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captive insurance times

The primary source of global captive insurance news and analysis

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Hodgen Mainda, Tennessee's new insurance commissioner, reveals his plans for the state's captive insurance industry

Make way for the new Tennessee insurance commissioner

The Big Unbundle

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Emerging Talent

Erin Hackett
Senior audit manager
Crowe

Captives at the Wheel

As costs of commercial insurance rise, captive insurance has become a popular solution


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Cover Image

Hodgen Mainda,
Commissioner,
Tennessee Department of Commerce & Insurance

In this issue

Artex to acquire Horseshoe Insurance Services

Artex Risk Solutions has reached an agreement to acquire Horseshoe Insurance Services Holdings in a bid to strengthen its insurance linked-securities (ILS) operations.

Horseshoe, which was founded by Andre Perez in 2005, specialises in providing insurance management, fund administration, advisory and corporate services to ILS and alternative fund markets.

Mullen said: ”The combination of the Artex and Horseshoe teams and technology will provide our clients with the opportunity to find all insurance management, fund administration and advisory services under one roof.”

“Andre Perez and his team mirror our culture at Artex. They will be a terrific fit and will help further our goal of becoming the best service provider to the world’s risk capital.”

> “The combination of the Artex and Horseshoe teams and technology will provide our clients with the opportunity to find all insurance management, fund administration and advisory services under one roof”
>
> Peter Mullen, Artex

Its headquarters are located in Bermuda, while other offices are based in London, Grand Cayman, Sri Lanka and Charlotte, North Carolina.

Once the deal is complete, Perez and his associates will continue to operate from their current locations under the direction of Peter Mullen, CEO of Artex.

In addition, after completion Horseshoe will become the global brand of ILS services for Artex.

Perez added: “We are excited to join forces with Artex. For more than 14 years Horseshoe has been the leader in the ILS services industry and together we will have quite a formidable team dedicated to servicing the ILS market.”

“Being part of a larger organisation will give us the opportunity to better serve our clients by accessing worldwide resources, and accelerating the development of bespoke solutions and products for ILS.” ■

CICA reveals topics for student essay competition

The Captive Insurance Companies Association (CICA) has revealed the case study topics for this year’s Captive Insurance Solutions for Emerging Industries essay contest for college insurance and risk management students sponsored by Strategic Risk Solutions (SRS).

Essay contest winners will receive cash prizes, and the opportunity to present their winning papers at the CICA 2020 International Conference in California.

The essay contest invites college risk management and insurance students in teams of two to describe how and why a captive insurance company could be used as a cost-effective means of alternative risk financing for emerging risks and their corresponding loss exposures.

This year’s case studies focus on the home healthcare industry, the cannabis industry and craft brewing industry.

Dan Towle, president, CICA, said: “I am excited about this year’s topics. All three case studies use real-world situations focused on rapidly growing industries.”

Brady Young, CEO of SRS, said: “We’re providing real-world examples so students can experience being at the forefront of helping businesses in these emerging industries and understand how captives can help manage cost, coverage and risk management issues.”

Student teams need to complete the intent to participate form by 28 October 2019, with final essays being submitted by 15 November 2019. Finalists will be notified on 7 January 2020. ■

Arsenal Insurance gets Vermont's approval

Arsenal Insurance Management has received approval from the Vermont Department of Financial Regulation to serve as a captive manager in the state.

The captive managed said that adding Vermont to its capabilities will broaden the firm's resources to support the projected strong growth.

Arsenal president, Norman Chandler said: "I am delighted to announce our new commitment to Vermont. The decision to expand into Vermont was a logical step in our business growth strategy."

He added: "With this new presence, Arsenal will establish even closer ties with our Vermont and North American clients. This move will help Arsenal's continued growth in alternative market solutions."

The new office will be located in Burlington, Vermont. ■

Berkley launches expanded cost-containment programme for clients

Berkley Accident and Health is set to strengthen its clinical support with Berkley Edge, aimed at helping clients to lower large claim costs and improving plan sponsors' overall cost of health care.

After an analysis of its accident and health stop-loss block data from 2013 to 2017, Berkley revealed that its frequency of claims over $1 million has grown by more than 250 percent.

