captive insurance times

The primary source of global captive insurance news and analysis

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Montana's 'small town feeling' makes it an interesting proposition

Go West!

The Western Region Captive Conference unveiled

A catalyst for innovation

The motivation behind Connected Insurance Europe

Macy's captive may owe $23.8 million following court ruling in Maryland tax dispute

Leadville Insurance, the wholly-owned captive insurer of US department store franchise Macy's, may have to pay nearly $24 million in tax, penalties and interest, following a court decision.

On 26 March, in Comptroller Of The Treasury v Leadville Insurance Company, the Maryland Court of Special Appeals found Leadville to be an unauthorised insurer as it was not licensed to conduct insurance in the state, and is therefore required to pay income tax on its revenues.

Additionally, the court vacated the decision made by the Circuit Court for Anne Arundel County and remanded the case back to the Tax Court.

Leadville is a Vermont-domiciled captive that provides insurance for Macy's subsidiaries and affiliates, including Macy's Retail Holdings (MRHI), a holding company incorporated in New York that owns and oversees the management of various Macy's department stores, including those in Maryland.

Case history

In 2010, during an audit of MRHI by the comptroller for the treasury, it was discovered that MRHI had claimed deductions for substantial amounts of interest paid to Leadville.

In its review of Leadville's business, the comptroller found a disparity between its premium receipts and its intercompany interest revenue.

The comptroller also found that the captive had paid premium receipts taxes in Vermont but paid no premium receipts tax or corporate tax in Maryland despite earning substantial revenue from interest payments apportioned to Maryland.

As a result, the comptroller assessed Leadville $23.8 million in tax, penalties and interest on the intercompany interest payments it received from MRHI during the 1996-2003 tax years.

At an informal hearing following the assessment, Leadville conceded that it had not paid any Maryland premium tax; had not held a license to carry on business in Maryland from the Maryland State Department

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THE Bahamas
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Like its translucent waters The Bahamas is the Clear Choice for captive insurance.
Located just off the coast of Florida, The Bahamas captures everything that captive owners are looking for --- expertise that nurtures innovation to meet market needs and an idyllic environment to meet, live and do business.

Microsoft's captive fails to recoup $175 million in Xbox One chip damages

Microsoft's captive insurer, Cypress Insurance, has failed in its attempt to recoup $175 million from chip manufacturer SK Hynix, following a federal jury decision in a breach of contract lawsuit.

The lawsuit, which was filed in the US District Court for the Western District of Washington in Seattle, began in 2016, when Cypress, the Arizona-based captive insurer of Microsoft and its subsidiaries, sued SK Hynix in a breach of contract suit to recoup the $175 million that had been paid by insurers to Microsoft.

In August 2004, SK Hynix entered into a contract to supply Microsoft with Dynamic Random Access Memory chips.

Cypress alleged that SK Hynix breached the contract by failing to deliver products in accordance with the agreed delivery schedule, which impacted the 2013 launch of its Xbox One gaming console.

As a result of the issue, Microsoft secured substitute products at a higher price in order to support its shipment requirements.

These substitutions caused Microsoft to incur damages, and Cypress paid Microsoft policy benefits $175 million as a result of those damages.

The captive's attempt to recoup those damages failed on 28 March when the jury returned with a unanimous verdict in SK Hynix's favour, finding that it had not breached the supply contract and rejecting all of Microsoft's alleged damages.

In August last year, Cypress settled with the State of Washington Office of the Insurance Commissioner for $876,820, after it was issued a cease and desist order in May.

Cypress has refused to comment on the matter.

Macy's captive may owe $23.8 million following court ruling

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of Assessments and Taxation; had not held a certificate of authority from the Maryland Insurance Commissioner; had not conducted or solicited any business activities in Maryland; did not have any agents in Maryland; had not derived any income from Maryland residents or entities attributable to insurance premiums; and had not investigated any risks or claims in Maryland.

However, Leadville argued that it was an insurance company under title six of the Insurance Article and was, therefore, exempt from paying income tax under Tax-General section 10 to 104.

The hearing officer concluded that the corporate tax exemption at Tax-General section 10 to 104(4) didn't apply to the captive and the intercompany interest payments were taxable.

Leadville appealed the Comptroller's final determination to the Tax Court, amended its petition of appeal, and moved for summary judgment.

In March 2017, the Tax Court granted the motion for summary judgment, citing its earlier decision in the National Indemnity Co, Successor in Interest to Wesco Financial Ins Co v Comptroller of the Treasury case, and ruled that as a title six insurance company, it is exempt from income tax.

That decision was then upheld by the Circuit Court of Anne Arundel County, following an appeal from the comptroller, that ruled Leadville, as either a title six or title four insurance company, was exempt from corporate income tax from 1996 to 2003.

The Court of Special Appeals

The comptroller then appealed to the Maryland Court of Special Appeals, which reviewed the decision of the Tax Court, but not that of the circuit court.

The Court of Special Appeals found that as Leadville does not possess a certificate of authority and is, therefore, an unauthorised insurer, the Tax Court erred in its decision that it is a title six insurance company and is exempt from income tax.

