



Vermont captive opts for New Jersey

MORRIS COUNTY 19.02.2013

The New Jersey Department of Banking and Insurance has approved Lumerica Insurance Company—a subsidiary of BASF Americas Corporation—to operate as a captive insurer in the US state.

Lumerica Insurance's principal business is to insure BASF's North American property and excess liability exposures. The company was originally domiciled in Vermont in 2005.

Robert Smith, vice president of tax, insurance and real estate in North America at BASF, said: "[Our company] appreciates the help and cooperation of the [department] in our efforts to move Lumerica to New Jersey."

Last year, the department hosted a captive insurance summit to encourage potential insurers to domicile in New Jersey.

The summit helped companies to become more familiar with the state's regulations and application process and brought captive industry experts together to discuss emerging trends and issues.

New Jersey's governor Chris Christie signed the Captive Insurers Act, which allows for the formation of captive insurance companies in the state, into law in February 2011.

Since the law took effect, the state's insurance department has approved the formation of eight captives, with more in the pipeline.

Ken Kobylowski, commissioner of New Jersey Department of Banking and Insurance, said: "The Christie administration continues to grow a competitive captive insurance marketplace. I am very pleased that a company of BASF's calibre has chosen to re-domesticate

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China's first captive spurs change

China's first locally incorporated captive insurer shows that the country's businesses are developing more sophisticated risk management strategies, according to A.M. Best.

[readmore p2](#)

More support emerges for NRRA clarification

A US Congressman and co-author of the Non-admitted and Reinsurance Reform Act (NRRA) has weighed into the debate over whether it applies to captives, confirming that this was never the intention of the act.

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CIT IN BRIEF

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Vermont captive opts for New Jersey

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an important part of its insurance services operation to our state.”

“Our growing captive industry is already represented by firms providing services to the shipping, communications and healthcare industries.”

China's first captive spurs change

Continued from page 1

China National Petroleum Corp and its subsidiary Petro China Co will develop a captive insurer in Karamay City, which is in the Xinjiang Uyghur autonomous region.

The China Insurance Regulatory Commission expects the captive to be fully developed in September.

Wenli Yuan, a Hong Kong-based senior analyst at Celent, told A.M. Best that captive insurance is a new market for China that large companies can use to set up self-insurance funds.

She said: “Compared to managing self-insurance funds, a captive insurance company can manage various risks professionally and effectively.”

Yuan said that the oil and gas industry has its own personal risks that commercial insurance products cannot cover, creating an opening for captive insurers.

“Setting up a captive insurer is an important risk management method for many large multinational companies, which also requires the captive company to have professional risk management skill to spread their own risk,” said Yuan.

More support emerges for NRRA clarification

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Scott Garrett made the statement to the speaker of the US House of Representatives on 6 February.

NRRA, a sub-section of the Dodd-Frank Act, has caused confusion over whether it is applicable to captive insurance, due to an alleged misinterpretation of the current language.

To tackle the issue, the captive insurance industry formed the Coalition for Captive Insurance Clarity (CCIC), under the leadership of the Vermont Captive Insurance Association (VCIA), giving it a mandate to lobby for clarification.

In his statement to the House of Representatives speaker, Garrett said: “Unfortunately, several states have indicated that they plan to interpret the NRRA to also apply to the captive insurance industry. This was not the intent of Congress. In drafting this legislation, it was never contemplated to have the captive industry fall under the NRRA.”

“At no time was the legislation’s application to the captive industry addressed or suggested. Further, in the bill’s summary, the intent of this legislation was clearly stated to impact only two specific industries—surplus lines and reinsurance.”

Garrett explained that if regulators implement the faulty interpretation then captive insurance companies would be subject to additional taxation and regulation, which is the exact opposite intent of the underlying legislation.

In a statement, Dan Towle, Vermont’s director of financial services, said: “This should send a clear message to any domicile that any information to the contrary can only be interpreted as a self-servicing tactic that is neither accurate nor in the interest of clients and the industry.”

“Congressman Garrett’s statement is further testimony that we have understood the purpose and the intent of the passage of this law.”

President of the VCIA, Richard Smith, expressed his thanks for the clarification from representative Garrett.

Smith said: “We are grateful for further clarification that captive insurance is not part of the NRRA. It is our intent to work with Congress to

craft a technical amendment to eliminate the inaccurate interpretation and the turmoil it is causing in the captive industry.”

Garrett’s statement comes on the back of a letter from a former House of Representatives sub-committee chair, which “unequivocally” said that the NRRA was not meant to apply to captives.

Commentators say that a technical amendment may be required before the act can be fully clarified, but it is not clear how quickly and easily such an amendment might be passed.

SIIA to deliver stop-loss captive education

The Self-Insurance Institute of America (SIIA) has launched a new educational initiative focused on employee benefit group captives (EBGCs), which are also known as stop-loss captives.

The campaign aims to raise awareness of how this type of alternative risk transfer solution can help small and mid-sized employers successfully operate self-insured group health plans to control the cost of providing quality health benefits to their employees.

The campaign, which has been developed by SIIA’s alternative risk transfer committee, will include targeting captive insurance regulators to educate them about what they should be looking for and what questions they should ask when considering EBGC applications.

Its will also target broker organisations to educate them on why the opportunity to participate as part of an EBGC may make the decision to self-insure easier.

