captive insurance times
The primary source of global captive insurance news and analysis
Conference Special

A healthy market

Patrick Haddad from Kerr Russell talks healthcare system captives

Association updates

ECIROA and CICA discuss the state of the market

Emerging Talent

We hear from CIMA's Kara Ebanks

UK-US Covered Agreement could be on the cards

A UK-US Covered Agreement could be in place as early as December this year, ready for when the UK departs the EU in March next year, according to the National Association of Insurance Commissioners (NAIC).

Last year, the EU-US Covered Agreement was signed into law to eliminate collateral and local presence requirements for qualified reinsurers and meaningfully streamline group supervision requirements for insurers and reinsurers operating in both jurisdictions.

However, when the UK departs the EU it will no longer benefit from this current covered agreement.

In a statement, the NAIC said: "We appreciate outreach from the Treasury in advance of announcing initiation of a possible US-UK covered agreement, and a commitment to ongoing coordination with state regulators as the process moves forward."

The NAIC described the UK as an "important market" for US transatlantic insurance activity.

The NAIC statement continued: "Although we continue to have concerns with the covered agreement mechanism itself, given the unique circumstances, if a final agreement between the US and UK mirrors the terms, commitments, and US policy statement of the existing EU-US covered agreement, and simply reestablishes or replicates its application to the UK, we do not oppose its use in this instance."

The NAIC noted that "nothing in these negotiations should alter the direction or timing of our ongoing credit for reinsurance model law reforms".

It concluded: "As the recent devastating hurricanes have demonstrated, the reinsurance sector plays an important role in protecting US policyholders so it is paramount we conclude our work quickly to establish certainty in the rules for reinsurers from around the globe."

Contents

captive insurance times

Reporter: Ned Holmes
nedholmes@blackknightmedialtd.com
+44 (0)203 750 6022

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com
+44 (0)203 750 6028

Editor: Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6019

Associate Publisher/Designer: John Savage
johnsavage@captiveinsurancetimes.com
+44 (0)203 750 6021

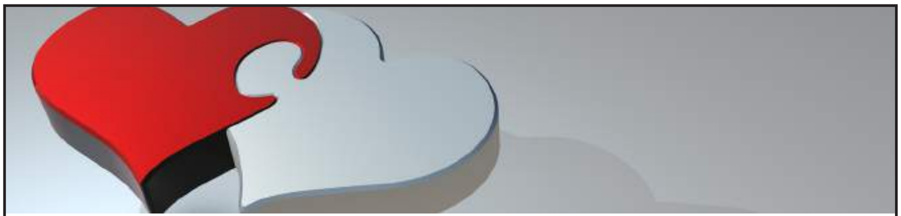
Office Manager: Chelsea Bowles
+44 (0)203 750 6020

Deputy Editor: Barney Dixon
barneydixon@blackknightmedialtd.com
+44 (0)203 750 6026

Contributors:
Jenna Lomax, Ben Wodecki
and Maddie Saghir

Published by Black Knight Media Ltd
Company reg: 0719464

Emerging Talent



Marsh to form combined specialty unit with JLT following acquisition

Marsh will combine its specialty unit with JLT-Specialty to form Marsh-JLT Specialty.

The combined specialty business will launch upon the completion of the acquisition of Jardine Lloyd Thompson Group (JLT) by Marsh's parent company, Marsh and McLennan Companies (MMC), which remains subject to certain antitrust and financial regulatory approvals.

Marsh-JLT Specialty will be a new business within Marsh that combines the specialty teams of both companies.

Current JLT Group CEO Dominic Burke, who will become vice chairman of MMC and a member of the MMC executive committee upon completion of the acquisition, will take the role of chairman of Marsh-JLT Specialty.

Lucy Clarke, currently CEO of JLT Specialty, will become president of Marsh-JLT Speciality and a member of the Marsh executive committee.

Reporting to John Doyle, president and CEO of Marsh, Clarke will be responsible for Marsh JLT-Specialty's energy, credit, marine, financial, and professional, private equity, and mergers and acquisitions, construction, and aerospace business worldwide.

Mark Drummond Brady, deputy group CEO of JLT Group, will become vice chairman of Marsh, reporting to Doyle, and become a member of the Marsh executive committee. Burke, Clarke, and Drummond Brady will all continue to work in London.

Dean Klisura, currently president of global placement and specialties at Marsh, will be appointed president of Marsh global placement, and will continue to report to Doyle and serve as a member of the Marsh executive committee.

Klisura, who is located in New York, will be responsible for placement protocols and standards across all lines within Marsh, and for leading the non-specialty placement options of Marsh.

Doyle said it was exciting to begin planning for the integration of Marsh and JLT.

He commented: "With the formation of Marsh-JLT Specialty, we will be well positioned to grow our specialty business through the combined value proposition of the two firms. While our brand is Marsh, Marsh-JLT Specialty will leverage the exceptional reputations of both firms' specialty units with clients that require specialised products and services."

Burke stated: "I am proud of what JLT's people, brand and experience can offer the specialty clients of Marsh and JLT, bringing together the best of our two firms. I look forward to working with Marsh colleagues on a successful integration and in leading this industry in exceptional client service and risk expertise through Marsh-JLT Specialty."

CCIA 2018 Collaborative sets 'innovation bar higher'

The Connecticut Captive Insurance Association (CCIA) 2018 Collaborative "set the innovation bar higher" with its focus on emerging technology and its unique cap-a-thon session, according to Steve DiCenso, CCIA president and principal and consulting actuary at Milliman.

The CCIA's event took place in Hartford, Connecticut, on 16 and 17 October.

The agenda addressed a range of captive issues, including Connecticut's captive market, cyber risk exposure, cyber risk quantification, cyber data, and insurtech.

In the cap-a-thon session, the CCIA's twist on a 'hackathon', attendees were split into groups and worked collaboratively on a project or innovation to deliver a solution.

