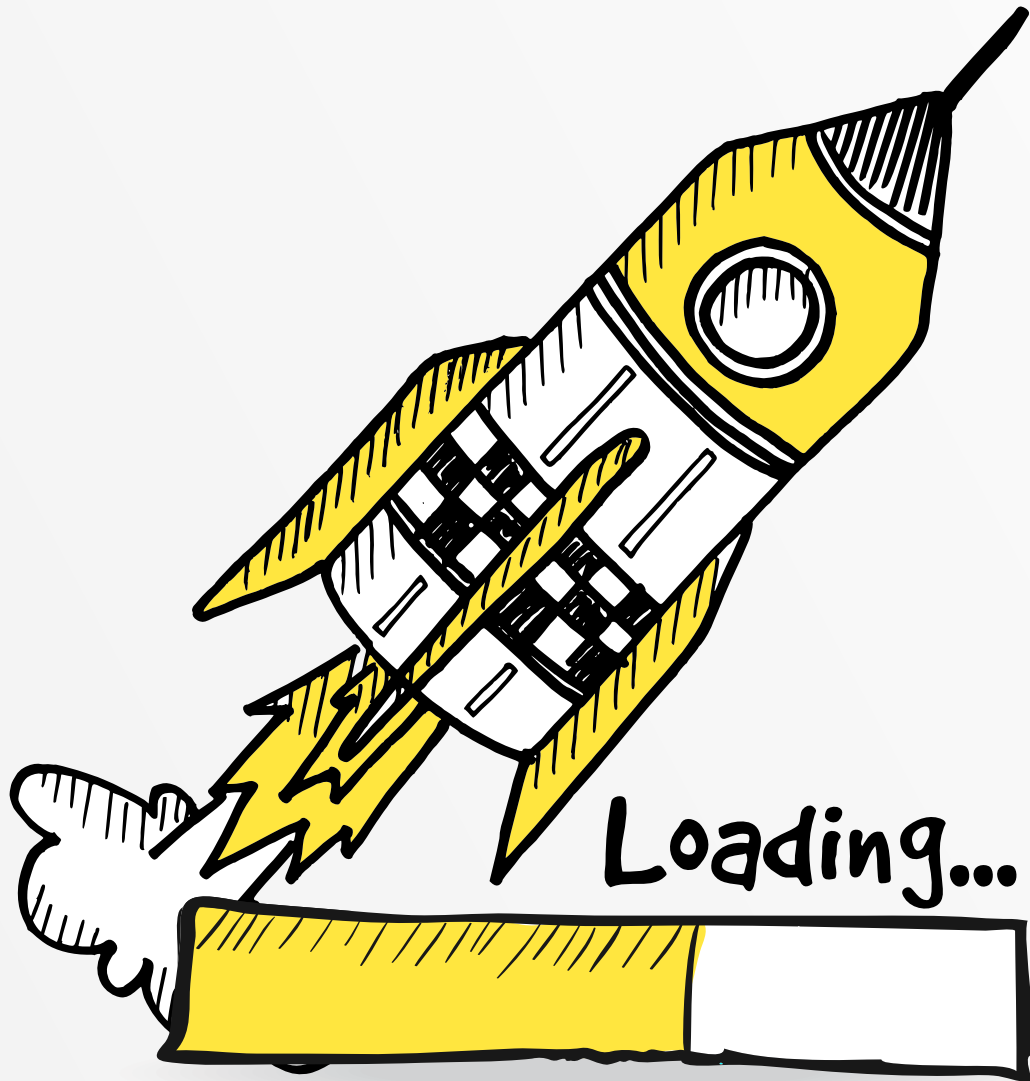
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## Playing catch-up

Healthcare systems are playing major catch-up when it comes to cybercrime. Bob Chaput of Clearwater Compliance explains more

### **Are hospitals and healthcare systems doing enough to protect against cyber attacks and cyber threats?**

The punch line is this: hospitals and healthcare systems are playing major catch-up. Incentive moneys to digitise healthcare has taken priority. Historically, we have been years behind other industries in the adoption of technology, and when it comes to safeguarding healthcare information, a decade behind. In addition, hospitals traditionally view cyber risk management as an issue for their information technology professionals to manage.