Les Boughner, president of the SIIA, said: “This is the perfect opportunity for the association to leverage its collective expertise regarding self-insured group health plans in a way that has the potential to expand the marketplace when coupled with information about innovative captive insurance solutions.”

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Committee chairman Andrew Cavenagh said: "We have a great volunteer team that has been highly engaged on this project. This is just another example of how the SIA effectively harnesses volunteer resources to get big things done for our industry."

A whole lot of 'As' for Midwest Builders' Companies

A.M. Best has affirmed the financial strength rating (FSR) of "A- (Excellent)" and the issuer credit rating (ICR) of "a-" to Bearing Midwest Casualty Company and Horizon Midwest Casualty Company, which are both domiciled in Lenexa, Kansas.

The ratings reflect Bearing and Horizon's sound business plans, supportive risk-based capitalisation and strong reinsurance protection.

Partially offsetting the positive ratings are the start-up nature of Bearing and Horizon, limited market scope and the potential impact of continued soft market conditions.

A.M Best also assigned the FSR of "A- (Excellent)" and ICR of "a-" to Horizon and Bearing's parent company, Midwest Builders' Casualty Mutual Company (MWBC).

MWBC's ratings reflect its strong operating performance, aggressive claims management and solid capitalisation.

Partially offsetting them is the company's product concentration as a mono-line workers' compensation writer, which potentially exposes it to increased risk of regulatory or legislative changes and challenging market conditions in the workers' compensation line of business.

"While the outlook is stable, positive movement on all three companies' ratings are unlikely in the near to medium term. However, negative rating actions could occur if risk-adjusted capitalisation were to deteriorate as a result of dividend payments and investment losses. A deterioration of the companies' market share and competitive position may also put negative pressure on the ratings," said a statement from the rating firm.

Guernsey signs DTA with Singapore and TIEA with Brazil

Guernsey has signed a double taxation agreement (DTA) with Singapore and a tax information exchange agreement (TIEA) with Brazil. It has also signed a TIEA with Mauritius.

Peter Harwood, chief minister of Guernsey, signed the agreements on behalf of the Government of Guernsey in London.

The DTA was signed by T Jasudasan, Singapore's high commissioner to the UK.

Fiona Le Poidevin, chief executive of Guernsey Finance, said: "Signing a DTA with Singapore is a very positive development for the future of Guernsey's finance industry. For several years we have been raising awareness of Guernsey in the Far East, including Singapore."

"The DTA means that individuals or companies with 'home' as one jurisdiction but with interests in the other jurisdiction will not be taxed by both sets of authorities on the same income. This clarity and certainly on matters of taxation makes it more attractive to conduct business between the two jurisdictions."

Brazil's ambassador to the UK, Roberto Jaguaribe, signed his country's TIEA with Guernsey. Le Poidevin said: "I also welcome the signing of a TIEA with Brazil. The economic growth in South America means that there is huge potential for Guernsey's finance industry to attract business from both high net worth

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A vintage map of Southeast Asia, showing islands like Sumatra, Java, and Borneo. A blue rectangular overlay is positioned in the upper half of the image, containing the text 'EXPERTISE makes all the difference.' in white. The map is detailed with various island names and geographical features.

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individuals and expanding companies in the region, especially in the more developed countries such as Brazil.”

“The TIEA is an indication of the growing relationship between Guernsey and Brazil and a significant step in enhancing the potential for further business flows between the two jurisdictions.”

Guernsey has now signed 15 DTAs, including five full DTAs and 10 ‘partial’ DTAs, as well as 40 TIEAs, including 16 members of the G20.

Pay more attention to cyber risk, says FERMA

Many companies aren’t devoting enough attention to cyber risks, despite harsher penalties for lack of regulatory compliance and loss of sensitive data.

The findings come from research conducted by Harvard Business Review Analytic Services (HBR), Zurich and the public sector risk management organisation PRIMO, in association with the Federation of European Risk Management Associations (FERMA).

Julia Graham, a FERMA board member, said: “Too often I have seen well embedded principles and practices associated with risk management and risk financing discarded when the subjects of information security and specifically cyber security are considered.”

Graham explained that information security is a classic enterprise risk and should not be a subject solely for the domain of the chief information officer or the chief information security officer.

Research revealed that only 16 percent of companies covered in the survey have designated a chief information security officer to oversee cyber risk and privacy, and less than half (49 percent) agree they have a strategy for communication to the general public in case of a cyber risk incident.

Only 19 percent of respondents have purchased security and privacy insurance specifically designed to cover exposures associated with information security and privacy issues, and only 44 percent said their company’s budget for these risks had grown.

“[Companies] must improve their institutional preparedness to combat cyber threats and losses, which are inadequately covered by traditional liability insurance,” said the final report from HBR and Zurich.

Queen City and Vine Court Assurance receive ‘A’ rating

A.M. Best has affirmed the financial strength rating of “A (Excellent)” and the issuer credit ratings

of “a” of Queen City Assurance and Vine Court Assurance, which are both domiciled in Vermont.

The ratings are based on Queen City Assurance and Vine Court Assurance individual and combined profiles as single parent captives of The Kroger Co.

Return measures on a group and individual basis are consistently on positive levels reflective of the organisation’s prudent pricing and deployment of capital, said the firm.