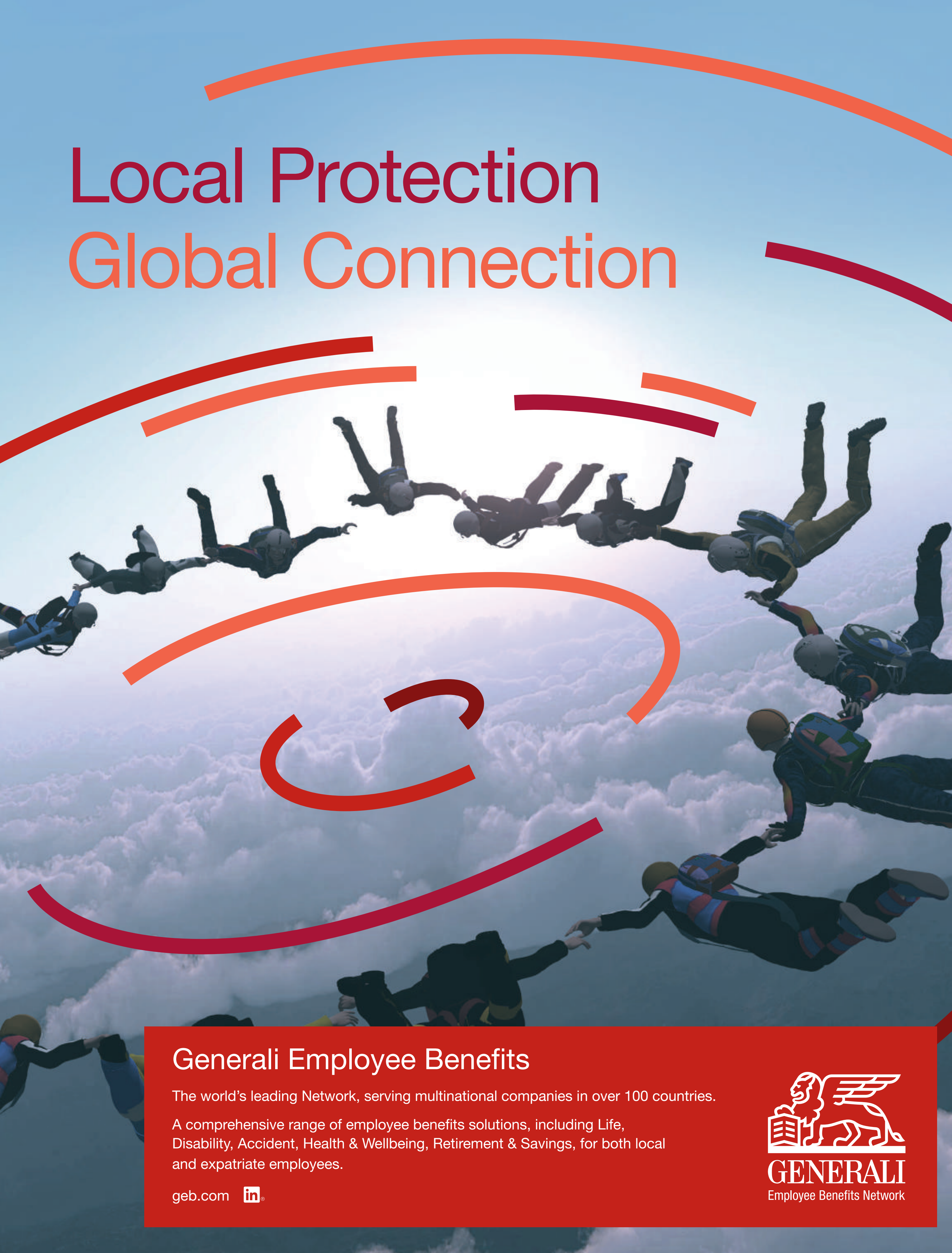
The winning team, including Sara Hakim, Rocco Mancini, Mersini Keller, John Ferrara, and Frank Tedesco, designed a Connecticut captive to facilitate a more strategic and transparent partnership between the captive owner and its key vendors to manage cyber risk via a difference in conditions policy underwritten by the captive.

DiCenso said that the inaugural cap-a-thon had been extremely well received.

He commented: "I think the cap-a-thon survey feedback we received says it all—the participants all found this event to be a lively, rewarding and fun educational opportunity."

"It was clear how much effort and thought went into CCIA's planning of the cap-a-thon. Special kudos to John Thomson, as it was his forethought and effort that made this happen. CCIA continued to set the captive innovation bar higher with its 2018 Collaborative."

"With a focus on insurtech and cyber, CCIA showcased leading-edge thinking on two of the fastest growing captive insurance sectors."


Local Protection
Global Connection
Generali Employee Benefits
The world's leading Network, serving multinational companies in over 100 countries.
A comprehensive range of employee benefits solutions, including Life, Disability, Accident, Health & Wellbeing, Retirement & Savings, for both local and expatriate employees.
geb.com
GENERALI
Employee Benefits Network

Preparations for the 2019 event are underway, with June the scheduled date and the 'cap-a-thon' confirmed to return.

A.M. Best: European captive ratings remain stable in 2017

European captive ratings have remained stable through the past year, with the majority of the ratings affirmed and stable outlooks maintained, according to a report by A.M. Best.

A.M. Best's special report on European captives broke down the key rating considerations, correct as of 26 October 2018.

The data is based on the 13 captives rated by the ratings agency that have European parent groups and to which its alternative risk transfer criteria is applied.

According to the report, only one captive had its rating downgraded, while the ratings of the other 12 were affirmed.

Balance sheet strength

A.M. Best views balance sheet strength as the foundation for financial security and all of the European captives currently rated by A.M. Best have balance sheets in the two highest categories: strongest (four) and very strong (nine).

The high balance sheet strength assessments are underpinned by the captives' risk-adjusted capitalisation. This tends to be at the highest level as all but one of the European captives had the "strongest" level of risk-adjusted capitalisation.

The potential activities of the parent company, including the evaluation of the potential effect of the activities of the ultimate parent, is another factor which contributes to the balance sheet strength. The ultimate parent can be viewed as having a positive, neutral, negative, or very negative impact on the balance sheet of the captive, depending on the creditworthiness of the parent and the likelihood of the captive being affected by it.

The majority of the rated European captives' parent companies are assessed to have had neutral impact, while positive assessments are more regular than negative assessments.

Operating performance

A.M. Best considers operating performance as a primary indicator of future balance sheet strength and long-term financial stability. In determining captives' operating performance, the ratings agency examines profit, stability, and the diversity and sustainability of earnings.

As of 26 October, the operating performance of European captives is assessed as either strong (11) or adequate (two).

Capstone Associated set to acquire US captive management portfolios

Capstone Associated is set to acquire the US captive management portfolios of captive insurance management firms.

According to Capstone, the interest to acquire books of captive management businesses started when the firm was approached by a captive management firm to assist in the design, formations and management of its clients' captives.

Clete Thompson, vice president of business development at Capstone, will lead the acquisition efforts.

Commenting on the announcement, Thompson said: "Capstone continues to be bullish on alternative risk planning. We continue to ramp-up efforts to meet today's increasing oversight."

Stewart Feldman, CEO and general counsel of Capstone, added: "Over the years, we've seen captives fail because there's no effective oversight of the insurance, tax, legal, actuarial, and many other critical aspects of the planning. Most of the work is segmented, and often, important work, such as pricing, policy design, and claims are given insufficient attention."

"If an alternative risk planning programme is to be successful, there must be a cohesive and coordinated group of qualified professionals working together."