What we are seeing is the perfect storm emerging. Patient health is extremely vulnerable. The changing threat environment and the internet of things (IoT) is blurring lines between information security and patient safety and is requiring each discipline to expand its scope.

Healthcare leaders need to gain greater visibility into what's happening enterprise-wide as it relates to IoT devices and proactively monitor threats across the organisation. It's not only about the traditional IT assets such as the electronic health

record system and the pharmacy and radiology systems, it's also about biomedical devices that are attached to our patients or implanted in them. We see this as a large and growing business risk management issue, around which healthcare could be doing a whole lot more.

Medical devices today can be used in the home, across networks in hospitals, and embedded in the patient. However, many IoT-enabled medical devices were manufactured without understanding the full implications of cybersecurity. IoT-enabled medical devices can expose people, hospitals, and manufacturers to many significant risks. These risks include possible harm to a patient's safety and health, loss of Protected Health Information (PHI), disruption of information flow of connected devices, physical interference with equipment, impact on business operations, damage to critical infrastructure, and unauthorised access to devices. Within hospitals, these devices enter through numerous channels. Any threats to the confidentiality, integrity, or availability of information represent threats to patient safety. Identifying and mitigating potential risks in legacy and connected devices is an important challenge for the industry. Many organisations are starting to take action on the cybersecurity and privacy fronts.

Hospital and healthcare systems in particular are playing major catch-up as it relates to cyber attacks, and there are opportunities for improvement. What we've had in the US as a result of the Electronic Health Records (EHR) incentive monies that have been awarded by the government through the 2009 American Recovery and Reinvestment Act (ARRA) is a great digitisation of our health care system. This significant investment in digitising healthcare has really taken priority over the matter of safeguarding it.

### **Is technology moving too fast for health systems to keep up?**

There's no doubt that the evolving pace of technology is moving too fast for the healthcare industry, but traditional approaches to patient safety and healthcare information risk management need to run alongside and evolve to address today's technology and emerging direct threats to patients.

The fast change of technology opens the door to a wide spectrum of threats, ranging from traditional intrusions designed to steal PHI to more novel attacks, such as tampering with biomedical devices or blocking access to essential records systems. Information security has become an essential component of patient safety. Concurrently, the information needed to provide care resides in more places than ever before, including electronic health records; the smartphones, tablets and laptops carried by physicians and other caregivers; intelligent medical devices such as smart pumps, monitors and implants; patient portals; and mobile health apps, not to mention provider partners, business associates and other members of the patient care ecosystem. Safe, quality care depends on timely access to this information.

Therefore, any threats to the confidentiality, integrity or availability of information represent threats to patient safety.

In large hospitals or health systems, departmental heads have a fair amount of autonomy over their selection and deployment of technology, and there are risk consequences. The IT person who is responsible for the networking and computing, applications and infrastructure is often unaware as new devices are attached to his or her networks. It's a challenging problem for CIOs.

Hospital and Health System CIOs and Chief Information Security Officers (CISOs) must collaborate with peers to integrate their cyber or information risk management (IRM) strategy into their organisation's overall enterprise risk management/governance, risk management and compliance strategy. Both must become part of day-to-day operations and address the requirement to respond to inevitable cyber incidents and restore normal operations. When hospital leaders adopt an integrated IRM/ERM strategy, there can be greater returns for the organisation in terms of expanded knowledge, informed decision-making and reduced cyber risk. But, when they choose to ignore the strategic importance of IRM, the resulting complaints, breaches, failed audits or cyberattacks can erode the confidence of patients and staff, limiting the organisation's ability to grow.

### **With so many areas to protect, how do hospitals and healthcare systems go about understanding cyber exposures?**

First and foremost, hospitals need to do a better job of understanding their exposures. Hospitals and healthcare systems should be encouraged to look at the expanded ecosystem of the healthcare organisation and conduct a comprehensive information risk management (IRM) approach that is not a checklist. It's a fundamental matter of identifying exposures and understanding them better. Understanding cyber exposures, it's the starting point.