These significant strengths are partially offset by the companies’ risk concentration, which are the result of being single parent captives of the parent company, coupled with a substantial aggregate limit that is retained by the captives.

Key rating triggers that could result in a downgrading of the ratings include a precipitous decline in the companies’ risk-adjusted capital strength. Key rating triggers that could result in an upgrading of the ratings include a consistently profitable operating performance coupled with a substantial increase in risk-adjusted capitalisation.

New CEO of Willis defends group’s disappointing Q4 results

Willis Group Holdings, the global insurance broker, reported disappointing but expected

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Q4 results that coincided with the end of Joe Plumeri's 12-year tenure as CEO and the appointment of Dominic Casserley to his role.

The broker incurred significant charges during Q4 related to goodwill impairment in North America and a change in the company's cash retention awards programme.

Additionally, Willis set up a valuation allowance against its deferred tax asset, which also had a notable negative impact on reported results.

Willis Group reported a net loss from continuing operations of \$804 million, for the quarter ending 31 December 2012, compared with reported net income of \$24 million in the same period a year ago.

The quarter's results were negatively affected by charges of \$492 million related to the goodwill impairment in North America; \$200 million related to the write-off of unamortised cash retention awards; \$252 million related to the accrual of 2012 cash bonuses; and a \$113 million tax charge to establish a deferred tax asset valuation allowance.

The valuation allowance is related to the North America segment and is directly associated with the recording of the goodwill impairment and cash retention charges.

Reported net income in Q4 2011 was reduced thanks to a \$50 million charge related to the 2011 operational review and \$22 million related to the write-off of uncollectable accounts receivable.

However, total commissions and fees for Willis Group were \$867 million in the Q4 2012, up 7 percent from \$810 million year-on-year. The effect from foreign currency movements amounted to negative 0.5 percent year-on-year. Excluding this foreign exchange impact, organic commissions and fees increased 7.5 percent in Q4 2012.

Investment income for Willis Group declined to \$4 million in Q4, from \$8 million in the same periods of 2011 due to lower net yields on cash and cash equivalents.

"In the fourth quarter, Willis undertook a series of steps to pave the way forward for our company and our shareholders. Those actions are reflected in our reported results," said Dominic Casserley, who is the new CEO of Willis Group Holdings.

"With these actions behind us, and a quarter that resulted in significantly improved revenue growth in our segments, particularly the turnaround in Willis North America, we are encouraged by what lies ahead. We are laying a strong foundation at Willis, defined by the service we offer our clients and the manner in which we run our business, exemplified by the \$524 million of cash flow we generated in 2012, an improvement of \$85 million over the previous year."



Solvency II will be an uphill battle for captives, says A.M. Best

The European captive industry has survived the global economic downturn well but the forthcoming implementation of Solvency II could pose a new problem for the sector, according to a new report from A.M. Best.

Looking at the affect that the three pillars of Solvency II will have on captives, the ratings firm's report said that many captives may find Own Risk and Solvency Assesment (ORSA) compliance particularly difficult under Pillar II as there is no specific ORSA model to follow. Though Pillar III's further disclosures, increased transparency and improved benchmarking is generally welcome, despite being difficult for captives.

The report states that while some captives will struggle with the new directive, others will find opportunities. Captives that focus on risk and capital management and maintain well diversified or defensible niche strategies are well prepared for Solvency II. By maintaining sufficient capital levels, they will be able to take advantage of opportunities to expand their roles, should they arise.

In terms of exposure to sovereign debt, a captive's exposure is generally lower compared to a conventional insurer.

"Although the economic uncertainty in Europe appears to have somewhat eased compared with 2011 and early-to-mid 2012, underlying issues remain and have resulted in heightened investment risk. Meanwhile, returns in general have remained minimal, as it has become more difficult to diversify into very highly rated bonds because of the various sovereign and corporate downgrades over the past year or so," states the report.

Yvette Essen, the report's author and A.M. Best's director of industry research in Europe and emerging markets, added: "Parent companies continue to have a wide choice of jurisdictions for their captives. Cells are being formed, although the soft market and uncertainties regarding Solvency II's final specifications and implementation date could result in delayed decisions to form captives in onshore jurisdictions."

Anandi Nangy-Kotecha, associate director of analytics at A.M. Best, said: "Direct captives are likely to be more heavily impacted by the current form of Solvency II than reinsurance captives. Small captives, which lack risk diversification and have high counterparty exposures, are expected to need capital increases to meet regulatory requirements. Given the more onerous regulatory environment and the costs involved, some parents may close dormant captives and run off existing vehicles."



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In amongst the pigeons

A closer look at European captive underdog Switzerland reveals double tax treaties and Solvency II alternatives, as CIT finds out

JENNA JONES REPORTS

Switzerland's captive count stands at 35, according to the Captive Insurance Companies Association's listings and quoted statistics, as of 14 February. A figure like this is probably unlikely to strike fear into the hearts of Europe's big players such as Guernsey and Luxembourg anytime soon.

But Marisa Prater, chief commercial officer of Aon Global Risk Consulting, believes that Switzerland is a unique domicile with a lot to offer the captive industry, including location, substance, infrastructure and regulation.