Business profile

Business profile is impacted by multiple factors, including the company's competitive market position, the degree of risk inherent in its business mix, and the depth and experience of its management

Currently, A.M. Best assesses the rated European captives as having either neutral or limited business profile.

Most of the captives have neutral business profile assessments, which reflects their importance to their parent companies and their moderately diversified portfolios by product line and geography.

The European captives assessed as having limited business profiles only meet part of their parent's insurance needs and tend to write very concentrated portfolios of business with a focus on high-risk products.

Enterprise risk management

The enterprise risk management of all of the European captives rated by A.M. Best is currently assessed as appropriate, underpinned by generally developed risk management frameworks and adequate risk management capabilities relative to the companies' risk profiles.

The risk management capacity of the rated European captives is aligned with their risk profiles in nearly all assessed risk categories.

The A.M. Best report noted that "enterprise risk management at captive organisations has improved in recent years, partly as a consequence of preparing for and adopting the EU's Solvency II regime".

The report explained that regulatory requirements have enhanced captives' understanding of their own risk profiles, and consequently the majority of the rated captives have strengthened their risk management frameworks and governance.

Additionally, the captives can better illustrate their risk management framework and capabilities during the interactive rating process.

Ultimate parent lift or drag

The majority of the European captives do not currently see their ratings influenced by A.M. Best's assessment on the credit profile of their ultimate parent. However, in the case of parents that are very strong financially, a ratings lift is applied to some captives when the full extent of the support provided cannot be captured in the balance sheet strength assessment.

Quality and collection are main issues with Solvency II data

In Solvency II context, the main issues with regards to data are considered to be quality and collection, according to a survey presented at the European Captive Forum in Luxembourg.

Respondents of the survey included mainly risk managers, captive managers, insurers, consultant and brokers, from countries such as France, Luxembourg, Ireland, UK, Guernsey, and Malta.

The panel, which discussed data in a Solvency II context, reviewing the last two years, explained that Solvency II requires insurers, including captives, to better manage data and data quality.

One speaker had observed an increase in the IT systems demands, and an increase in granularity at the captive level, for example, claims data provisions splits and premium allocation.

One of the questions in the survey asked how data is considered to be insufficient or unusable. Respondents found that data was least useful for underwriting (25 percent) and reporting (22 percent).

Other respondents suggested that it was insufficient or unusable for claims (13 percent), finance (9 percent), legal (8 percent) and other (2 percent).

Participants were also asked what the main issues are in regards to data. Respondents stated that quality (36 percent) and collection (21 percent) were the biggest issues.

Other issues that respondents found were analysis (15 percent), audit track (14 percent), reporting (9 percent) and finally storage (5 percent).

The survey also asked those involved who data should be held by. The most popular answer was the fronting insurer (32 percent), followed by brokers (20 percent).

The remaining respondents said that corporate (18 percent), third-party administrator (12 percent), captives (12 percent) and, finally, consultants/experts (7 percent).

Finally, the survey found that 65 percent of respondents didn't engage in a quality management programme due to Solvency II.

One panellist described the results as "disappointing" in terms of how advanced around data the captives and the corporates are. The panellist added that "there is a lot of progress to be made".

Delaware receives 'tremendous interest' in US' first conditional licensing programme

Delaware has received "tremendous interest" in its conditional licensing programme, the first of its type offered by a US domicile, according to Steve Kinion, director of the bureau of captive and financial insurance products, Delaware Insurance Department.

This speed-to-market system allows for selected captives to receive a conditional licence on the same day an application is submitted to the Delaware Insurance Department, with six months to establish a permanent licence in the state.

The conditional licensing programme is operated through a web-based protocol system.

On 16 October 2018, the state governor signed into law HB334, which amended Title 18 of the Delaware Code to authorise the state's insurance commissioner (IC) to issue the conditional licenses to captive insurance candidates.

This will allow candidates to conduct business while the IC completes the review of their application materials.

Speaking to A.M. BestTV, Kinion explained: "Most applications require a 30- to 45-day period in which to review it, but because we know our customers in this area, we are willing to issue a conditional license and then during the six-month period, we will review the application."

"We have received a tremendous amount of interest in this programme because it offers to a captive insurance company the availability of a licence on the same day of application."

Kinion observed that Delaware's total captive premium had grown by $8.1 billion in 2017, finishing the year with a total of $12.5 billion.

He explained: "That makes Delaware the fastest-growing US captive insurance domicile in terms of captive insurance premium."

Additionally, the state has altered its legislation to allow captives to file their annual financial statement and premium tax payment on 15 April, rather than the previous date of 1 March.

According to Kinion, this allowed captives an extra six weeks "to make a better annual financial statement to submit to us, as well as a more accurate premium tax statement".

Collaboration key to unlocking blockchain benefits

Collaboration is key to unlocking the benefits of blockchain technology, according to panellists at the 2018 European Captive Forum.

Speaking on the 'Blockchain—how is it being used as a tool for captives and insurances programmes?' panel, Guglielmo Maggini of Allianz Risk Transfer Group said blockchain could offer "innovation through collaboration".

He commented: "We wanted to see whether blockchain can make our lives simpler. It does, but only by working together and putting our clients at the centre."

Allianz Alternative Risk Transfer has been working on a proof of concept blockchain powered captive platform, which Maggini suggested was a "new answer to an old question".

Helene Stanaway, XL Catlin, AXA XL Division, who is involved with AP Moller-Maersk's insurance blockchain platform, Insurwave, the first of its type in the insurance market, said emphasising the importance of collaboration was an "important message".

Stanaway said that in building the blockchain insurance platform, XL Catlin had worked in unison with other members of the industry, including direct competitors such as MS Amlin.

She noted that a blockchain insurance platform like Insurwave "only makes sense if you collaborate with peers".

She added: "We put the client at the centre and worked together to make this solution."

According to Stanaway, in contrast to the accusations of some in the industry that blockchain was a "solution looking for a problem", Insurwave "has proven that blockchain does solve a range of problems".

Looking forward, Stanaway issued a call to action to the captive industry and stated that "as an industry collective we really need to get on board with this technology". Stanaway concluded: "This is a catalyst to disrupt ourselves and be of better use to the client."

Unlikely UK will move away from Solvency II requirements post-Brexit

UK regulations are unlikely to move away from the Solvency II requirements following Brexit, according to Adrien Collovray, associate director–international, captive consulting, Willis Towers Watson.

Speaking on the 'Brexit: Boom or bust?' panel at the 2018 European Captive Forum, Collovray said due to future equivalence requirements between the UK and the EU, it was likely the UK would have insurance regulations as near to Solvency II as possible.

He explained: "I think it is very unlikely that the UK will soften Solvency II requirements because for access to market the EU will require for the maintenance of that equivalency that it will at least be equivalent."