It noted that all unauthorised insurers are subject to title four of the Insurance Article, but that there is no indication that the Tax Court fully considered Leadville's title 4 tax implications.

Therefore, in its opinion, it stated: "As the Tax Court acts as an administrative agency and is tasked with administering the tax statutes of the State of Maryland, it would be illogical for this court to preemptively determine the implications of title four without first allowing the Tax Court to do so."

"As such, we believe the best course of action is to vacate the decision of the circuit court and remand for the Tax Court to determine whether title four provides an exception for Leadville."

Leadville, Macy's, and the comptroller now await the case's return to the Tax Court.

Macy's refused to comment.

Georgia introduces protected cell legislation

Georgia has passed legislation that amends the state's captive insurance statute and authorises the use of protected cell companies.

HB 99 was passed by the Georgia legislature on legislative day 40, the last day of the legislative session.

SB 192, which regarded captives, was tabled in the Senate and did not cross over; however, the language was pulled and the substance of the bill was added to HB 99.

HB 99 includes the introduction of "incorporated protected cell" captives to the statute, which Georgia defines as "a protected cell that is established as a stock corporation or manager-managed limited liability company separate from the sponsored captive insurance company of which it is a part".

Additionally, the bill includes new rules for dormant captive insurance companies, captives that have "ceased transacting the business of insurance, including the issuance of insurance policies" and have "no remaining liabilities associated with insurance business transactions, of insurance policies issued prior to the filing of its application for a certificate of dormancy pursuant to this chapter".

According to the bill, dormant captives must possess and maintain minimum capital of $25,000, submit a financial condition report on or before 1 March each year, and renew certificates of dormancy every five years.

Insurance commissioner Jim Beck commented: "Georgia has a tremendous reputation as a great state to do business and we want to capitalise on the momentum to make it easier to form a captive insurance company and innovate in the marketplace."

Pfizer captive has ratings affirmed

Blue Whale Re, the captive insurer of global pharmaceutical company Pfizer, has had its financial strength rating of A (Excellent) and its long-term issuer credit rating of "a+" affirmed by A.M. Best.

The outlook of the Vermont-based captive's ratings is stable.

As an insurer and reinsurer of Pfizer's global property options, Blue Whale plays an important role in the pharmaceutical company's overall enterprise risk management and assumes a critical role in protecting the Pfizer enterprise's assets.

The nature of the relationship between Blue Whale and its parent company means changes in Pfizer's credit risk can have certain impacts on the captive's ratings, as it is dependent on Pfizer's ability to support its credit risk profile, competitiveness and risk management.

The ratings reflect the strategic and integral role the captive plays in Pfizer's risk management platform.

Additionally, the ratings are reflective of Blue Whale's "very strong" balance sheet, its strong operating performance, neutral business profile, and appropriate enterprise risk management

The captive's capitalisation is very strong, albeit reliant on its parent.

It operates at conservative underwriting leverage levels; however, it provides coverages with extremely large limits, and its gross exposures per loss occurrence are elevated.

Net retentions remain very substantial, despite it benefiting from reinsurance protection.

Reinsurance is provided by a large panel of reinsurers, and the captive is reliant on significant capacity to support its obligations, meaning the captive is heavily dependant on reinsurance.

Blue Whale's outlooks are stable, as a result of A.M. Best's view of third-party credit ratings and Pfizer's market market-based credit risk measures indicating stability.

The captive's results rebounded last year as it recovered from the impact of Hurricane Maria, which occurred in late 2017.

Reserves are expected to return to historical levels following the expected resolution of all Hurricane Maria-related claims in mid-2019.

Positive rating actions could be caused by the company's operating performance improving to outperform similarly rated peers with supportive risk-adjusted capitalisation.

Alternatively, negative rating action could occur if underwriting performance weakens and negatively impacts risk-adjusted capitalisation over time, or if there is a material shift in risk profile that could potentially undermine the stability and profitability of the company.

They may also be caused by the material deterioration of the parent's credit profile.

Vermont captive statute tweaks get final approval

A Vermont bill proposing a number of updates to its captive insurance statute, including alterations to its financial examinations requirements, has been given the final approval by the Senate and House.

Guernsey introduces first ILS hybrid vehicle

Guernsey has introduced the world's first insurance-linked securities (ILS) hybrid vehicle.

The hybrid is a protected or incorporated cell company that is both a licensed insurance company and a regulated investment fund, meaning ILS managers will no longer have to rent cells of protected cell or segregated account companies to act as Special Purpose Insurers (SPIs).

These SPIs are often established in a different jurisdiction and operate entirely separately from the ILS manager's fund.

According to Guernsey Finance, the hybrid vehicle will lead to increased simplicity and efficiency for ILS fund managers.

Corey Olsen, partner at Christopher Anderson and creator of the hybrid concept, with the support of the Guernsey Financial Services Commission, said: "For the first time, the Guernsey hybrid provides managers with the opportunity to operate an investment fund and any number of sub-funds and SPIs in one place, supervised by one regulator, governed by one board of directors with one set of service providers and one auditor."

"No other jurisdiction in the world offers such a unique combination."