Berkley Edge offers guidance and health risk strategies to help clients better manage their total cost of health care.

The expanded programme includes a deeper investment in clinical resources, proactive review of 100 percent of claims/notices for all clients, health risk strategies for stop-loss group captives and streamlined process to serve clients more efficiently. Berkley Edge is available at no additional cost to all stop-loss, group captive, and managed care clients.

Brad Nieland, president and CEO Berkley, said: "Berkley Edge has had a transformational impact on our clinical services programme to being more than just a 'second set of eyes' on large claims by offering proactive and programmatic analysis and expert advice."

"We have a well-documented track record of assisting our clients to lower their health care costs, and Berkley Edge further enhances our capabilities." ■

'Excellent' ratings for Ford captive

A.M. Best has affirmed the financial strength rating of A (Excellent) and the long-term issuer credit rating of "a" of The American Road Insurance Company (TARIC). The outlook of these credit ratings (ratings) is stable.

A.M. Best categorises TARIC's balance sheet strength as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

ARIC is part of an insurance holding company system wholly owned by Ford Motor Credit Company (Ford Credit), which in turn is an indirect, wholly-owned subsidiary of Ford Motor Company (Ford).

According to A.M. Best, TARIC operates more like a captive insurance company for the Ford enterprise and provides a variety of coverages directly to Ford or Ford Credit, primarily automobile wholesale, collateral protection, inland marine, extended service business and commercial auto liability.

The rating company suggested that TARIC is vulnerable to macroeconomic and market conditions that potentially could have a detrimental impact on Ford's ability to sell automobiles and generate premium for TARIC.

However, A.M. Best explained that the efficiencies gained by geographic diversification and immediate access to business as a strength for TARIC.

A.M. Best noted that significant deterioration in operating performance or risk-adjusted capitalisation may result in downward movement in the ratings and/or outlooks.

Additionally, negative rating action also may occur if Ford's credit profile deteriorates. ■

RRGs remain financially stable in Q2 2019, despite underwriting loss

Risk retention groups (RRGs) saw cash and invested assets, total admitted assets and total liabilities all increase in Q2 2019, according to an analysis report by Douglas Powell, senior financial analyst at Demotech.

The report revealed that from Q2 2018 through to Q2 2019, RRGs collectively increased policyholders' surplus by 26.6 percent, representing the addition of nearly $1.1 billion to policyholders' surplus.

Powell explained that these reported results indicate that RRGs are adequately capitalised in aggregate and able to remain solvent if faced with adverse economic conditions or increased losses.

He said: "The level of policyholders' surplus becomes increasingly important in times of difficult economic conditions by allowing an insurer to remain solvent when facing uncertain economic conditions."

RRGs collectively reported nearly $2.1 billion of direct premium written (DPW) through Q2 2019, an increase of 29.9 percent over Q2 2018.

Results also showed that RRGs reported $1.2 billion of net premium written (NPW) through Q2 2019, an increase of 25.8 percent over Q2 2018.

The DPW to policyholders' surplus ratio for RRGs collectively through Q2 2019 was 80.4 percent. The NPW to policyholders' surplus ratio for RRGs through Q2 2019 was 48 percent.

On the underwriting results, the report suggested that RRGs collectively were unprofitable through Q2 2019 as RRGs reported an aggregate underwriting loss of $103 million. In addition, RRGs reported a net investment gain of $251 million and a net income of $136.4 million.

The loss ratio for RRGs collectively, as measured by losses and loss adjustment expenses incurred to net premiums earned, through Q2 2019 was 84.9 percent.

"Despite political and economic uncertainty, RRGs remain financially stable and continue to provide specialised coverage to their insureds"

Douglas Powell, Demotech

Meanwhile, the expense ratio, as measured by other underwriting expenses incurred to net premiums written, through Q2 2019 was 18.8 percent.

The combined ratio, loss ratio plus expense ratio, through Q2 2019 was 103.7 percent.

This ratio measures an insurer's overall underwriting profitability.

A combined ratio of less than 100 percent typically indicates an underwriting profit.

For RRGs collectively, the ratios pertaining to income statement analysis appear to be appropriate, within ratios remaining within a profitable range.