"I think Solvency II is viewed as the gold standard of regulation globally and it is unlikely that the UK will go it alone to create a harder solvency environment. So, I would expect the UK to keep as near equivalent to Solvency II as possible."

Collovray said that the expectation from his captive clients ahead of Brexit was that they should "expect the worst but hope for the best".

He suggested that there "will be short-term pain and short-term cost in implementing what is required in order to comply with continued access with the EU".

He added: "However, I expect that to be relatively short-term and over time those costs and governance obligations will just fall within the standard terms of business and undertaking."

Do you have a story?
Contact us via:
nedholmes@blackknightmedialtd.com

CICA and you shall find

Dan Towle, president of CICA, provides an update on how this year has been for the association and, in a market full of challenges, calls for the industry to keep the momentum going

Ned Holmes reports

How strong do you think the captive market is currently?

The reports I hear from the domiciles are that formation activity continues to be solid. This has been consistent for some time considering the overall market has been quite soft. I believe this speaks volumes about the validity of captives being formed for long term-risk management benefits, not short-term benefits driven by a hard market. Formation activity is a good indicator of overall strength of the captive marketplace. With that said, there are always threats to our industry.

Some segments of the captive population are more vulnerable than others. The small captive space is an area that is under scrutiny by the Internal Revenue Service (IRS) and continues to find itself on the IRS' Dirty Dozen list.

The Captive Insurance Companies Association (CICA) has published guidance for small captives and will continue to do so. Unfortunately, as an industry we are often guilty by association, so when the small captive space gets negative publicity, it hurts the entire captive industry.

How has 2018 been for CICA?

For me personally, it marks my first full year as CICA's president. It's nice to be at a place now where I'm not always doing something for the first time. For CICA it's been a busy year on several fronts. We've spent a lot of time in conversations on advocacy issues, including the Microsoft case, and other cases.

We continue to deliver on our commitment to developing the next generation of captive professionals. CICA has launched several new initiatives that include making CICA membership benefits available to more industry professionals, and we have expanded our programmes to engage risk management and insurance students with an essay contest. It has been really energising to see the enthusiastic response to these new programmes.

What does CICA have planned for the final months of the year and the start of 2019?

We are hard at work on planning for the CICA 2019 International Conference. The programme committee has put together a robust slate of educational sessions from the proposals we received. I am very proud of the group of volunteers we have.

They spend a significant amount of their time ensuring we put forth the very best educational slate for our participants. This conference looks to be even bigger than 2018. Look out for registration opening in mid-November.

Our newly invigorated membership committee has been meeting. We are focusing on growing our membership among captive owners. This dovetails with our commitment to developing the next generation of captive professionals.

We need to make sure the next generation, especially those people who might currently be in secondary positions, can connect with the education and career advancement opportunities to help them prepare to step into a primary role with their captive.

As always, as a domicile neutral organisation, CICA is often looked to for facilitation or commentary on a range of issues that

Daniel Towle, president,
Captive Insurance Companies Association

have the potential to affect the captive marketplace. We plan to continue to actively monitor and prepare to address challenges as they arise.

What do you see as the key differences between the US and European captive markets?

We share some of the same struggles regarding helping our different regulatory bodies understand us and realise the validity of captive insurance arrangements, but there is definitely a difference in market maturity. The US captive market is much more mature than the European captive market. The US has more infrastructure and more industry promotion to help drive growth. In Europe, they have to spend more time validating the captive concept to a broader market. The cost of operating a captive in Europe, due to regulatory hurdles, makes it difficult for smaller and mid-sized companies to form captives. As a result, much of the European captive marketplace is made up of Europe's largest companies.

What is CICA's stance on the Microsoft case and the potential for similar actions?

This summer I talked with captive and risk management professionals around the US who, like CICA, are watching the impact of the Microsoft and the Washington State Office of the Insurance Commissioner decision. Microsoft decided to settle, but the legal arguments they put forward in their publicly available court documents were strong for why this tax should not have been applied to them. We are still hopeful that this is an isolated case and that Washington State does not try to apply this more broadly. We will continue to watch this situation closely and will be in contact with our members in Washington State.

A hot topic at the moment is the industry talent gap, how has CICA been working to help change that?

CICA has made a commitment to lead the charge of addressing the captive industry talent gap. We have enhanced our member benefits with a mentorship programme and expanded our partnerships with educational institutions. Our newest initiative with the International Center for Captive Insurance Education (ICCIE) offers professionals who earn their Associate in Captive Insurance (ACI) a complimentary one-year membership with CICA. This gives them access to our membership benefits, including our mentorship programme, which can be a key component to career advancement.

What do you think the industry needs to do to help solve it?

Keep the momentum going. Continue to listen to all sectors so that we can understand what students, young professionals, and today's leaders are looking for so we can continue to develop new programmes. These programmes will help promote the dynamic nature of captive insurance and support career advancement within the industry.

We all have a role in this. So many of us never planned a career in insurance, but we quickly learned how rewarding and challenging this industry can be.

We all need to share that story. It begins with speaking not only to college students, but to high school students as well.

I have had so many terrific conversations with people from all across the industry about what CICA is doing, including with organisations that want to develop their own initiatives. I would also like to thank organisations like Strategic Risk Solutions for their support of our essay contest and to encourage organisations to continue to support these vital programmes.

I applaud our association partners who have also stepped up to launch student outreach initiatives and I encourage all of us to take a more active role.

CICA has a close working relationship with ECIROA, what have you worked on with them this year/what have you got planned?

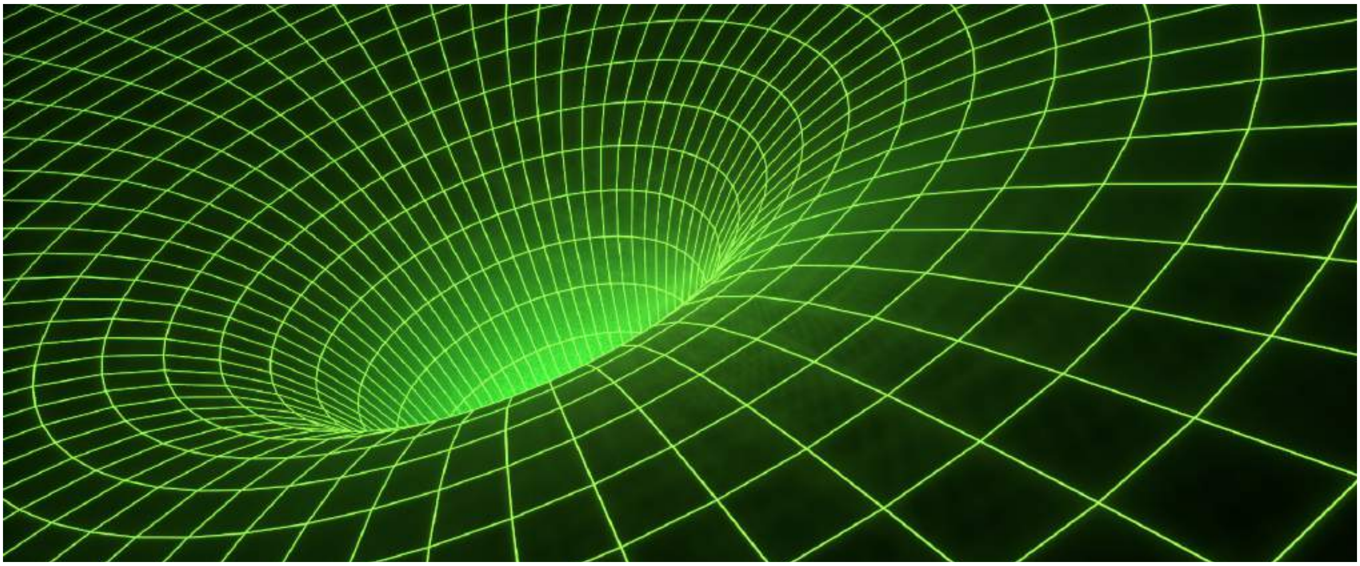
The European Captive Insurance and Reinsurance Owners' Association (ECIROA) is a valued industry partner and has been for many years.