"Switzerland is not only the preferred domicile for a number of captives of the largest global companies, but also many reinsurance companies have established themselves here. For captive owners this facilitates efficient access to markets. Direct access to sophisticated investment markets is another benefit of the country."

Prater says that with the introduction of the Swiss Insurance Ordinance in 2006, Switzerland implemented economic capital principles, including the Swiss Solvency Test (SST), which is a mandatory test for all insurance companies that are domiciled in Switzerland, together with their branches.

corporate risk finance strategy, especially in regards to financial efficiency.

In only a few cases did the changes lead to a closure or relocation of a captive. "On the contrary, financial efficiency has increased through diversification benefits of a broadened insurance portfolio, more sophisticated investment portfolios or efficient operational setup."

She adds: "More than 50 percent of captives underwrite more than two lines of business. Captives increasingly became a profit centre and are used as strategic risk management tools due to the application of more stringent regulation."

The European Insurance and Occupational Pensions Authority has approved the equivalence of the Swiss reinsurance supervision with the EU Reinsurance Directive (2005/68/EG), as of October 1 2010.

"The goal of this equivalence was to ensure that the country's regulatory and supervisory regimes provide a similar level of policyholder/beneficiary protection as the one provided under the Solvency II Directive," says Prater.

economical stability and numerous double taxation treaties."

Taxing times

Switzerland fails to provide much of a tax incentive—owing to stamp and corporate tax—in comparison to some of its offshore rivals offering zero tax. But the country is in a position to offer some significant incentives.

Prater says: "Switzerland has double tax treaties in place with approximately 90 countries, which ensure no withholding tax on asset income (which is essential for asset/capital rich reinsurers) and no Federal Excise Tax on the US proportion of the captive premium if a closing agreement is agreed with the Internal Revenue Service."

Another benefit is that reinsurance captives are allowed to build equalisation reserves as part of their business plans, as long as they are technically justified and approved by tax authorities.

Prater explains: "The rules are much more flexible than in other countries where for example the calculation basis for minimum and maximum equalisation reserves are given. This is a significant advantage for reinsurance business."

But for most European companies, "tax is no longer the main driver to setup or maintain a captive", says Prater. "Captives are [now] more used as broader risk management tools."

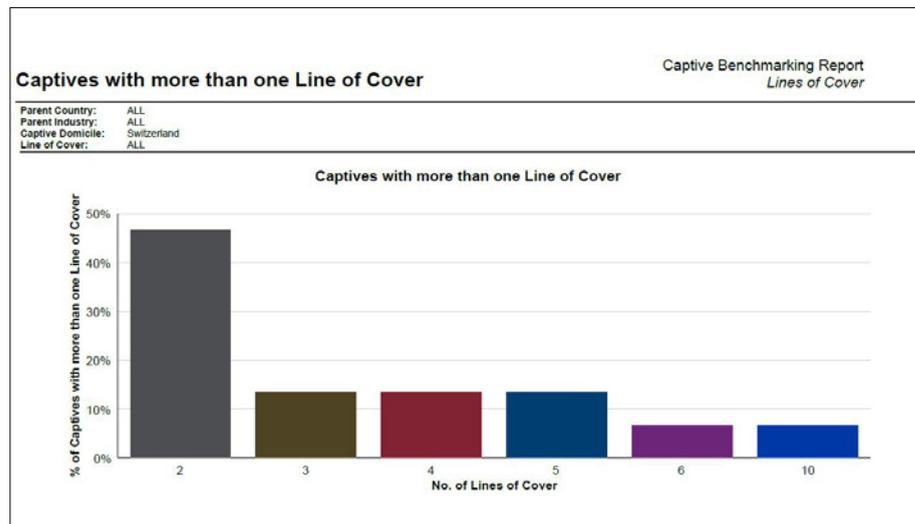
A place to call home

Swiss insurance legislation only allows for pure captives, but there are some corporates licensing their captives as professional reinsurers to allow third party business to be written in their portfolio.

"Swiss legislation does not specify protected or incorporated cell companies (PCCs/ICCs), thus the Swiss insurance supervisor would not grant licences for PCCs or ICCs. There are a number of rent-a-captive solutions, however, we are seeing them disappear, either because of compliance questions or due to the soft insurance market providing very favourable conditions," explains Prater.

In 2011, Switzerland targeted the captives of Italian companies feeling the effects of the controlled foreign company (CFC) regime, with a leading Italian tyre manufacturer agreeing to redomicile its captive from Dublin to south Switzerland.

Prater says: "Switzerland as a captive domicile is optimal for any company subject to CFC providing adequate substance. However, domicile choice always depends on a number of criteria



"The regulator, the service providers (eg, captive management) and the (re)insurance industry have all had time to adopt their internal processes and collect valuable experiences with risk-based capital modeling. Those experiences are still to be learnt in the countries which will have to implement Solvency II."

The introduction of the SST in Switzerland has seen captives review their positions in their

While Switzerland offers a unique environment for captive insurers in Prater's view, Jaroslaw Filip, administrator at Reliant Management in Geneva, says that the country does not particularly differ from other domiciles.

"Switzerland is not really unique from other domiciles from a captive management point of view. Nevertheless, the country provides us with an exceptional political and

to be carefully assessed prior to setup or relocation of a captive, such as the regulatory and legal environment, operation cost, economic substance, exit options or investments.”