Powell concluded: "Despite political and economic uncertainty, RRGs remain financially stable and continue to provide specialised coverage to their insureds."

"The financial ratios calculated based on the reported results of RRGs appear to be reasonable, keeping in mind that it is typical and expected that insurers' financial ratios tend to fluctuate over time."

He added: The results of RRGs indicate that these specialty insurers continue to exhibit financial stability."

"It is important to note again that while RRGs have reported net income, they have also continued to maintain adequate loss reserves while increasing policyholders' surplus written year over year. RRGs continue to exhibit a great deal of financial stability." ■

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:

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Why choose an Insurance Trust?

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- **Reduced Liability Concerns** – insurance trusts may limit the range of acceptable investments; this is done to ensure adherence to all regulatory requirements.

SunTrust

Holmes Murphy launches BrokerTech Ventures

Holmes Murphy has partnered with M3 Insurance, PayneWest Insurance, ABD Insurance & Financial Services, Conner Strong & Buckelew and Assurance to launch BrokerTech Ventures.

The programme is aimed at investors and innovators building the next generation of technology solutions for insurance agencies and brokerages.

BrokerTech Ventures will deploy a highly intentional accelerator curriculum, as well as a veteran mentoring network, seed funding for a portion of the chosen startups' research and testing, and a distribution platform to deploy the technologies.

The window for startup companies to apply for a spot in the first BrokerTech Ventures cohort will open in late October of this year, with programme launch planned for February 2020.

According to Dan Keough, Holmes Murphy chairman and CEO, some of the automation, analytics, and other ideas that come out of the accelerator will have a potential benefit for captives, as well as for independent agencies and brokerages.

Keough explained: "At Holmes Murphy, and with our own investments in building out Innovative Captive Strategies, we believe that our greatest investments are those in which we uncover innovative solutions for our customers."

"A win for our customer, is a win for us, for the startup/entrepreneur—and ultimately, BrokerTech Ventures. Once fully built, BrokerTech Ventures will include not only an accelerator but also an innovation lab and an early-stage investment hub as well."

He added: "We welcome entrepreneurs and startups with a captive focus to consider an approach with BrokerTech Ventures in the future."

"The very nature of the captive insurance industry is predicated upon a forward-thinking or predictive model of risk management, ownership, and control." ■

MAXIS GBN adds analytics and digital tools to OneClient portal

MAXIS Global Benefits Network (MAXIS GBN) has upgraded its digital solution, OneClient portal for multinationals with new analytics and digital tools.

OneClient provides access to data-rich claims reports, quarterly and annual programme performance forensics, employee and market analytics, and market intelligence on employee benefits across markets now provides access to a new suite of interactive dashboards and web applications. The new tools also enable multinationals to identify employee benefits spend and healthcare priorities to aid decision-making and cost management.

A new feature of the portal is an interactive pooling dashboard, which allows multinational pooling clients to better understand their pool performance. The OneClient portal includes a brand-new tool, MAXIS Wellness Intelligence Tool (WIT), which uses medical claims data and actuarial calculations to help organisations calculate potential medical cost savings by implementing workplace wellness programmes.

MAXIS WIT will be launched to all MAXIS global captive clients in the next two weeks.

Helga Viegas, director of digital and innovation, MAXIS Global Benefits Network, said: "[OneClient] has set a new benchmark for data analytics and intelligent reporting within global employee benefits networks."

She added: "We want to raise the bar in client-focused technology, dramatically improving user experience and aligning the global employee benefits market with the best examples in the insurtech and consumer markets."

"Using data analytics and visualisation tools on OneClient, clients can monitor their global employee benefits spend, identify potential opportunities to optimise costs and programme design and, ultimately, help with improving the health and wellbeing of their employees." ■

Make way for the new Tennessee insurance commissioner

Hodgen Mainda, the new Tennessee insurance commissioner, says that the Volunteer state's infrastructure allows it to capitalise on the opportunities that will arise from innovations that are redefining the insurance industry

Hodgen Mainda, Insurance commissioner for the Tennessee Department of Commerce & Insurance.