Earlier this year we recognised ECIROA for their work to protect the captive insurance community in Solvency II discussions, for providing comments to the Organisation for Economic Cooperation and Development (OECD) and many more issues vital to our industry.

This summer CICA collaborated with ECIROA regarding the OECD 3 July discussion draft on proposed transfer pricing rules for intra group financial transactions. CICA and ECIROA both submitted comments. This joint effort was important and symbolic of our continued strong partnership.

We worked with ECIROA as co-organisers of the biennial European Captive Forum. CICA and our members presented several sessions such as "Captives 101—Why and How to Establish a Captive," "US Regulator Panel: The US/EU Relationship and Captive Supervision," "International Hot Topics—A View from the US" and "US Workers Compensation—Do You Understand It?"

We look forward to continued collaboration with international industry leaders to foster industry growth, now and in the future. **CIT**



The future of European captives

Guenter Droese, executive director of ECIROA, discusses how the European captive market has fared in 2018

Ned Holmes reports

How has the European captive market fared in 2018?

It has been different from past years due to the impact of Solvency II. We have seen captive managers and boards considering broadening their coverage and the protection they offer their parent companies, often in a bid to use the employed capital better than before.

Beside that, we don't see any big changes but we are hopeful that there will be some improvements to the regulatory environment for captives. Some captives have stopped underwriting, but this has been primarily in the case of small captives or due to mergers amongst captives within the group of a multinational. There has been no huge development, which is perhaps surprising considering some predicted Solvency II would have a negative impact on the market and reduce the activities of captives.

What trends have you seen?

One big trend seems to be employee benefits, which allows you to carry risk, based on a pay in/payout structure that does not harm the equity significantly. It is helpful for the overall quantification process of the capital needed. Employee benefits will be a useful byproduct for each and every captive because it can provide extended coverage which differs from the market. So, you may have less discussions about a single claim. It makes a lot of sense to share the risk in the captive with some local service providers to optimise the situation for the insured and the beneficiaries.

Another relevant issue is the impact of digitalisation on international programmes and on the management of claims handling. Digitalisation may help business where a high degree of standardisation is possible. In these cases, without a need to follow high complexity when the processes can determined easily and simplified cost may be reduced, for example, in the settlement process of claims.

Blockchain is an interesting topic. Again it is a question of standardisation. I am reluctant to say this will be a big opportunity and a reasonable option as long as there are questions around cost, the number of partners you need, the clarity of cover provided in the smart contracts, and the control over the entire process chain are not answered to satisfy a critical customer. We have to wait and see how this technology and its application develop.

Emerging risks such as cyber are a huge opportunity for captives to start in such lines of business based on a rather high self-insured retention, combined with layers above, placed in the market with the self-determined high attachment point.

What is the regulatory environment like for European captives?

The majority of regulators, not all of them, are still very much bound by and keen to follow the Solvency II regulation requirements more or less in detail. All insurance companies which are supervised in Europe are impacted by Solvency II. There are no exclusions and no simplifications. Captives` activities are supervised under the Solvency II regime as all commercial insurance companies, which is remarkable.

The captive community has some problems understanding why the principle of proportionality is not applied by supervisors according to the definition of this principle in the European Treaty. Proportionality would allow some simplification for captives with cost and work reductions, without offending the targets and the main requirements of Solvency II.

Do you see Brexit impacting the market at all?

The first big point is if and when we have Brexit, the UK will no longer 'belong' to Europe. We will have to wait and see how the discussion and the final agreement between the two parties develop.

As long as we don't have freedom of service anymore, which will be the first step in Brexit, the UK regulatory system will need to be equivalent to the Solvency II regime.

The question is whether the UK will change anything. At this point I don't know if they will. The major insurance players have reacted and the number of cross border policies (more than 75 percent) have been allocated to the European Economic Area, i.e Europe without the UK.

Even when the UK system is equivalent and reinsurance contracts between the various countries are easy to place, this does not mean you have direct insurance placement from the continent into the UK. This will not happen and I am pretty sure this will cause quite a lot of problems. English insurers are well advised to open a separate entity on the continent, as many of the big insurers already have. Whether they like it or not, looking forward this will be the best solution.

It is demanding and challenging to establish a new insurance company with a board and all the registration, capital, and reporting requirements, but most of them will belong to a holding structure with specific rules which they apply anyway.

Are there any obstacles you think may limit the growth of the European captive market?

There might be some closures over the next few years due to the rather small size and volume of activity. Beside that, those captives which are pro-active anyway will extend their underwriting, primarily to use the employed capital better.

One point to consider is the number of European countries where the use of captives is not very developed.

When you look into Germany, for example, it is difficult to understand why the country's industry, trade and finance do not consider the advantages of the captive activity and its performance in its complexity and simplicity.

Another potential obstacle is understanding. Do the owners or the CFO's in these companies really understand the value of a captive? I like to say that we should not always focus on the entire market from an insurance perspective, we should view the issue as how you finance events which may harm your company's performance.

From that perspective a captive is a tool which can simplify and make it easier to find these finance structures, in cooperation with the insurance and reinsurance market. **CIT**

> **"Proportionality would allow some simplification for captives with cost and work reductions without offending the targets and the main requirements of Solvency II"**

Guenter Droese, executive director, ECIROA

Vittorio Zaniboni
Chief insurance officer
Generali Employee Benefits

Great expectations

Vittorio Zaniboni of Generali Employee Benefits discusses the current employee benefits market, and how the heightened expectations of captive clients is driving innovation

Ned Holmes reports

How has 2018 been for Generali Employee Benefits (GEB)?