### **How have hospitals and healthcare systems become big targets for cyber attacks? What threats are they actually facing?**

What better place is there for a bad guy to look than in health care—it's single biggest hub for data. It's a veritable library of our personal information and a treasure trove of that information. Not only do we have electronically protected health information, we have other personal identifiable information that includes driver's licenses, dates of birth and, probably, payment card data.

The types of cyber threats and attacks that organisations are facing include these four categories—adversarial, accidental, structural and environmental. In doing a risk analysis, these are the four categories that are evaluated.

Of those four categories, the cyber attacker falls into adversarial. Organisations have threats in the adversarial category other than

foreign nations. It might be a malicious insider, and that individual may be the person who's siphoning and infiltrating all kinds of data from the organisation.

The accidental cyber threat can be in or outside the organisation. It can be as simple as a backhoe operator digging up a fiber optic cable that could disconnect your hospital from its electronic health record system.

Structural threats are subject to the laws of physics; we're dealing with electro-mechanical devices there.

Environmental risks have to do with fires, earthquakes, mudslides and hurricanes. Health care can fall victim to these natural disasters.

**In your opinion, what is the safest way to safeguard patients' healthcare?**

First step is to conduct comprehensive risk identification and assessment. The second step is to build a programme—not a once-and-done programme—but to adopt a cyber security framework, formal process and maturity model mentality; establishing, implementing, and maturing a programme.

The only way you can do this is if you understand what your exposures are. The most effective way is at a very operational level, by adopting a comprehensive, accurate risk analysis. This way you will gain a better understanding of your exposures and be able to address importance compliance.

Building a programme that adopts a cyber security framework, adopting a process and maturity model mentality, is showing continuous process improvement. This work needs to turn into establishing, implementing and maturing the programme.

Hospitals must be very wary of a "control checklist". Controls are a guide and source of actions you might take when, and only when, you understand what your exposures are. In the absence of that, you may be overspending or you may be woefully under-

protecting your information assets. So you need to be wary of control checklists.

Checklists will tell you to implement encryption, a firewall, data leak protection, a strong malware system and a good training programme, but if you have limited resources, how do you know in what order you should implement those? You will only understand that when you know your exposures.

**How can a captive help solve the problem?**

It's about revenue and reputation and regulation ... what we are seeing is that privacy/cyber risk is bleeding into professional liability issues.

A captive structure can be the keystone to a healthcare organisation's risk management strategy. Captives have long been a haven for funds used to finance risk.

But, difficulties in measuring cyber exposures and concerns over the size of the exposure are still holding many captive owners back. Rather than securing funding to address the after-effects of a cyber attack, organisations should understand how a captive can be used to provide grants to the captive owner for reducing cyber risk and improving patient safety through training, periodic risk analyses and compliance assessments.

**Do you think there should be more regulation in terms of cyber security for healthcare to make sure these big organisations understand their cyber exposures?**

I'm not a fan of more regulation. The issue here is enforcing the regulations that already exist, implementing more accountability.

If anything, I would tweak the regulations around accountability. The mantra of health care is "first, do no harm". All we need to do is move this newly created matter of creating harm onto the agenda of those people who have, naturally and historically, been risk managers. **CIT**