Commissioner Hodgen Mainda was appointed by Governor Bill Lee to lead the Department of Commerce and Insurance starting on 1 October 2019. Mainda previously served as vice president for community development at the Electric Power Board (EPB) in Chattanooga.

In addition to his work with EPB, Mainda served on several non-profit boards including the Chattanooga Area Chamber of Commerce, the Downtown Chattanooga Rotary Club, the United Way of Greater Chattanooga, the University of Tennessee at Chattanooga Chancellor's Roundtable and the College of Business Advisory Board.

Mainda is also a member of the Leadership Tennessee Class of 2019 and a 2018 graduate of the Harvard Business School Young American Leaders Programme.

A native of Nairobi, Kenya, Mainda moved to Tennessee in 1997 to study at Middle Tennessee State University.

He is a graduate of the University of Eastern Africa. He is married and has two small children.

Congratulations on your new role. As the new insurance commissioner in Tennessee, what ambitions do you have?

Thank you. I am grateful to Governor Bill Lee for the opportunity to lead the department. As commissioner, it is exciting to be part of a team that has made Tennessee an award-winning captive domicile with captive insurance companies exceeding $1.4 billion in annual premium deposits. My ambitions include continuing the Volunteer State's growth into an international economic leader.

The state's governor, commissioner, general assembly and business community have worked together in previous years to create high levels of growth for the captive insurance industry, how are you working with the captive industry to ensure this level of growth continues?

Collaboration has been key to Tennessee's success as an innovator among domestic captive domiciles. We will continue our work with federal, state and local elected leaders. In addition, Tennessee has a unique, collaborative relationship

with the Tennessee Captive Insurance Association, which provides access to service providers and representation for companies forming captives.

Our focus on partnerships has resulted in Tennessee being ranked the seventh-largest captive domicile in the US and ninth-largest globally among those domiciles that companies first think about when looking to establish a domicile.

“As a new commissioner, I have an open door and a service-minded, professional team that are excited to work with potential captives”

As a new commissioner, I have an open door and a service-minded, professional team that are excited to work with potential captives.

One of the unique advantages of Tennessee is our ability to allow a licensed captive insurance company to form cell companies within the structure, with each cell writing distinct insurance policies.

Known as protected cell captive insurance companies, this feature has led to the formation of numerous cell companies within Tennessee, each one representing a risk-bearing entity. I am planning to keep in mind what has worked to accelerate this growth since Tennessee’s regulations were revamped in 2011.

Tennessee has continually worked to improve its captive insurance statute. Recent regulatory improvements included a one year tax holiday for alien captives redomesticating to Tennessee, a dormancy provision, and permitting premiums and claims to be denominated and paid in foreign currencies. I plan to work with the governor, industry and my staff to ensure our enabling legislation stays current.

Our current framework has attracted a diversified platform of captives across a spectrum of industries including, the Hospital Corporation of America, International Paper, Nissan Motors and Pinnacle Bank. But I am aware that there are many more great companies, both within and outside of the state, that could create a captive in Tennessee and I am anxious to work with these companies.

How important is the captive insurance industry to the state of Tennessee? What opportunities does it create?

As an industry, captive insurance has created an estimated economic impact of over $692 million in Tennessee through direct and indirect spending related to new jobs, investments, and deposits, according to a recent study. It’s created over 100 white-collar jobs in Tennessee (captive managers, actuaries, attorneys, certified public accountants) and annual direct spending of over $30 million in annual direct spending and over $830 million in direct capital investment.

Looking ahead, Tennessee is poised to have our captive insurance section at the cutting edge of insurance. Our infrastructure will allow us to capitalise on the opportunities that will arise from insurtech, telematics, artificial intelligence, and other innovations that are redefining the insurance industry.

What are captive figures looking like for 2019, are you expecting a good year? What do current figures stand at?

As of 2 October, Tennessee has 190 captives, 457 cells, and 647 risk-bearing entities. Based on the growth we’re experiencing, we expect an upward trajectory.

During 2019, the marketplace has repeatedly indicated that insurance renewals have begun to skyrocket. This is typically a very good sign for increased captive applications. Interest in Tennessee captive formations will increase from this trend so we do expect a very good year.