It has been a very busy year. GEB is currently in the midst of a complex transformation, a phase of organisational change. We recently created a new branch in Luxembourg, specifically dedicated to the international employee benefits (EB) business.

The new legal entity, which will operate as the global EB focal point for the Generali Group, comes in line with Generali's objectives to consolidate its leadership in the global EB sector.

The flexibility and enhanced range of solutions allowed by the use of this branch will effectively allow us to meet the changing and complex needs of our global clients and their employees in a more efficient way.

At the same time, we're going through a transformation journey—in terms of our operational model and the instruments that we use to enable it.

We are reconsidering the way we handle and use data, as well as redesigning our internal operating system and procedures in a very profound way.

We didn't just want to change the platform, but rather the whole operating model, to ensure that it was effective and capable of facing today's challenges and, at the same time, ready to tackle the challenges that the market will present in the future.

Can you tell me more about the new GEB branch?

The metaphor I always use is that we now have our own autonomous guesthouse, linked to our parents' house. It is a space just dedicated to us, with all the facilities we need.

This means the whole infrastructure is geared towards the needs of multinational clients, allowing us to design and launch new and innovative solutions in the fields of health and wellness, voluntary benefits, business travel assistance, and pensions.

We're committed to leading in this space, investing in integrated solutions tailored to the complex needs of today's employers and their employees.

What recent trends have you seen?

As has been the case for a pretty long stretch of time, the expectations from captive clients on EB has kept on growing. Previously, they were mainly focused on using the networks to transfer EB risk and act as a reinsurance aggregator. Now they want the network to also be a business partner with a much wider scope of lines of business and services proposed.

In line with this, we observe that the bar is being set higher and higher in the global captive requests for proposals we receive. They want precise and accurate data but, more than that, they want to know that we can turn that data into business insights.

They expect reporting to be much more detailed and granular so that reports effectively become decision enablers. At the same time, captive clients want to see that our footprint is expanding into other areas.

It began with healthcare data about five years ago. Captives told us that while accounting data was fine for accounting purposes, it was of very little use to steer the business and address trends and challenges (and to effectively control costs).

They wanted more granularity with regards to data and insights in relation to health and wellbeing. So, our healthcare reporting was born, an area in which we've recently innovated again with the objective of giving captive clients the tools to turn data into even more meaningful insights and solutions.

Expectations have kept on moving and we are challenged more and more by the EB captive community to expand this approach to other areas.

The next big thing we see is the expansion of the same level of insight into the disability space. Clients want to know the level of prudence that is embedded in the claim and incurred, but not reported reserves we report to them.

They want to be provided with all the elements necessary to reach an appropriate level of confidence in the reserve setting for the business they reinsure.

We are moving in this direction at the moment, currently in a beta phase, to react to and address the suggestions and expectations the captive market has placed on our partnership 'table'.

Another key area of interest for captive clients is benchmarking. Traditionally, we addressed this with ad hoc analysis but there's clearly a need to integrate benchmarking in almost everything we report on by adding reference points to the metrics we report upon can add a critical value to the information contained within our reports.

It's an area in which we, as a network, can really add value in the captive market, by helping managers understand how their business in a specific country or line of risk compares to the whole reference book.

What trends do you think will occur in the next 12 to 24 months?

I expect that captives will continue to challenge EB networks. On top of having better data to support business decisions, I think more and more captives will consider EB networks to be service aggregators. In other words, they'll expect us to provide and coordinate an increasing number of services as a business partner.

The main areas we expect to see future requests are in the wellness space and in 'new' business lines, such as business travel accident and voluntary employee benefits.

Recently, we launched global travel protection, an integrated business travel and assistance product. This came on the back of requests from captive clients for such a solution.

Also, around nine months ago, we launched a business unit within GEB that is specifically dedicated to voluntary benefits—add-on solutions to standalone products but still wrapped up in the overall EB scheme.

Again, this move comes in response to the needs of our captive clients. The younger generations expect their employers to be more engaged with them and provide more choices and options.

Voluntary benefits are aimed at individuals and their families as much as employers. They can be tailored to need and include healthcare, life, accident and wellness, plus leisure services and discount vouchers for everything from grocery shopping to eating out and visiting the cinema.

What impact will emerging technology have on the EB market?

It will have a considerable impact. Robotics and artificial intelligence (AI) received a lot of attention on the retail and individual direct insurance side of the market, not so much on the group side so far, but we are considering some opportunities for AI to help us in identifying anomalies in our data flows, or addressing in real time inconsistencies in our reports.

Part of our job is to validate big data sets. We believe that we need to move from a world in which data is filtered by a static algorithm to a world in which it is filtered and validated by AI–a much more powerful tool and technology.

What I am even more excited about is blockchain, in terms of its potential disruptor role in the interface between the local EB contract and the captive.

And it's a project that's already underway at GEB—a true first for the EB sector.

We recently moved our blockchain prototype into the production environment, working with two captive clients and insurers across three countries—the latter quite different in terms of the line of risk, size, and stage of maturity, in other words, representative of the GEB network.

Our goal is to use blockchain to engage all parties in improving our business model, namely the insurance to captive process. This, in turn, will help cut costs, reduce financial reporting risk, increase trust, and improve data.

It's very early days for this technology. We have to understand the value for both parties—the network and the captive. But I believe this type of disruptive technology could generate very powerful opportunities.

We have received a lot of interest from our captive clients in this prototype. Sometimes pilots and prototypes are viewed as an extra burden by business partners, but it was quite the opposite in this instance.

What impact will Brexit have on the EB market?

Evidently, there will be an impact but we don't expect a big disruption. We have a regional office in the UK and many initiatives are ongoing there to help verify the impact, mainly in terms of capital absorption when EU rules are no longer applicable to the UK.

As far as we can see, we are in a favourable situation. We are, of course, observing the situation and planning ahead but it is not really something we are overly concerned about.

Any final comments?

Another change for us at GEB is the new and additional requirement from captive clients to break down accounting data for life business by underwriting year.

Traditionally, this was a non-life topic only. However, through discussions with clients, we now feel that we need to improve the level of granularity on the life side as well, introducing reporting by underwriting year. We will be engaging all network partners in this to ensure we deliver the level of detail required so it represents a long-term project.

It's also something that is linked to the transformation of our operating model and platform, as mentioned at the start.

It's safe to say that this year has been busy, yet very productive. It's a testament to the agility and responsiveness of the network and to be honest, we don't expect the business pace to slow any time soon. **CIT**

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.

The SunTrust advantage

SunTrust has a long history of escrow, trust and risk management excellence and expertise, with both domestic and international coverage. We work with large and small carriers alike to help mitigate risk for their insurance business needs.