He added: "Guernsey is a world leader in both the investment funds and insurance sectors so the concept of fusing two regulated structures into one vehicle makes perfect sense and is a development that will generate significant cost savings and other efficiencies as well as greater control for ILS fund managers."

Dominic Wheatley, chief executive of Guernsey Finance, commented: "Guernsey is one of two key players in the ILS transformation market, and as the asset class grows we see Guernsey's role growing too."

"Guernsey will continue to be at the forefront of innovation in ILS and this is a perfect example of forward-thinking."

He concluded: "This thinking builds on Guernsey's expertise in insurance and ILS and in funds, where we are global specialists in private equity, listed debt and alternative assets, and should lead to Guernsey becoming a natural choice for ILS managers to establish a fund."

S.109, a consensus bill composed by the state's Department of Financial Regulation (DFR) and the Vermont Captive Insurance Association (VCIA), was passed by the Senate and House on 28 March.

The bill includes a number of small changes to the statute, including requiring captives to be examined every five years (or more frequently if necessary), rather than every three years, which can currently be extended to five if the captive is audited.

Other tweaks include amending the statute to clearly identify nonprofit incorporated protected cells as eligible for dividends or distributions with commissioner approval and allowing the commissioner to exempt the attorney-in-fact from the bonding requirements under specific circumstances.

The bill also suggests clarification of the definition of an independent director; a requirement for National Association of Insurance Commissioners statutory accounting for affiliated reinsurance companies, the new captive structure introduced in the state last year; and specific inclusion of sole proprietorships among eligible businesses to be cell participants.

Additionally, it would allow captives to use any organisational form permitted by Vermont law, meaning the captive law will automatically stay current, and DFR still has plenty of opportunities to decline an application or reject a business form if not appropriate for an insurance company, or for a particular circumstance.

The bill will now pass to the Vermont governor to be signed into law.

Rich Smith, VCIA president, said the suggested change to financial examinations "better reflects the options captives could utilise that better suit their risk and investment needs".

He added that the bill would provide "updates and tweaks to Vermont's captive law that incorporate a number of the issues VCIA's legislative committee has discussed the past few months, as well as policy suggestions from DFR".

Rational pricing highlights stability of reinsurance market

Rational pricing at the 1 April renewal date highlights the stability and maturity of the reinsurance market, according to a report from Willis Re, the reinsurance advisory business of Willis Towers Watson.

Willis Re 1st View, a thrice-yearly publication, which provides the first view on market conditions at the key reinsurance renewal seasons: 1 January, 1 April, 1 July, notes that reinsurers have adopted a rational rating approach at the 1 April renewal with price increases of up to 25 percent targeted towards loss-affected contracts and programmes.

The rate increases were balanced by flat renewals for loss-free classes and programmes.

According to the report, key to reinsurers' rational pricing responses were continued high levels of market capitalisation, both from traditional reinsurers and insurance-linked securities markets.

Additionally, the report reveals that virtually all reinsurers have posted improved combined loss ratios for 2018, though for many it was a marginal improvement.

James Kent, global CEO of Willis Re, commented: "At a time when some participants in the global reinsurance market are promoting the need for substantial across-the-board improvements in pricing, reinsurers delivered considered, rational price adjustments–a sign of the market's stability and maturity."

He added: "As the global reinsurance market looks to address the current imbalance of supply and demand, the ability to demonstrate a stable, rational base plays a critical role in developing and promoting more solutions to new buyers and core clients."

R&Q completes acquisition of Irish-based captive WCIC

Randall and Quilter Investment Holdings (R&Q) has completed the acquisition of Western Captive Insurance Company (WCIC)

MMC completes JLT acquisition

Marsh & McLennan Companies (MMC) has completed the acquisition of Jardine Lloyd Thompson Group (JLT) for $5.6 billion in fully diluted equity value.

The acquisition, which was approved by shareholders in November last year, recently received approval from the European Commission.

The deal is part of MMC's strategy to become the preeminent global firm in the areas of risk, strategy and people.

The combined company provides advice and solutions for more than $100 billion of annual property/casualty insurance and reinsurance premiums placed globally.

JLT brings MMC more than 10,000 staff and many of JLT's top executives have been named to leadership positions at MMC.

However, MMC said it expects to cut up to five percent of its workforce following the acquisition.

Dan Glaser, president and CEO of MMC, said: "Today marks the beginning of a new era with MMC and JLT coming together."

He added: "This is a combination of strength and strength, and the primary focus is growth—in talent, capabilities, revenue and earnings."

from its owners, the Coffey Group, after receiving Irish regulatory approval.

After initially agreeing a deal in October 2018, R&Q received regulatory approval from the Central Bank of Ireland to complete the acquisition of the entire issued share capital of WCIC on 1 April.

From 2007 to 2011, WCIC underwrote general and employers' liability insurance covering various members of the Coffey Group.

Following the acquisition, R&Q intends to transfer the business to its Maltese-rated company, Accredited Insurance (Europe), subject to regulatory and Irish court approval, after which WCIC will close.

Ken Randall, R&Q chairman and CEO, commented: "We are pleased to have completed the acquisition of WCIC."

"This transaction again demonstrates the wide range of legacy solutions that R&Q is able to deliver."