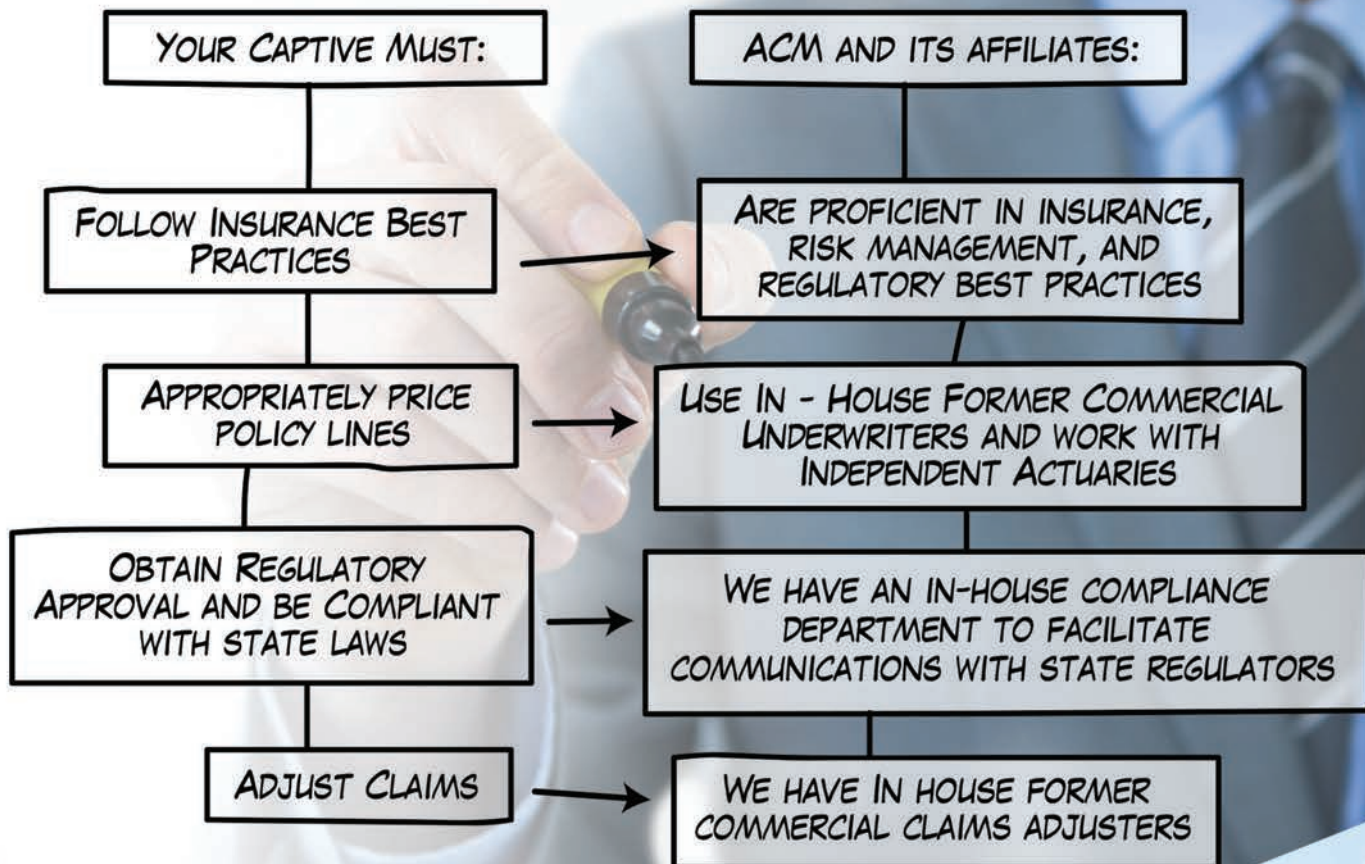
**A captive structure can be the keystone to a healthcare organisation's risk management strategy. Captives have long been a haven for funds used to finance risk**



**Bob Chaput, CEO and founder, Clearwater Compliance**



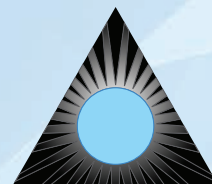
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## Comings and goings at the NAIC, Compre, MEC and more

### **Members of the National Association of Insurance Commissioners (NAIC) have elected the association's 2018 officers.**

The appointments were made at the NAIC Fall 2017 National Meeting. All roles are effective 1 January 2018.

Tennessee insurance commissioner, Julie Mix McPeak, was elected president, while Maine Insurance superintendent, Eric Cioppa, was named president-elect.

South Carolina insurance director Raymond Farmer will become vice president, and Hawaii insurance commissioner Gordon Ito was elected secretary-treasurer.