What will Tennessee be working on in terms of captive insurance over the next 12 months?

I see an opportunity for better collaboration, bringing in external stakeholders who will assist with marketing Tennessee as the premier captive domicile. Our legislative session does not begin until after the first of the year so it is too early to speculate about any legislative changes. Legislators get ideas for legislation from many different sources, including the TCIA, reviewing other states’ laws, and industry proposals. Our department wants to be fair and balanced in reviewing any ideas and has a customer-focused vision that carries over to all our divisions. ■

The BIG unbundle

After recently joining the Strategic Risk Solutions team in Europe, David Lewis explains how, in the next few years, the market will see the unbundling of captive insurance services in Europe

David Lewis, Strategic Risk Solutions

For over 30 years, David Lewis has been involved in large corporate risk financing, providing advice and support to some of the world's largest companies.

For almost 20 years, he headed Willis Towers Watson's specialist Japanese business in London, providing risk solutions to over 600 Japanese parented companies across Europe. Following seven years with Marsh Asia client services, Lewis moved to Portugal to become head of insurance for one of Europe's largest property developers.

In 2010, he moved back to Willis Towers Watson to join their captive business in Guernsey, before returning to London in 2012 as European director of consulting and development for the firm's global captive practice.

Lewis now serves as managing director for Strategic Risk Solutions, as well as holding a number of non-executive director and chair positions.

How did the role at SRS come about, and what swayed you to join?

I originally intended to retire from Willis Towers Watson and start some non-executive work but after SRS approached at the beginning of this year, they intrigued me with their different and fresh outlook on the type of services they think a modern captive advisor should be providing to clients. The more I spoke with SRS, the more

I realised that it was married to a real ambition to become a new force in Europe and that is very much something I hope to help them progress with.

What trends are you currently seeing in the European captive insurance market?

The big trends that we're going to see over the next couple of years are what I refer to as the unbundling of captive insurance services. I've come from one of the big broker-owned captive managers and companies like that are very keen to offer a one-stop-shop to clients—going from broking all the way through to reinsurance to captive consulting and captive management all in one place.

I don't think this approach always delivers the best value for the client or offers the level of flexibility that many clients are now looking for. My experience with most European clients, certainly over the last 12 months, is that there is a demand for innovation.

People are looking for new ideas, to make better use of growing their captive, new solutions for new and emerging problems, however, they don't want a packaged solution, they are looking for something more tailored and bespoke because that's the nature of their business environment and it's the nature of the challenges they face.

We are going to see more clients looking to unbundle services and buy a more tailored package instead of the packaged products that they're being presented with up until now.

Another trend we'll see, certainly from SRS's perspective as a growing marketplace advantage, is the growing demand for captive advice in the upper end of the small and medium enterprises (SME) market. The larger players in captive consultancy/captive management are still focusing on the very large conglomerates because that's where traditionally the demand for captive advice has come from.

However, in the upper end of the SME market, we're seeing far more complexity as well as sophistication and seeing more demand for risk financing. In many instances, the networks that service that market are either unable to provide the required level of expertise or, including the major national brokers, are not really focused on providing it because it doesn't give them the margin or the big-ticket income that they're all looking for.

As a result, the upper end of the SME market particularly in those areas, there is an opportunity for SRS to meet a growing demand.

How do these trends tie in with the work SRS is currently doing?

One of the things that appealed to me about SRS in Europe, is that we have a largely blank canvas to create a network that is purpose-built for the demands of today's client. Over the past 18 months or so, we have made significant strides, opening business operations in both Dublin and Malta, but we see enormous potential to grow that network much further. Our goals over the next year or so are to build on the momentum achieved so far, clearly define our business model in a way that better meets client demands and requirements, and expand our resources by bringing in more of the best in the captive industry.

In my view, the European market has actually been a little stagnant in the services that it has provided to captive owners in the past and I think SRS has an opportunity to position itself in a completely different way and provide a genuinely viable alternative.

I don't think there is an existing model that we want to follow, other than following the SRS ethos of exceptional client service, but we want to be more agile and flexible as well as prepared to unbundle our services to clients without any other internal vested interests—that will be the differentiator for us.