Our collateral trust product at SunTrust can help you with the following insurance needs:

- Reinsurance/Collateralized Reinsurance
- Regulation 114 Trusts
- Captives
- Surety Bonds
- State Statute Trusts
- Collateral/Depository Accounts

Our expertise, however, is only one aspect of what differentiates our reinsurance trust business from other firms. Additionally, we excel because of:

- **A Dedicated Single Point of Contact** – we steadfastly believe in the value of a dedicated client manager who knows the unique challenges of your business and quarterbacks your relationship with the bank.
- **Rapid Response Times** – while other banks can take weeks to respond, SunTrust can typically resolve covered loss requests in a matter of 24-48 hours; and because we're a custodian for the collateral that secured the contract, insurers get paid immediately.
- **Operational Efficiencies** – from pre-arranged agreements with major insurance carriers to streamlined onboarding and KYC processes, our knowledge of the reinsurance trust business helps ensure that things are done right and done fast.

To find out more about how SunTrust can support and enhance your reinsurance business, please contact:

Donny Tong
SVP, Business Development
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
barbara.aubry@suntrust.com

Why choose an Insurance Trust?

- **Improved Credit Availability** – an insurance trust has no adverse impact on your available credit.
- **Cost Effective** – insurance trusts generally save you in annual fees compared to other forms of collateral posting options.
- **Convenience** – insurance trusts are tri-party arrangements that require no annual renewals.
- **Reduced Liability Concerns** – insurance trusts may limit the range of acceptable investments; this is done to ensure adherence to all regulatory requirements.

SunTrust

Emerging Talent

Showcasing the new generation of captive professionals

Kara Ebanks, chief analyst, insurance supervision division, Cayman Islands Monetary Authority

Personal bio

I am fortunate to call the Cayman Islands home. When a spare moment presents itself, taking advantage of the natural beauty of our islands is one of my favourite things to do. When not doing so, I look forward to experimenting with baking recipes and volunteering and aim to do so as often as I can.

Professional profile

In 2012, I completed my Bachelor's degree in business administration with a concentration in accounting at the University College of the Cayman Islands while initially working as an account administrator, firstly with Global Captive Management and subsequently with Aon Insurance Managers (Cayman).

I later joined the Cayman Islands Monetary Authority as an analyst in the insurance supervision division. In 2015, I was promoted to my current post as chief analyst.

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

The adaptation of the industry over the past few years has been fascinating to witness. The emergence of non-traditional captive insurance models and the synthesis of industries, which have previously operated independently as a method to take advantage of expansion opportunities, are prevalent in today's captive insurance industry.

Every day has presented a new learning opportunity, and for this reason, I am excited about the future of the captive insurance industry.

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

My goal is to continue to be an asset to the industry in every aspect. Firstly, as a mentor and resource among my colleagues. Secondly, as a supporter for the industry—service providers, licensees, and stakeholders.

Having previously worked with service providers allows me to think critically and open-mindedly about recommending suitable solutions which meet both the business needs of the captives and maintaining regulatory requirements that meet international standards.

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

Use every opportunity wisely: "There is always something new to learn" is not a cliché. Lessons often mask themselves in challenges and so I often approach challenges with the question, "What can I learn from this?" Be open-minded to changes and when problem solving, seek solutions that foster growth as the industry is constantly evolving.

A career in the captive insurance industry is one you will not regret. **CIT**

> "Kara Ebanks is a mature and competent insurance supervisor, who is well versed in insurance regulation and supervision. She has represented the Cayman Islands Monetary Authority and the domicile both locally and internationally. She has also been involved in several high-profile projects. Banks possesses the level of maturity, commitment and professionalism that is required to accomplish many career milestones"

Ruwan Jayasekera, head of insurance supervision division, Cayman Islands Monetary Authority

Kara Ebanks

Investing in the right partner

Teri Mahu and Joe Francisco of Comerica talk about the importance of investment in a captive's growth process and outline why picking the right partner is key

The journey of growth from a start-up to a more mature captive can include many starts and stops. The investment process, although a very small factor in the overall picture of a new captive, becomes an increasingly important element throughout the growth phase. Choosing the right investment partner, in the beginning, may help keep the growing process from becoming too overwhelming. An experienced broker will be able to educate a captive on the array of investment vehicles available to them and explain how those vehicles fit into their current needs and projections.

As a brand-new captive, investment dollars tend to be very limited and, therefore, investment vehicles must be liquid and low risk. Thanks to the recent rise in short-term interest rates, there are many options that fulfil those needs, such as money market funds, US treasury bills and commercial paper. A primary consideration for a new captive is keeping money safe and available as claims are processed.

Climbing the investment ladder

As the captive continues to grow, building up surplus, and as cash flows become easier to forecast, it is the perfect time to implement an investment ladder to take advantage of rate fluctuations. Investment ladders can be completed with a combination of numerous fixed income products.

Some combination of certificates of deposit, treasuries, agencies, corporate bonds, and collateralised mortgage obligations could possibly fit in the investment process.

If a letter of credit is being utilised, one should work with the issuing bank, which will have specific guidelines for accepted collateral and the loan-to-value ratio (or haircut) on those assets. Maximising the loan-to-value ratio can be just as important as your targeted rate of return on your assets, so it is important to find the right mix of investments.

Equity exposure

In addition to the investment ladder, once a captive becomes more established, it might be a good opportunity to incorporate some equity exposure into the portfolio. This provides the captive with a possible opportunity to take on some risk for extra growth. Equity exposure can be obtained through individual stocks, exchange-traded funds, or open/closed-end funds.

Once at this level of maturation, you may either continue to embrace the investment process internally or look for an investment partner to manage the captive's investment process.

Typically, in a managed arrangement, a quarterly fee is charged based on the total assets in the account and, in many cases, an investment account will need to meet minimum size restrictions.

With a non-managed brokerage relationship, one will pay an embedded fee on the transactions as they occur and work directly with the broker to hit the various income and cash flow targets.

It is important that whomever you choose as a partner has a good working knowledge of captives and their differing structures and needs through various stages of the lifecycle. Sources for that investment partner may come from your banking services provider, as well as referrals from the captive manager or other members of your team of captive professionals.

Conferences and trade publications can be another place of reference to find helpful information on potential partners. Making the right choice of engagement may make the growing process less painful. **CIT**

Teri Mahu
Senior vice president / investments
Comerica Securities

Joe Francisco
Senior financial consultant
Comerica Securities

A healthy market

With healthcare systems looking to a captive for various reasons, Patrick Haddad of Kerr Russell suggests that the healthcare captive insurance market will remain strong going into next year

Ned Holmes reports

What is your role at Kerr Russell?

I am a senior partner in the firm's healthcare and insurance practice groups. I have been in practice for over 28 years, advising clients on both commercial and captive insurance, many of which are related to healthcare organisations.