In May, Farmer was appointed secretary-treasurer of the NAIC after the death of David Mattax in April.

[www.captiveinsurancetimes.com](http://www.captiveinsurancetimes.com)

Ito is new to the leadership of the NAIC, but previously served as chair of its Western zone.

### **Nick Steer, a founding director of Compre, will step down from his role as CEO, but will remain within the group serving as non-executive deputy chairman.**

As part of his new role, effective March 2018, Steer will advise on future acquisition.

Will Bridger, managing director of acquisitions and Mark Lawson, group actuarial director, will jointly take on the role as co-CEOs.

Philipp Kleyser will also be appointed to the company's German office, serving as a director of its reinsurance subsidiary, Hamburger Internationale Rückversicherung-AG.

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*Albert Einstein*

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Kleyser, who starts on 1 January 2018, joins from EY where, as executive director, he provided transaction and restructuring advisory support for the insurance industry in Germany and Europe.

Steer said: "Next March I will have been with the business for 32 years and CEO for the last nine. During that time, the group has completed 11 company and 27 portfolio acquisitions in 11 different countries across Europe."

"It has grown to be a well-respected and trusted acquirer of non-life insurance and reinsurance legacy business."

"I feel now is the right time to step back as CEO and let the team, under new leadership, build on the very stable platform and take the business forward. I look forward to contributing to the continued success of the business in my new role."

**Midwest Employers Casualty (MEC) has appointed Greg Agnone as director of business development for group captives.**

In the newly-created role, he will be responsible for identifying new captive opportunities for MEC.

Agnone has more than 30 years of experience in the insurance industry, and has worked in captives since 2004.

MEC is a Berkley company focusing on excess workers' comp.

**Capstone Associated Services has expanded its presence into the southwestern region of the US, with the addition of Clete Thompson.**

Thompson will return to Capstone as vice president of business development, after previously working at the company from 2007 to 2014.

Stewart Feldman, CEO at Capstone, said: "Clete Thompspon has deep knowledge of the captive insurance industry, and a keen ability to establish lasting business relationships—qualities that bolster Capstone's existing multidisciplinary team."

**Atlas Insurance Management has appointed Gail Olsen as senior vice president of finance and compliance.**

Olsen, based in the company's Charlotte office, will be responsible for streamlining processes and reporting to improve efficiency, financial performance and profitability, creating an effective employee development programme, and developing the risk management and compliance programme.

Martin Eveleigh, chairman of Atlas Insurance Management, commented: "Gail Olsen's prior experience makes her a valuable asset to Atlas who will help us reach our internal financial and operational goals while helping our team provide solutions and great service to our clients." **CIT**

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Published by Black Knight Media Ltd

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Provident House  
6-20 Burrell Row  
Beckenham  
BR3 1AT, UK

Company reg: 0719464  
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Celebrating its 27<sup>th</sup> year, the **2018 World Captive Forum** will address new and emerging risks facing companies and organizations worldwide, demonstrating how captives can offer solutions that may not be available in the traditional insurance marketplace. A domicile-neutral conference, the **World Captive Forum** provides in-depth, high-caliber educational content to risk managers, benefit managers and financial executives whose organizations have risks insured by a captive or who are exploring the formation of one. Educational content will be presented on three separate tracks: General, Property/Casualty and Benefits.

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- Brexit, BEPS and Other International Regulations
- Global Employee Benefit Programs: Are They Still Worth It?
- Medical Stop-Loss: Structuring the Risks
- Pooling in Microcaptives
- Reinsurance in the Aftermath: Impact of 2017 Storms and Quakes
- Growing Your Captive with Voluntary Benefits
- Multiple Captives — Why and How?
- Cell Company Overview and Innovative Applications
- The World of RRGs (Risk Retention Groups)



## OPENING KEYNOTE

**SPACE WEATHER: ITS IMPACT  
ON OUR TECHNOLOGICAL WORLD**

**Dr. C. Alex Young**  
NASA Heliophysicist

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