Virtual i forms strategic partnership with Braxtone

Insurtech firm Virtual i Technologies has appointed Braxtone, a United Arab Emirates-based risk engineering company, as its exclusive network partner in the Middle East and Africa (MEA) region.

The agreement authorises Braxtone to use Virtual i's risk inspection platform for their risk engineering services.

The platform will enable the company to conduct faster and more efficient technology-assisted risk surveys and write risk inspection reports at the click of a button.

Braxtone travelled to Turkey for a signing ceremony and a two-day training programme to familiarise themselves with the technology.

Mohamed Radhi, COO of Braxtone, said the company is pleased to be "leading the way in the adoption of insurtech and helping insurers to see more risks during the underwriting process".

He added: "The need for technology-assisted risk engineering to assess and monitor the levels of risk exposure has been a focus of the industry for the last few years."

"Using Virtual i's technology will increase our company's risk engineering efficiency and reduce the probability of picking up a bad risk."

Virtual i's Turkey and MEA president Sema Tüfekçiler commented: "This strategic partnership is geared towards accelerating the adoption pace of Virtual i's proprietary technology in the MEA region and move the industry forward."

"Braxtone has an exemplary track record in the region, which makes us very optimistic about the success of this partnership."

Chubb makes improvements to Worldview platform

Chubb, the global property and casualty specialist, has made several key improvements to its digital Worldview platform, including improved premium tracking functionality for captive insurance.

Worldview is a web-based platform that provides clients and brokers with real-time access to Chubb's systems and expertise in one application.

The improved premium tracking functionality for captives will provide the status of all payments in a single view, making seeing and reporting when premium payments have been completed, quick and convenient–even on a global basis.

It will also provide users with a holistic view of activity across all programmes.

Additionally, reports are automatically delivered to users with insights for programmes renewing within the next 90 days, including any specific requirements for activities and/or documentation that must be completed prior to policy issuance.

Other notable enhancements to the platform include a new policy translation solution, which is exclusive to Chubb and its current multinational customers.

Matthew Merna, division president, Chubb North America Major Accounts, said the company is dedicated to providing its customers and brokers with "innovative resources to help manage their global risks".

He added: "As multinational businesses steadily expand around the globe, they face recurrent regulatory, compliance and legal considerations which continue to evolve."

"Chubb Global Services provides a suite of services that enables multinational customers to cut through many of the complexities surrounding the issuance of local policies, paying claims, and customising programmes and services worldwide, in a timely manner."

CCR Re sets up first French ILS instrument

French reinsurer CCR Re has set up the first insurance-linked securities (ILS) instrument governed by French law, 157 Re, which is also the first reinsurance sidecar vehicle to be domiciled in France.

157 Re will assume a quota share of CCR Re's worldwide property catastrophe portfolio, and provide it with fully collateralised capacity to achieve its target of diversified and profitable organic growth.

Additionally, it will provide CCR Re with full Solvency II regulatory credit and give it access to a new competitive and agile investor base.

The sidecar incepted on 1 April 2019 and is the first generation of what is expected to be an annually recurrent instrument in coordination with investors in order to support CCR Re's growth on property catastrophe business.

157 Re takes the form of a mutual securitisation fund (fonds commun de titrisation) that has traditionally been used for financial assets securitisation only and has been licensed by the French supervisory authority, Autorité de Contrôle Prudentiel et de Résolution.

The French tax authorities have provided formal guidance in respect of the tax treatment of the operation for the investors.

Go West!

Michael Low and Alan Fine preview the Western Region Captive Insurance Conference, break down what the schedule has to offer, and discuss what delegates can expect

Ned Holmes reports

Scottsdale, Arizona, will play host to the 2019 Western Region Captive Insurance Conference (WRCIC) between 20 and 22 May. The event, hosted by the captive insurance associations of the three member states: Utah, Missouri, and Arizona, invites delegates to “tee up your captive’s future” and offers a diverse schedule.

Ahead of the conference we spoke to two of the organisers, Alan Fine, partner at Brown Smith Wallace and member of the WRCIC organising committee, and Michael Low, partner at Kutak Rock and chairman of the WRCIC, to find out what attendees should expect and how the conference had evolved from last year’s event in St Louis.

What will this year’s WRCIC offer?

Michael Low: All in all, I think we have got a good programme design and we look forward to a healthy attendance. We have a captive 101 programme, which provides the background on how and why you form and license a captive. We have lined up two excellent speakers on captive tax issues, which is a huge issue right now in the US: Chaz

Lavelle and Tom Jones. We also have an investment track which covers the permissible investments that are recognised for purposes of captives–what you should and should not do.

We are going to take a glimpse into the future by looking at some of the emerging issues for captives beyond the tax situation, such as employee benefits, new cyber coverages and deductible reimbursements. These issues are interesting because I do not know the extent to which captive owners and prospective captive owners will focus on the coverages captives can provide.

On top of that, we have some really fun activities tied in. Arizona is a golf state and we have a golf tournament at the private Scottsdale golf course, Gainey Ranch, as well as Top Golf, which is more sociable.

Alan Fine: We are looking ahead at how we can best move forward from where we are today. There are different tracks and different sessions throughout the conference that are designed to help delegates think about how they are using their captive today and the different opportunities that might be available to them on a go-forward basis.