Covering all the bases

Despite statistics (see Aon’s chart below) showing that property and general liability are popular lines of business Aon-managed captives in Switzerland, Filip says that there are not any ‘stand out’ lines of business in the country.

Filip explains: “There is no specific lines of business underwritten by Swiss-domiciled captives and all lines of business could be considered provided that the volume of premium and underwriting result are acceptable.”

“Moreover, it is possible in Switzerland to build up the equalisation reserves (special reserves), which could help to develop an additional insurance capacity where the insurance market fails to respond adequately to the customer needs.”

As well as the double taxation treaties and an advanced regulatory environment, Prater says that Switzerland also has a lot to offer less complex reinsurance captives, as the SST allows for a simplified version of economic capital determination—namely risk-based capital.

The Swiss Financial Market Supervisory Authority has also benefitted the industry, introducing a proportionality treatment for supervised entities, which classifies most captives in the lowest category.

Drawbacks to domiciling in Switzerland include the country not being a part of the EU, as it cannot benefit from advantageous legislation such as the Reinsurance Directive or the Third Directive (92/49/EEC), says Prater.

“If a company would like to setup a direct writer underwriting European and Swiss risks, this is not possible for Switzerland. The only country that would allow for this is Liechtenstein.”

The Swiss approach to bilateral agreements with Europe could make the country vulnerable too, says Prater, and compliance and a strong regulatory environment comes at a cost, which could ultimately deter potential insurers from setting up a captive in Switzerland. **CIT**

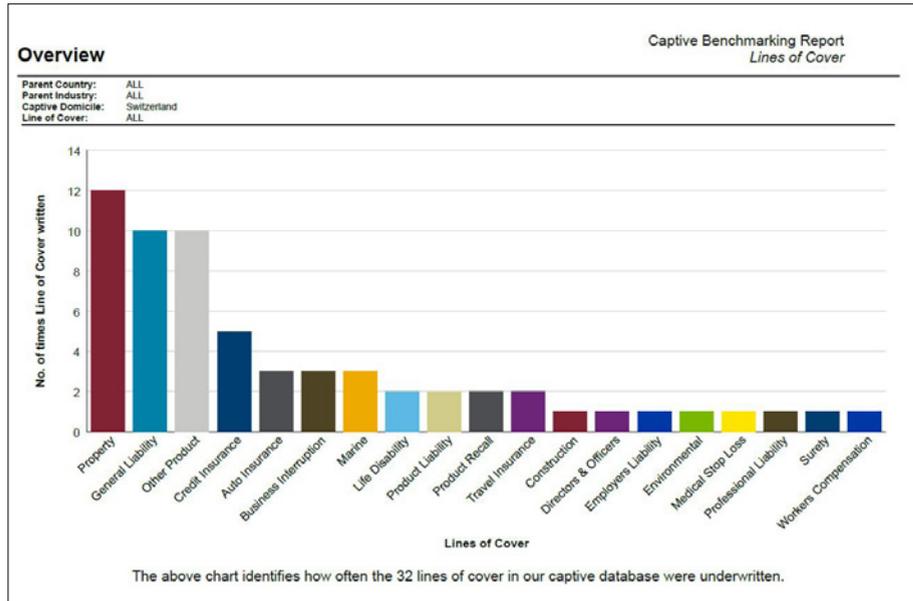
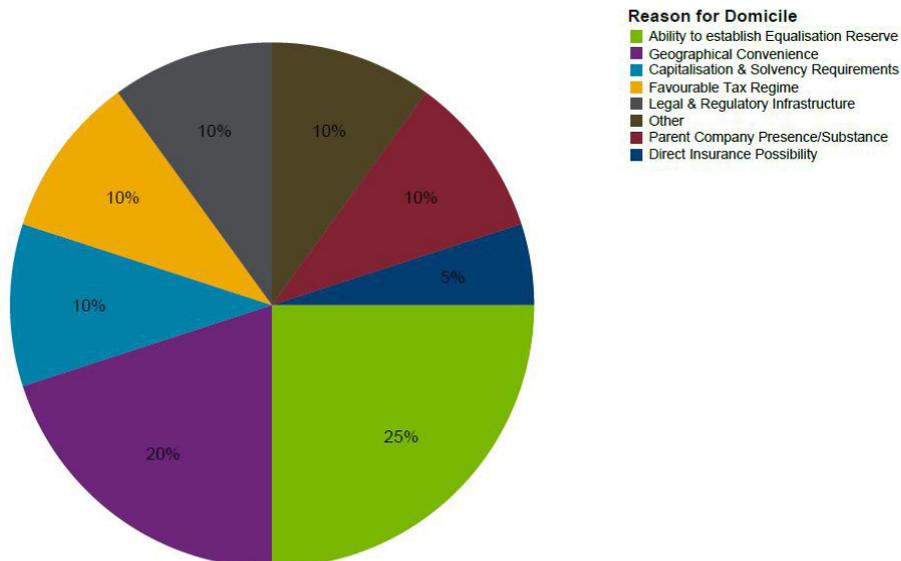


Chart sources: Aon

Primary Reason for choosing a Domicile

Captive Benchmarking Report
Location of Captive

Parent Country: ALL
Parent Industry: ALL
Captive Domicile: Switzerland
Line of Cover: ALL



No progress without practice

CIT talks about figures, regulation and all things Delaware with Steve Kinion of the state's insurance department after its encouraging 2012 captive results

JENNA JONES REPORTS

Was 2012 a good year for captive growth in Delaware?