What do you see as the main challenges in the European captive space?

Of course, Brexit remains one of the biggest challenges, not just to captive owners and managers, but to business in general. The uncertainty generated over the past few years has made it very difficult for anyone—captive owners and consultants alike—to define their future strategy. At the time of writing, it remains almost impossible to predict the eventual outcome but, whatever shape it takes, there will be challenges to address to ensure that captives remain fit for purpose.

> "It is difficult to say whether we will see total numbers increase over the next 12 months—a lot will depend on what happens with Brexit and the general economic environment"

One of the other challenges in my view is the absence of new talent in the captive industry. If we want to continue to develop and deliver innovative solutions to our clients, we must create an environment where we encourage the brightest young professionals to join our industry I am not convinced that enough is done by the major players to pave the way for emerging talent, a challenge that I fully expect SRS to seek to address as we bring more people into our business here in Europe.

Are you seeing any challenges around regulations?

Everyone is well aware that regulation has heightened in recent years. We have seen the introduction of what now seems to be a long-established regulation in terms of the Organisation for Economic Co-operation and Development's (OECD) base erosion and profit sharing (BEPS) framework, that has caused captive owners to take a greater interest in the management of their captive. In addition, the BEPS initiative—while it was originally welcomed with some degree of concern and trepidation—has been very good for the industry because all it is really asking a captive owner to do is evidence that they are running their captive properly but more importantly they are running it for the right reasons and efficiently. In my opinion, any captive owner should be only too pleased and find it easy to demonstrate that.

We are also seeing a rise in compliance, oversight and governance as well as external scrutiny of captives and to an extent, you could argue that it represents a challenge.

The most important thing for captives, particularly in Europe, and the challenge for us as an industry in Europe, is to continue to identify and meet emerging issues with new solutions. That is how we collectively ensure the future health of the European captive industry. If you look at areas such as ILS solutions, longevity risk and employee benefits too, you can see great examples of how our industry has shown itself to be a catalyst for innovation in responding to the modern demands of captive owners.

What are your predictions for the European captive industry over the next 12 months?

I would expect to see a continuation of the trend of preference for cell solutions over pure captives, which is purely an economic response. If SRS is successful as well as other advisors in opening up captive technology to the upper end of the SME market those lower-cost entry levels of cells will certainly prove beneficial so we will continue to see the interest in cell technology.

It is difficult to say whether we will see total numbers increase over the next 12 months—a lot will depend on what happens with Brexit and the general economic environment. I don't think we will see a significant downturn in the number of captives—if anything I expect modest growth—but that growth may be more evident in the cell environment than the pure captive environment.

We will also start to see more risk managers looking for help in demonstrating the value of their captives to their internal boards and stakeholders far more effectively than before.

The advisory industry has a big role to play in supporting the way in which risk managers are able to put the captive very much at the centre of corporate strategy and helping boards to understand the many areas where a captive can come into play, whether that be in terms of financial efficiencies, greater risk protections, greater self retention of risk or in terms of trying to better coordinate a global risk network. Providing that independent support will be an important role for SRS to play. ■


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To learn more, go to milliman.com/captives or contact us at captives@milliman.com.
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Captives at the wheel

As costs of commercial insurance rise for the transportation sector, captive insurance has become a popular solution

The transportation sector is crucial for the economy as it connects over 7.6 million business establishments with customers, suppliers, and workers. Running a business that involves using any type of transportation can have a lot of financial uncertainty for business. From the unpredictability of oil prices to extreme weather conditions—businesses have to deal with various problems.

Safety is also another concern, according to the 2018 US Department of Transportation statistics annual report, transportation-related accidents claimed 39,032 lives in 2017, and 37,133 of those deaths were due to highway crashes. In addition, 2017 experienced a 16 percent increase in deaths among occupants of large trucks.

A big issue for businesses that rely on using transportation for their goods is the cost of their insurance. Different factors play in the decision of insurance premium prices but currently, the transportation sector is seeing a significant increase in their premium costs.

Lance McNeel, vice president of business development, Capstone Associated, explains that the transportation sector has experienced "sharply increasing rates over the last several years and an ongoing exodus of insurers from the marketplace".