In terms of demographics, ideally it would be a cross-section of people finding out about captives for the first time, those with awareness of captives looking to do business in the region and those in the industry to continue their education. I think it will probably be more weighted towards the latter two categories, particularly those that might be interested in the captive space in Phoenix.

What sets it apart and what are you most excited for?

Fine: It's the quality of the speakers and the smaller group setting. Sometimes there is a better opportunity to meet with new people when it is not so overwhelming like some of the larger conferences are.

I am looking forward to the opportunity to network with people that I do not get to see very often, as well as the opportunity to listen to speakers that are really dedicated to the industry.

Low: The strength of the speakers. I am particularly excited to hear Lavelle and Jones on tax. They are very experienced and well-recognised for their expertise in the whole tax area. I would say that tax issues certainly drive a lot of the consideration whether you form a captive insurer or not. We have a number of cases, such as Avrahami and the Reserve Mechanical, that point to directions where the Internal Revenue Service (IRS) seems to be cracking down on some of these smaller captives for their tax avoidance schemes. There is a lot of interest in that subject, and if we get some changing winds taking place with the IRS and how they view captive insurers, that is going to be a major theme of our programme here.

What was the motivation between bringing in Tom Jones and Keith Shraad in as the keynote speakers?

Low: Our luncheon speaker Keith Schraad is the newly confirmed director of the Arizona Department of Insurance. He approaches things from a different standpoint than many commissioners; he is very pro business, his background is very technology heavy and he's passionate about new technology. He's interested in things like blockchain and ways to better utilise captives in insurance companies in terms of emerging technologies. Schraad is very erudite in his vision for what he sees taking place between captive insurance and technology, so that should be an interesting discussion.

Fine: Issues with the IRS are significant in the US. The concepts, particularly those that the IRS have argued and that the tax court judge in the Reserve Mechanical case addressed, are impactful both on small captives taking 831(b) election and huge captives of a Fortune 500. Those concepts impact all captives throughout the industry and so, because of the significance of tax issues–and because Tom Jones is a very good speaker who really reaches the audience–we thought that he would be a suitable person to deliver our keynote speech.

I am very excited because I always enjoy listening to Jones. Every time I hear him speak I come away with, usually, more than one nugget of knowledge that will help me in my practice with my clients.

How has the conference grown from last year?

Low: Last year in St Louis, the conference was very well put-on and well thought-out, but it fell short of expectations in terms of attendance. We're trying to create a lot of interest because you can have the best programme in the world, but if it is not well attended, it can be a disappointment.

Fine: Having served on the planning committee, you learn from what went well the prior year and just keep doing those things. In terms of things that might not have gone well, you must take steps to try to improve in those areas. I thought last year, other than perhaps from an attendance standpoint, the conference went very smoothly. The most important thing is to ensure that we are staying relevant, that the sessions we are offering are ones that the participants are interested in.

Any final thoughts as we head toward the conference?

Fine: I am very much looking forward to it, I am very excited for the sessions and the networking opportunities. I think it is going to be a great conference, I look forward to seeing everyone there.

Low: Only that if any of your readers are in the neighbourhood, we would sure welcome them swinging by and meeting our group, possibly participating in our programmes. I was down at the Captive Insurance Companies Association (CICA) Conference and it really profiled in an international context. Although we are centred in the West, it would be great if we could attract some international presence and interest. We will not be as big as the CICA conference but we're looking to be recognised in that second tier of major conferences. **CIT**

Big Sky Country, Small Town Feeling

In a busy US captive market, Montana's personable and reliable business environment has helped it grow into a major force. The industry backs this "small town feeling" to help that growth continue

Ned Holmes reports

With an area of 147,040 square miles, Montana is the fourth largest US state, but due to its population of around one million, it has the second lowest population density among US states. It is perhaps unsurprising then that what makes 'Big Sky Country's' captive market unique is the "small town feeling" at the core of its industry.

"In Montana you get a quick response," explains John Huth, president of the Montana Captive Insurance Association (MCIA).

"If you call me, I'll call you back—if you call the regulatory team, they'll get back to you right away—I think that small town feeling helps this industry a lot."

The responsiveness and relatability of the state's captive regulators, the Office of the Montana State Auditor Commissioner of Securities and Insurance (CSI) captive programme, has helped the state grow into one of the US' biggest captive domiciles. Montana has licensed more than 500 captive insurance companies since it introduced its captive law in 2001, and at year-end 2018, there were 279 active captives licensed in the state.

Market

As with many captive domiciles, market conditions in the past two years have had a negative impact on Montana. The number of new captive formations fell year-on-year in both 2017 and 2018, accompanied by more captive dissolutions than formations.

However, the feeling in the domicile remains optimistic. There were 26 new captives licensed in Montana last year, and Patrick Hunter, CSI captive insurance programme financial examiner/analyst, says the regulator is "definitely happy with the quality of cases we are seeing".

He adds: "Our numbers were slightly down but we love the cases we are seeing."