Yes, this has been the US State of Delaware's best year. The 2012 additions are 59 captives, one cell, and 179 series units. The total number of licences issued for risk bearing captives will be 212 captive companies, 12 protected cells, and 364 series units. The total number of captive licences issued will be 588. Not all of the licences that were issued since the adoption of the captive law in 1984 remain active. Over the course of this time, we have had 22 captive companies dissolve or re-domesticate, one cell dissolve, and six series units dissolve. Our active licence numbers are 190 active companies, 11 protected cells, and 358 series units. The total active captive entity count is 559.

Of the 59 captives registered, have you seen any trends or popular lines emerging?

We are seeing an increased level of interest from small- and medium-sized employers in forming captive insurers for medical stop-loss purposes. Since the implementation of the Patient Protection and Affordable Care Act, I am seeing more inquiries about forming these types of captives.

It has been reported that last year's growth could see Delaware overtake Hawaii as the third largest US captive domicile. What would this mean to the state?

Delaware's growth as a captive domicile is an affirmation of insurance commissioner Karen Weldin Stewart's goal of making the state a world-class domicile. In 2008, when Stewart was campaigning for election as insurance commissioner, she promised to build this state's captive industry. She has kept that promise—with dividends added. When she formed the captive bureau in July 2009, there were only 38 captive insurers. We have achieved a 558 percent growth rate in terms of licensing captive companies, and a 1500 percent growth rate in total licensing of captive entities.

The total captive company growth rate stands at 38.5 percent. How do you intend to retain such a healthy rate in the future?

Delaware will continue this rate by being a leader. Stewart has directed me as captive di-

rector to take a leadership role in the captive world. Taking a leadership role means to be at the forefront of captive issues before the National Association of Insurance Commissioners (NAIC) and federal insurance bodies. It also means becoming a leading spokesperson for the captive industry. Stewart believes that Delaware should lead the captive industry from the front.

In 2012, the NAIC formed the Captive and Special Purpose Vehicle Use Subgroup. This subgroup studies insurers' use of captives and special purpose vehicles to transfer insurance risk, other than self-insured risk, in relation to existing state laws and regulations, and establishes appropriate regulatory requirements to address concerns that are identified in this study. The appropriate regulatory requirements may involve modifications to existing NAIC model laws and/or generation of a new NAIC model law.

Though it is not a member of this subgroup, Delaware has been an active participant. Late last year, Delaware issued a comment letter about a whitepaper from the subgroup. Though the whitepaper contained valid points, there were others with which Delaware disagreed. The comment letter contained the points of disagreement. I then testified at the November 2012 meeting of the subgroup to verbally express Delaware's plans for a solution to address the NAIC's concerns.

What qualifies you to be a spokesperson for the captive insurance industry?

I can explain captive insurance to those who are not familiar with how it operates. I am an 18-year insurance veteran. My insurance career ranges from serving as a regulator to private law practice to the boardroom. I worked for Farmers Insurance Group and have served on the boards of directors of two property and casualty insurance companies. My health care experience includes serving five years on the board of directors of the Illinois Comprehensive Health Insurance Plan, and serving as chairman of the Oklahoma Health High Risk Pool for eight years. This background enables me to understand insurance from the executive level. I am also a judge advocate in the US Army Reserve, holding the rank of lieutenant colonel.

My work with captive insurance began in 1995. Through my experience and leadership abilities, I lead both the captive bureau and NAIC on various matters related to captive insurers. I chair the Delaware Insurance Department's internal task force that is addressing insurers taking loans from the Federal Home Loan Bank system, and participate in its internal derivatives task force. For NAIC matters, as mentioned, I actively participate in the

NAIC's captive and special purpose vehicles use subgroup, and lead the effort to rewrite the risk purchasing group portion of the NAIC Risk Retention and Purchasing Group Handbook.

Since becoming captive director in July 2009, I have fulfilled Stewart's goal of making Delaware a top-tier captive domicile. Today, Delaware is in the top five of US captive domiciles. My experience with regulating captive insurers ranges from very small captives having less than \$500,000 of annual premium, to those with annual premium measured in the hundreds of millions.

Could you explain the more stringent regulatory standards that have been imposed by the captive bureau?

Even though my involvement with captive insurers began in 1995, I learn something new every day as captive director. The more stringent standards mean a continuous improvement for how Delaware regulates captives. It is also adhering to Stewart's high standards for licensing captive insurers.

What makes Delaware different from other captive insurance domiciles?