The type of problems facing the transportation sector "are the result of several high-profile losses that have occurred in recent years", according to McNeel.

He says: "Even though insurers have increased rates over the last decade, the overall experience of trucking risks has not been profitable."

Steering into the direction of captives

Captive insurance has come into the spotlight as an answer to deal with the challenges that the regular insurance create.

Norman Ogali, account manager, Atlas Insurance Management, explains that captives are a useful tool for the transportation sector because they "help control overpricing of insurance".

Ogali states: "Premiums are set based on the individual member's loss experience or loss picks. There's predictable pricing whereas traditional insurance is prone to cyclical pricing due to increased frequency and severity of losses."

He explains that those using a captive in the transportation sector "also manage to keep costs down through shared risk management programmes and best practices".

"A unified approach to claims management can also be achieved through the use of specialist third-party claim administrators. It also offers the participants the benefit of sharing in the underwriting profit and investment income during profitable underwriting years through dividend distributions", he says.

Also weighing in and agreeing with Ogali, McNeel states that "captive insurance can provide the much-needed capacity that is being drained from the market as well as a viable alternative to the commercial market".

Using a trucking company as an example, McNeel suggests that it "implemented serious loss control procedures and is comfortable with its loss projections, using a captive as the first line of defence for its risk management programme."

Make and model

Although captive insurance acts as a viable alternative to commercial insurance, not all are suitable to the transportation sector, however, McNeel suggests that there is a wide range of group and agency captive in the market.

McNeel explains that a "single-owner captive can be ideal for the larger transportation companies. A single-owner captive is owned by an affiliated person or company for the purpose of insuring those affiliates, while an agency captive is owned by an insurance brokerage firm or agency for the purpose of participating in the insurance coverage of its clients".

He states: "The coverage can be provided by a large deductible programme with a commercial insurer, whereby the captive issues coverage for deductible reimbursement while the commercial insurer provides coverage above the deductible. As an alternative, a commercial insurer can issue the coverage from the ground up and then reinsure a portion with the captive insurer."

Ogali notes that at Atlas Insurance Management, group captives are mainly homogeneous group captives. He says: "This is where truck operators join resources and form a group captive to provide insurance coverage to their business."

Atlas also offers agency captives, which Ogali explains "controls a large book of business with historically lower loss ratio can form a captive and have the captive provide reinsurance to the fronting carrier".

He explains that the agent, in this case, will retain the benefits of lower loss ratios through sharing of underwriting profits and investment income.

John Talley, captive programme manager of the Missouri Department of Commerce and Insurance, reveals he is currently seeing the formation of pure captives but there is "the potential of forming group and cell captives in this industry".

When looking at the existing captive coverage of the transportation sector, McNeel suggests that there is a wide range of coverage that captive insurers can underwrite but the problem areas for truckers include automobile liability; inland marine; cargo; physical damage; general liability; property; and occupational accident or workers' compensation.

McNeel adds: "These are the transportation risks that have been the source of the poor claims results over the years, especially with automobile liability where fatal collisions have resulted in multi-million-dollar claims."

He explains that in the commercial market, cargo coverages carry exclusions such as jewellery, money, and live animals. When addressing the exclusions, he believes they "could be addressed using tailored coverages written through a captive insurance company, after an in-depth feasibility study is conducted determining if these risks exist inside a business."

Captive planning will "make it easier for transportation coverages to obtain coverage when they are unavailable or too expensive in the commercial marketplace", McNeel adds.

Stop, look and listen

For the transportation sector, Ogali suggested that some of the key factors when looking into captive insurance include, loss experience, operational costs, reinsurance costs, service providers, commitment to safety programmes, and regulatory environment.

Talley adds that there are a wide range of considerations to look at when forming a captive, such as suitability and feasibility of a captive for the company and the total upfront expenditure.

He states that "the feasibility study will necessarily include a review of the company's long-term financial strength and stability; the management teams committed to safety, with solid risk management programmes in place; and a business loss history is better than average for the industry."

"Lastly, but possibly the most important factor is management's long-term commitment to self-insurance or self-financing of their risk", Talley adds.