Giving an industry perspective, Jessica Heil, senior programme manager/office manager, Innovative Captive Strategies, notes: "The market is holding steady right now. I don't see huge growth, as far as our business is concerned we are just holding steady. We have had a few new captive licenses but nothing like what we have seen in prior years."

SBUs and cells

One continued positive for Montana in recent years has been the growth in the number of series LLC and protected cell captives (PCCs). The series LLC structure, introduced in Montana in 2013, allows each series member or series business unit (SBU) to maintain separate assets while carrying out its own distinct captive operations.

For the last three years, formations of SBUs and PCCs have outpaced standalone captives by a ratio of at least two-to-one. Tal Redpath, CSI captive insurance programme captive insurance examiner, suggests this rise in popularity, which has led to the number of PCCs and SBUs almost equal to standalone captives, is due to "the synergies and efficiencies they offer that standalone captives don't".

He says: "The captive managers that use Montana as a domicile a lot really like the SBU-captive structure. It means their clients can get a better deal from service providers, like accountants, auditors and actuaries, and so I think the cost savings is a nice feature of the SBUs."

Heil notes that a large part of her company's growth has been focused in the SBU space.

"That is something that is unique for Montana and where we have seen our growth," she says.

"Not necessarily focused in one industry but quite a bit of growth in the SBU space. They're relatively simple to set up. Once you have one series licensed it is easy to add more SBUs. The statutes in Montana allow for lower capital requirements for SBUs which makes it also easier for the smaller captives to jump in and get started."

Regulator

The SBU legislation is an example of how the flexibility and adaptability of the state regulator has been a key advantage for Montana. Heil highlights the regulator as "what makes Montana a great domicile".

"The department is top notch," she explains, "they're very responsive and the captive statute provides the regulators that certain amount of flexibility."

"You can call anytime and bounce ideas off them and they're often involved in coming up with creative solutions. They're very captive friendly and very business friendly."

Hunter says the department has taken a common sense approach to regulation by trying to be fair and flexible while keeping the bigger picture in mind.

He explains: "We are certainly not afraid to turn away business. I think the managers that we have worked with for a number of years appreciate that fact, we are in this for the long run, we are not just in it to write business this year."

Redpath adds: "I think people like us because we listen to them, we don't look for a way to say no, we try to find a way to say yes. If there is a way to restructure something we are going to find it."

This practical approach has also meant the domicile's captive law has been regularly updated to keep it up-to-date and so that it reflects the needs of the industry.

"Our legislature is incredibly open to passing legislation," notes Huth, "we have never had any piece of legislation fail."

"We watch the industry to see changes that are made, and we are always trying to satisfy the needs of the industry here in the state."

An example of this is the changes made to the legislation to allow government sponsored captives to be formed in the domicile. Following interest in the structure from a number of parties, the law was changed to allow their formation three or four years ago. The first government sponsored captive was formed this year and it was a landmark moment for Montana.

Hunter comments: "One of our new formations this year is a large municipality-sponsored captive, which is pretty cool. It is the first one we've done, and might've been one of the first ones across the US."

The legislature in Montana meets every two years, and with the current legislative session coming to a close, there have been minor changes made to the captive law. Flexibility was added to the letter of credit statute so that the federal reserve membership requirement was removed for banks, and some small updates have been made.

Redpath views the lack of any significant regulatory changes this year as a reflection of how well-positioned the captive industry is.

He explains: "Since our law passed in 2001, those of us here at the department, in conjunction with our Montana captive association, have continuously kept our law on par with the market and what other domiciles are doing so that we remain competitive. I think we haven't had to do a lot of major changes recently because we have done such a good job of keeping up in the past."

It is also a reflection of the close relationship between regulators and industry, which Huth, who ran the state captive insurance division between 2001 and 2007, says is one of the domicile's "strong selling points".

Dana Sheridan, Active Captive Management chief compliance officer and Acrisure deputy general counsel, describes the relationship as "strong" and "healthy".

"It really does take a village to have a well-run and compliant captive," adds Sheridan, "and Montana regulators apply consistent and clear rules to all captives they govern, uniting all their captives under a safe regulatory structure."

"We are all grateful to have regulators such as those in Montana. It makes all of our jobs easier when there is consistency, efficiency, clarity and fairness in regulation."

Obstacles

The quality of the current regulators is currently a strength, but could, if progression planning is poorly handled, quickly become a weakness.

Heil explains: "There has to be a focus on the future. We have such a great team in Montana as far as the regulators are concerned, but Tal Redpath, Steve Matthews, and Steve Mack are all looking toward retirement, so I think the immediate focus will be to groom that next generation of captive regulators to be as good as their predecessors."

Outside of the issue of future regulating talent, Redpath says the obstacles facing the domicile are no different to those facing many at the moment. He adds: "Micro captives have been under a lot of scrutiny, so formations are down and retirements/dissolutions are up."

Outlook

Amongst what has been a turbulent few years for the global captive market, confidence appears high in Montana that the domicile can continue to establish itself in what is becoming an extremely congested US captive market.

Heil suggests that the market will continue to reflect the current trends. She says: "Risk-retention groups (RRGs) may continue to fall off. We manage a few RRGs but we're seeing a trend where the smaller RRGs are. They are finding it challenging to maintain a static membership, and considering merging with larger insurance groups orceasing insurance operations and going into run-off."