My role when representing captive clients varies according to the preferences of the parent organisation. It can range from advising the parent or captive on governance structure, US legal developments, assessing US tax treatment of the captive during formation and in connection with new regulatory developments, drafting policy documents, and furnishing coverage opinions.

What role does/can captive insurance play for healthcare systems?

For healthcare systems, captive insurers typically furnish the initial layer of insurance coverage for professional liability risk. In addition, captives often furnish the initial layer for commercial general liability coverage.

These initial layers of coverages taken on by the captive are typically the self-insured retentions of the excess professional liability and commercial general liability policies maintained by the healthcare system. Consequently, the captive's coverages need to be coordinated with the healthcare system's excess coverages in order to properly interface and ensure no gaps in coverage.

Healthcare systems look to captives for various reasons. In addition to cost efficiencies, captives can help ensure that the assets of the health system available to respond to professional liability claims are maintained within a licensed insurance company and are thereby segregated from other liabilities and creditor's claims of the healthcare system.

Typically, a healthcare system will wholly own a subsidiary corporation that will be licensed and function as the system's captive insurer. Although professional liability and general liability are the risks typically covered by healthcare system captives, organisations which have captive insurers often consider expanding the captive's coverages to other risks, such as cyber liability.

What needs to be considered by healthcare systems when choosing a domicile for a captive?

There are a number of factors that any organisation should assess when evaluating the choice of domicile. This evaluation is typically undertaken as part of a broader and more comprehensive study to assess the feasibility of a proposed captive structure. A feasibility study typically assesses various matters including financial viability, insurance structures, taxation treatment and choice of domicile.

Many jurisdictions in the US and abroad license captive insurers. Factors that bear on choosing a domicile include capitalisation and licensing requirements, as well as the domicile's familiarity and experience with the type of risks that are insured.

Another key factor is the regulatory environment—both in terms of whether the domicile's laws provide a flexible framework to accommodate innovative insurance structures and whether the domicile's regulators view those whom they regulate as customers or potential adversaries.

Another important factor bearing on the choice of domicile is the domicile's reputation for compliance with international and US government standards addressing taxation compliance, information disclosure, and anti-money laundering initiatives.

A favourable domicile will also have a number of experienced captive managers available who are well versed in the management of the insurance business written by the captive insurer. Captive managers may be independent or affiliated with the insurance brokers responsible for the organisation's overall insurance programme.

Cayman and Bermuda are probably the leading domiciles of choice for captives in the healthcare system space.

What type of vendors furnish support services in the healthcare captive space?

There are a number of different types of vendors that furnish the support services. Typically, a captive associated with US persons will have an ongoing professional relationship with US legal counsel.

When forming a new captive, there will need to be legal counsel from the local domicile. There will be a captive manager in the domicile who will manage the captive's business and interface with the domicile's regulatory authority and is responsible for maintaining compliance with the domicile's legal regulation.

Healthcare systems also operate risk management programmes. Risk management professionals are versed in the techniques and strategies of mitigating the risk of claims exposures by managing risk prospectively. For example, a system's risk management department may arrange for continuing education programmes on medical records documentation which is important for the rendering of good quality care, billing and reimbursement, and the defence of professional liability claims. Risk management professionals are also experienced in managing claims that are asserted against the healthcare system and its professionals.

How strong is the healthcare captive market? Are we likely to see much change moving forward into 2019?

The current healthcare captive insurance market is strong. I expect that this trend will continue in 2019. Initiatives by captives to maintain and document compliance with US and international taxation, anti-money laundering and accounting standards will continue, as will the bolstering of related standards adopted by captive domiciles.

Do you expect emerging technology/digitalisation to have a big impact?

Technology continues to facilitate the exchange of information among captive insurance managers, risk managers and others supporting captive insurance companies. It is very important that organisations that exchange financial, claims and proprietary information electronically have appropriate electronic security measures and safeguards in place, given the increasing prevalence of data breaches generally.

Additionally, it is important that vendors that qualify as direct and indirect business associates of healthcare organisations are compliant with all applicable privacy and security standards of the Health Insurance Portability and Accountability Act and its implementing regulations. **CIT**

Patrick Haddad, member, Kerr Russell

Comings and goings at Aon, SRS and BDA

Ciarán Healy has returned to Aon as director of client solutions for Europe, the Middle East, and Africa in its captive and insurance management business.

Healy has worked in the captive insurance industry for more than 12 years and has considerable experience in providing captive consulting services to multinational companies across various industries. He will be based in Dublin and report to Vincent Barrett, CCO of Aon's captive and insurance Management business. His appointment will become effective in early 2019.

Prior to joining Aon, Healy worked as director of consulting at Willis Towers Watson's global captive practice. Healy previously worked at Aon from 2007 to 2012, where he was an account executive and later a consultant in Aon's global risk consulting business.

John English, CEO of Aon's captive and insurance management business, commented: "We are delighted to have Ciarán Healy join our captive and insurance management team. His client experience, industry expertise, and insightful approach will help enhance our market-leading solutions to clients."

Mary McMorrow has joined Strategic Risk Solution (SRS) Europe as associate director and head of governance services Europe.

McMorrow joins from Marsh Captive Management Dublin, where she led its Solvency II Pillar Three. She will work with SRS group governance practice leader Derick White a former regulator with the Vermont Department of Financial Regulation.

Stuart King, president and CEO of SRS Europe, commented: "With a number of annual reporting cycles under the Solvency II regime complete, it is becoming more apparent that the industry needs to address what is an unproportionate approach to captive governance."

The Bermuda Business Development Agency (BDA) has appointed Roland Burrows as its next CEO.

Effective 1 December, Burrows will succeed interim CEO Sean Moran and will also become a non-executive of the BDA board.

The decision was made by the BDA board following a formal executive search over recent months. Burrows most recently served as chief investment officer (CIO) at the Bermuda Tourism Authority (BTA), where he spent almost four-and-a-half years and was responsible for identifying and developing across the local tourism in the form of hotel development and other infrastructure.

The BTA's investment concierge service, designed to facilitate hotel development in Bermuda, will also move to the BDA. Prior to his role at the BTA, he spent 25 years in the financial industry, including a decade at HSBC Bermuda, where he served as head of commercial banking.

Burrows has also been a director on numerous boards, including HSBC Cayman Islands, and currently serves as a director of Bermuda Chamber of Commerce, Raleigh Bermuda, and Pathways Bermuda.

BDA chair Paul Scope described Burrows as a "successful strategic leader" and noted that he had multiple characteristics that would be critical for the leadership of the agency.

He explained: "[He has] a strong track record of financial services and investment experience, in-depth knowledge of the Bermuda global business market, and deep understanding of the island's public and private spheres." **CIT**