The answer is Stewart. As insurance commissioner, she has formed a business incubator within the captive bureau so that new concepts and ideas are encouraged and tested. Stewart's willingness to apply innovative ideas is one of the reasons that Delaware is pioneering the world's first series captive insurance company. This pioneering activity allows individual series, either formed under a Delaware limited liability company or statutory trust, to become captive insurers. Until Stewart allowed this form of captive insurer, no other captive domicile had even considered doing so. **CIT**



Steve Kinion
Director in the bureau of captive and financial insurance products
Delaware Insurance Department



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KEYNOTE SPEAKERS:



GENERAL SESSION

Simon Sinek, Optimist and Author
*Start With Why: How Great Leaders
Inspire Everyone to Take Action*



CONFERENCE FINALE

Howie Mandel, Comedian and
Author, *Here's the Deal: Don't
Touch Me*



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The luck of three

Q3 2012 results for risk retention groups are indicative of exceptional business, says ratings firm Demotech's Douglas Powell

There is a shared perception by many analysts that any business or industry is only as good as its bottom line. If this is the case, business continues to be exceptional for risk retention groups (RRGs). They have already withstood the political and economic uncertainties that have negatively affected industries such as retail and manufacturing. More importantly, over the past five years, RRGs have remained vigilant in their capitalisation and surplus needs to adequately address claims and losses.

Since RRGs are restricted to liability coverage, they tend to insure medical providers, product manufacturers, law enforcement officials and contractors, as well as other professional industries. By law, the insureds of an RRG must also be its owners. Based on collective performance, this unique ownership structure appears to be successful as the knowledge specialists have been able to work in conjunction with the insurance specialists to maintain a profitable business model.

Balance sheet metrics

Over a five-year period from Q3 2008 through the same period of 2012, RRGs have collectively increased policyholders' surplus more than 73 percent. This percentage represents the addition of nearly \$1.45 billion to policyholders' surplus. During that same time period, liabilities increased approximately 11 percent, a little more than \$436 million. The reported results indicate that RRGs collectively are adequately capitalised and able to remain solvent if faced with adverse economic conditions or greater losses.

Further analysis of the five primary lines of business for RRGs (commercial auto, medical

professional claims-made, medical professional occurrence, other liability claims-made and other liability occurrence) also supports this conclusion. RRGs, on a primary line of business basis, collectively reported financially stable results as measured both by liquidity and leverage. These collective results also imply that RRGs are appropriately reinsured. If they were not, net operating results would be skewed.

DPW by jurisdiction and line of business

In analysing direct premium written (DPW) on a jurisdictional basis, 32 of the 57 reported jurisdictions have increased DPW over a five-year period through Q3 2012. The greatest increases in DPW, based on dollar amount, were seen in New York, Pennsylvania, Florida and Maryland, which all reported increased DPW of more than \$20 million.

Through the period, 25 jurisdictions reported decreased DPW during the previous five-year period. The greatest decreases in DPW, based on dollar amount, were seen in the District of Columbia, Texas, Washington, California and Ohio. Each of these jurisdictions reported a decrease in DPW of at least \$8 million.

A majority of DPW for RRGs is accounted for in the medical professional claims-made line of business. Through Q3 2012, approximately 55 percent of DPW is medical professional claims-made. It is also the line of business with the greatest five-year DPW growth in actual dollars. DPW for medical professional claims-made has increased more than 16 percent, nearly \$180 million, during the previous five-year period.

Overall profitability

The profitability of RRG operations is encouraging. RRGs reported an aggregate underwriting gain for 2012 of nearly \$44 million. RRGs collectively reported net income of over \$185 million through Q3.

Further analysis reveals that RRGs, on a primary line of business basis, collectively reported financially stable results as measured by loss ratio, expense ratio and combined ratio. Moreover, RRGs collectively reported a net income for each of the five primary lines of business.

It is important to note again that while RRGs have reported net underwriting gains and net profits, they have also continued to maintain adequate levels of policyholders' surplus while increasing DPW period over period. To summarise the reported results, RRGs continue to exhibit exceptional financial stability. **CIT**



Douglas Powell
Senior financial analyst
Demotech

2013

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CICA 2013 International Conference

Location: **Palm Springs, CA**
 Date: **March 10-12 2013**
www.cicaworld.com

We know everyone is wondering what's just over the horizon in this era of change—so that is where we are focusing during the CICA 2013 International Conference—New Horizons! For over 40 years CICA's domicile neutral international conference has attracted the greatest percentage of captive and risk retention group representatives in the industry.

Captives and Corporate Insurance Strategies Summit

Location: **Toronto**
 Date: **22-23 May 2013**
www.captivesinsurance.com

Tailor your insurance coverage to your corporate needs; minimise the risk and long-term insurance cost to your organisation.

Airmic Conference 2013

Location: **Brighton**
 Date: **10-12 June 2013**
www.airmicconference2013.com

From 10-12 June 2013, the Airmic Conference 2013 will open its doors to over 800 UK industry buyers and sellers of the insurance market seeking to keep up-to-date with trends, discover new service providers, learn and network with their peers, and be inspired by our keynote speakers.

Western Region Captive Insurance Conference

Location: **Arizona**
 Date: **10-13 June 2013**
www.westerncaptiveconference.org

The next conference for the Western Regional Captive Association will be held in Arizona in May of 2013. The exact dates and locations will be determined in the near future. Please mark you calendar in pencil for this event. There will be no conference in 2012 due to scheduling of other captive conferences and the date of the 2011 WRCIC late in the year. Missouri will host the conference in 2014.

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When it comes to the captive insurance industry, South Carolina has established an environment where you can grow and prosper. In fact, South Carolina is among the top captive domiciles in the world. All top seven captive managers have a market presence here — and it's not just because of our quality of life.