"I do think we'll continue to see growth in the series captive space. We have also had growth in employee benefits, and we're working on licensing a new SBU in the EB area."

Huth believes that the domicile is "well-positioned".

"I think the future is looking good. There is an industry-wide downturn in the market in general but the prospects for Montana are good. I'm hoping we will see a little uptick in the number of captives but that depends on the market."

"When we came into the market in 2001, there were only about 16 or 17 domiciles, now there are close to 40. But, if you are looking to get something done, give us a shot and I think you'll be impressed with the overall environment and industry in Montana."

He returns to the concept of the domicile's "small town feeling" and the positive business environment that creates. "It's about the openness of people to do business and the positive regulatory atmosphere and environment." **CIT**

A catalyst for innovation

Ahead of Connected Insurance Europe 2019, conference organiser Graham Proud of Insurance Nexus discusses the motivation behind the event and how it serves as an important tool for both Europe's big insurers and up-and-coming startups

Ned Holmes reports

After three successful years in London, the Connected Insurance Europe conference has moved to Amsterdam for its 2019 edition. Taking place between 15 and 16 May, the conference, organised by research and events organisation Insurance Nexus, is engineered as a place for some of the European insurance industry's big guns to meet, identify some of the market's latest opportunities and examine how innovative new products can benefit not only their current customer base, but also the next generation of customers and provide what they require.

More than 350 delegates are expected at the event, which functions as a meeting place for major insurers and insurtech companies. The core of the conference is based around new services and development, examining the solutions that the insurtech community can provide insurers to improve their current portfolios through new technologies and partnerships. The organisers pride themselves on the number of major insurers in attendance, and on the high proportion of "decision makers" at the event (95 percent of attendees, according to Insurance Nexus).

We spoke to Graham Proud, head of European project delivery at Insurance Nexus, about the event, what it will offer, and why it can serve as a catalyst for innovation.

What are the key themes of the conference this year?

We are looking at how insurers are maximising the latest market opportunities in terms of delivering on what modern customers want. This means bringing innovative ideas into their products and services and bringing them to maturity. Another focus is the methods that insurers are using to communicate the value of those new products and services to their customer base, including effective marketing and increased engagement with the customers.

What sets this conference apart?

When I look at the insurance conference landscape, there's a lot around insurtech at the moment and a lot of exhibitions based around startups. I think what sets us apart is that we've built an agenda for the incumbent and established insurers in terms of what they're working on. We champion insurers taking the lead in partnerships with the insurtech community (without undermining them), and we have reflected that in terms of the speakers and attendees, it's really recognisable names, rather than a whole room of young insurtech companies. We want the perfect blend so that the talent is all in the same room.

What inspired the move from London to Amsterdam?

I think what we wanted to do was not become too reliant on being a UK-centric event where it is essentially UK attendees and insurers speaking. There is a lot going on in Europe, and since the move to Amsterdam, we have seen a huge response from the German and Nordic markets, as well as France, Spain, Portugal and Italy.

We wanted to mix up the conversations on site and get more varied responses and feedback on how the insurers are turning their innovation into reality. We believe that by opening it up to a genuine pan-European audience, we could host insurers that have different regional challenges and expertise sets, so that when they benchmark what they're doing against each other, they'll find more value in looking across the whole European market rather than something, which is too UK-reliant.

What are the programme highlights?

We've got a senior speaking set, including the CEO of MAPFRE, Leire Jimenez. We have great representation from Zurich this year, including their global head of life business who is looking at how cross-departmental collaboration is improving Zurich's offerings. Also speaking is Zurich's global head of customer insight, to provide a lookat customer feedback and profiling the customer.

Additionally, we have Peter Stockhammer, the managing director of Generali Vitality, who have run a fantastic health proposition. Stockhammer will be talking about the whole journey of Generali Vitality and how they have implemented a programme of digitalisation and created a new ecosystem internally in order to serve the technology-savvy millennial customers.

From the claims departments, we have the head of Central Europe from AIG, as well as the head of claims from Achmea, who are talking about how their claims' functions change through these connective technologies. Overall, we have around 30 or 40 major insurers speaking as part of the programme, so there's lots going on.

How does the conference appeal to the alternative risk market?

As part of the discussion around new products and services, we very much encourage the risk and underwriting teams to be part of that conversation. We're looking at all of the factors around underwriting, risk, pricing and actuarial departments: what is their impact on what new products and services should look like; how does risk analysis and the pricing side affect what those products and services should look like? So these parties are really essential to a major theme in the event around product development.

On a personal level, what are you most looking forward to about the conference?

I'm looking forward to hearing from some of Europe's biggest insurers. We have 15 or so out of the top 20 grossing insurers in Europe. I'm really looking forward to hearing how they are setting out their future plans in terms of remaining relevant, really capturing new markets; providing that plan of how they are responding to innovation, and proving themselves to be the market leaders in what is a really competitive market.

There are lots of co-creation projects and partnerships with some of the new insurtechs and players, but we are looking forward to hearing how the established players plan to remain absolutely relevant in the coming years by changing things up now.

Do you have a final message for our readers about the conference?

What is really exciting about this is that it's genuinely pan-European. There are major insurers from all over Europe, and what we're pushing them to present in Amsterdam is future plans for how insurers can remain relevant, capture new markets, build really good partnerships and move with the times. So it's a very forward-thinking conference, one where the major insurers are encouraged to divulge their long term plans in an environment which is not vendor-driven at all, but a conference which is made for insurers and made with the consultation of the insurers as well. CIT

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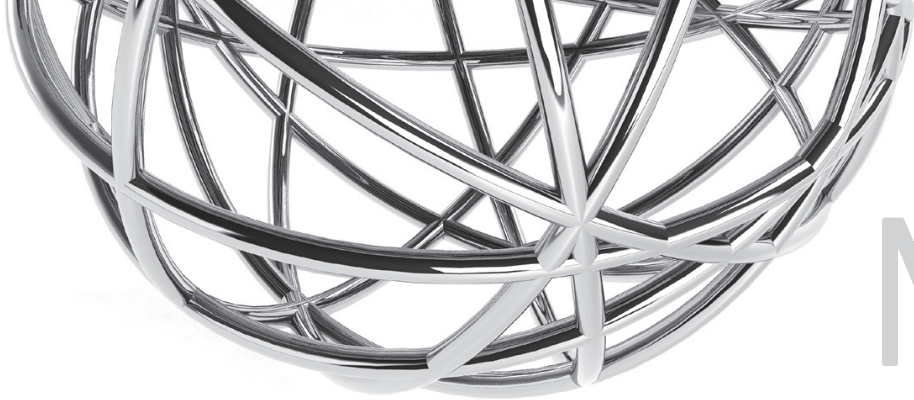

Malta

flawless Structure
Seamless Opportunities

Malta is host to a myriad of captive re/insurance companies, protected cell companies and cells that have come to enjoy the domicile's stable regulatory environment and EU membership benefits. Malta offers re/insurers and cells:

European Union Membership - Malta's status as an EU member allows companies and cells the ability to passport their services throughout the European Union and EEA states. Maltese insurance law and regulation implements all relevant EU directives.

Redomiciliation Legislation - Companies established in other countries can seamlessly transfer to Malta without any break in their corporate existence.

Protected Cell Legislation - Protected Cell Companies can be incorporated in Malta, enabling cell promoters to write insurance through a cell. The law ensures proper protection and insulation of cell assets and liabilities from those of other protected cells and the core of the protected cell company.

A Stable Regulatory Framework - The Malta Financial Services Authority (MFSA) is reputed to be "firm but flexible" - encouraging discussion with promoters at all stages of an application process and also on an ongoing basis.

Extensive Double Taxation Treaty Network - Malta has around 70 tax treaties with various EU and non EU countries.

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FinanceMalta is the public-private initiative set up to promote Malta as an International Financial Centre.

Comings and going at Tokio Marine Kiln and Energi

Tokio Marine Kiln (TMK), the international insurance underwriting and services business of the Tokio Marine group, has appointed Will Curran as head of reinsurance, effective 1 April 2019.

Curran succeeds David Huckstepp, who is leaving TMK on a planned break from the sector.

He shifts from his previous role as deputy underwriter of TMK's reinsurance team.

Having begun his career at Lloyd's in 1996, Curran held roles at Beazley, Wellington and Catlin, before joining TMK in 2008.

Charles Franks, TMK CEO, commented: "Will Curran has had an impressive career and his 11 years here at TMK make him a worthy successor to David Huckstepp, who leaves with our best wishes."

"Huckstepp has been instrumental in the success of the reinsurance account both as an underwriter and, since 2007, as leader of the department."

"Under his leadership, the account has been highly profitable, and we have maintained our reputation for having one of the most highly-regarded reinsurance teams in the market."

Energi has appointed former Oklahoma insurance commissioner John Doak and former North Carolina insurance commissioner Wayne Goodwin to its board of directors.

The arrival of Doak and Goodwin will add industry expertise and depth as the company progresses into providing captive insurance programmes through eCaptiv and claims, risk management, marketing, and technology solutions through eServices Companies and eTech Services.

Doak served as the 12th insurance commissioner of Oklahoma between 2011 and 2019, prior to which he held roles at Marsh, Aon Risk Services, HNI Risk Services, and Ascension Insurance.

He concurrently holds the role of executive vice president of regulatory affairs, innovation, and business development at Insurance Care Direct.

In addition to spending eight years as North Carolina insurance commissioner, Goodwin is a former insurance regulator, four-term state legislator and successfully opened two law firms.

During his four consecutive terms in the General Assembly, he sponsored legislation that prompted greater incentives for economic development, education, healthcare, and public safety.

Brian McCarthy, CEO of Energi, said the company was pleased to welcome Doak and Goodwin to the board.

He added: "As former insurance commissioners, both bring a wealth of experience and expertise in the insurance industry and will be tremendous assets to the company."

James Townsend, chairman of the Energi board and CEO of Townsend Energy Company, commented: "Both John Doak and Wayne Goodwin have an incredible understanding of the insurance industry as former insurance commissioners."

"We are very delighted to have both served on the board of directors of Energi." **CIT**