We are open to new ideas that enable this industry to thrive and we promote quality and innovation over quantity. Besides our business-friendly environment, we are on the forefront of captive insurance regulation in this country and have brought practicality to many of the regulatory standards for the captive insurance industry. And, as a dedicated partner, we work with you and the greater captive industry, to recommend laws that promote responsible development and growth.

Learn more about what makes South Carolina the ideal domicile for your captive insurance program at www.doi.sc.gov.



Industry appointments

Hyperion Insurance Group has appointed **Will Bloomer** as chief risk officer and general counsel.

As chief risk officer, Bloomer will coordinate risk management and compliance activities across the underwriting and broking arms of the group.

In 2012, Bloomer joined Hyperion's broking subsidiary, Howden Broking Group, as legal and corporate director. He joined Howden from RSA, where he was UK head of litigation.

David Howden, CEO of Hyperion, said: "Bloomer's legal expertise and experience of international insurance operations mean that he is very well placed to lead the charge, and this is an important next step for the group as we continue to grow."

Aspen Insurance Holdings chief risk officer, **Julian Cusack**, has decided to step down from his role—effective immediately—after more than ten years with the firm.

Cusack is a co-founder of Aspen who has held a number of positions within the firm, including CFO and chairman of Aspen Bermuda Limited (ABL).

Aspen's head of risk, **Stephen Postlewhite**, will take over Cusack's vacated position.

Chris O'Kane, CEO of Aspen, said: "Cusack has been an invaluable member of our executive management team for the past decade and no one has done more to ensure that our capital and risk management framework has remained robust and resilient, particularly during prolonged periods of economic and market uncertainty."

"He has made an enormous contribution to Aspen's growth and development and we are delighted that he is staying with us and retaining responsibility for strategic projects and as chairman of ABL."

Aspen has also appointed **Gordon Ireland** as a non-executive director of the firm.

Ireland previously held the role of chief executive and director of L&F Indemnity Holding Company, the captive insurance company for Price-waterhouseCoopers.

Glyn Jones, chairman of Aspen, said: "I am delighted that Ireland is joining the Aspen Board. His wealth of accounting experience and deep knowledge of the insurance and broader financial services sector will be a great asset to Aspen."

JLT Reinsurance Brokers (JLT Re) has appointed **Henry To** as chairman and CEO of its reinsurance operations in China and Hong Kong.

Prior to joining JLT Re To held roles at HHL Re and most recently Aon.

Alistair Lockhart-Smith, managing director of JLT Re, said: "To has 30 years of reinsurance experience in Asia. He is particularly recognised for his pioneering efforts in building the agricultural reinsurance business in China, when the government started subsidising the sector in 2004."

"To is not new to the JLT organisation. After graduating from Hong Kong Polytechnic, he joined Jardine Matheson Insurance Brokers (JMIB) as a graduate trainee. We are pleased to welcome him back to the JLT family where he will add considerable depth and strength to our reinsurance practice."

Commenting on his appointment, To said: "Having received my insurance foundations in JMIB, I do feel that I am coming back home. JLT, then as it is now, is a highly respectful insurance and reinsurance broker, renowned for its professionalism, expertise, and commitment to client service. It is my privilege to re-join them."

Hanover Stoner Partners has promoted executives **Barbara Casanova** and **Edward Molloy** to senior risk advisors.

Casanova will focus on Hanover Stone Partners captive department, while Molloy will concentrate on utilities healthcare and financial institutions.

Casanova previously held the role of director of membership and development for the Vermont Captive Insurance Association. In her new role, she will be a key member of the Hanover Stone Partners CaptiveGuard team.

Molloy brings more than 40 years of finance insurance and technical risk management experience to his new position. He previously held the role of head of insurance and risk at Aetna for 20 years.

John Kelly, founder and managing partner of Hanover Stone Partners, said: "As a growing number of risk executives across a wide range of industry sectors and government entities look to Hanover Stone Partners for assistance with their needs by providing access to the best available expertise across a range of critical risk disciplines."

"Casanova and Molloy are among the industry's most respected professionals. As senior risk advisors of Hanover Stone Partners, they share our uniform commitment to bring a full complement of capabilities and resources necessary for effective risk management on a global scale."

Robert Bentley has been named as the new president and CEO of CS STARS, Marsh's risk and claims management business unit.

Bentley joins CS STARS from Risk Management Solutions, where he held the role of COO and board member. Prior to that, he spent 17

years at Guy Carpenter, where he held the positions of global COO, Western region manager, and head of global analytics.

Bentley will be based in New York and report to Liz Flynn, president of Marsh's insurance services businesses.

Flynn said: "I am very pleased to welcome Bentley to Marsh and am excited about the prospects of him leading CS STARS."

"His strategic vision of leveraging data and leading-edge technology to provide clients with valuable insights and advanced risk management tools makes him the perfect fit to build upon what is already the leading risk management and claims solution in the market."

Commenting on his new appointment, Bentley, said: "The ability to extract risk management insights from data can help organisations make more informed decisions and gain significant competitive advantages."

"I am excited about this opportunity to lead CS STARS, which is committed to continuously advancing the expertise and solutions we provide to our clients." **CIT**



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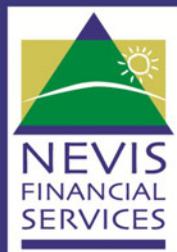


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