It's very important for trucking businesses to have strong confidence in its loss control programme and the resulting

manageable claims experience before considering captive insurance, according to McNeel.

He suggests that the costs of a captive programme that includes management fees, consulting fees, and other overlooked management and "this should be compared with the reductions of the overall premium and "greater control over the risk management function that a captive may provide".

Another important point McNeel suggests is the vetting and analysis that needs to be done on the captive management company that will be overseeing the planning.

He highlights that a multidisciplinary team is needed to "support the insurance, tax, legal, and actuarial work that's needed to ensure that the captive remains compliant with tax and regulatory authorities".

Time to accelerate

As the commercial insurance market continues to fluctuate and possibly harden in the near future, Talley expects "to see the trucking industry, as well as other industries, look to alternative methods of financing their risk, including captive insurance companies either single-parent, pure captives or homogeneous group captives".

Meanwhile, Ogali suggests as more firms and individuals become aware of the benefits of a captive solution, the numbers will continue to increase. He says: "The captives provide a flexible option for the industry to mitigate the cyclical premium pricing trends in the traditional market while also improving on their respective risk and safety programmes and sharing of best practices."

The factors causing the shortage of capacity and the associated increase in premiums, according to McNeel "will continue to plague the transportation industry, which will force transportation firms to seek alternatives to the commercial market".

He expects that all forms of captive insurance will continue to be "a viable option" to meet the needs of the transportation sector.

McNeel notes that advancements in technology will have a part to play in the future as well. He states: "The fact that new technologies such as advanced in-cab camera systems, electronic logging devices and collision mitigation technology will lower the incidence in serious claims and greatly assist in defending truckers after the collision makes captive insurance more attractive over the next several years."

He concludes: "As loss experience continues to improve from these technology aids, the commercial insurance industry will be slow to respond since rates and underwriting guidelines are derived from past experience.

Captive insurers covering affiliated truckers or trucking clients can respond much more quickly to the introduction of new technology." ■

Erin Hackett
Senior audit manager
Crowe

Personal Bio: I'm a native Vermonter, but I've also lived in Boston and still love visiting the city. I'm an avid runner and love to run in the early morning when I can enjoy how peaceful and quiet everything is around me. When I'm not running, I'm spending time with family.

Professional Bio: I attended Saint Michaels College in Vermont for my undergraduate degree where I double majored in accounting and business administration. Upon graduation, I joined a large regional accounting firm in Boston and gained experience auditing many industries. After three years, I was looking to try working in the private industry and joined a large investment firm in its financial reporting department. The experience I was fortunate enough to gain both in the public accounting and private industry has given me the opportunity to see many perspectives of a problem or discussion.

How did you end up in the captive industry?

After spending five years working for a public accounting firm and private investment management firm in Boston, I made the decision to relocate back to Vermont. In looking for my next career opportunity in Vermont, I was exposed to the vibrant captive insurance industry.

I made the decision to join Saslow, Lufkin & Buggy (SLB), a boutique public accounting firm specialising in captive insurance. Shortly after joining SLB, the firm combined with Crowe LLP giving our insurance practice the unique ability to specialise in this niche industry and benefit from large firm resources.

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

I'm not sure I can pick one highlight from my time in the captive industry, but when I think about the most memorable moments since joining the industry, it is always the times I'm connecting with other professionals.

Whether within my own firm, connecting with clients regarding accounting issues, or meeting professionals at industry events, I'm always thankful to be working in an industry where everyone is engaged by the work they're doing and willing to share their knowledge and story.

What or who have been your influences in the captive industry?

I've worked very closely with Glenn Saslow, one of the co-founders of SLB. He's extremely generous with his time and helped me as I entered the industry to explain the complexities and nuances of the specific type of work we are engaged to complete. Seeing first hand the long-lasting relationships he's built and his attention to having up-front conversations with clients has been very influential to me.

What is your impression of the industry?

I find the industry to be unique in that as an auditor, I'm not only building a relationship with my client but also with the other service providers and regulators. There is a very collaborative and innovative feeling that I've not experienced before.

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

To never stop learning and growing as a professional. As I mentioned, the industry feels very collaborative and innovative and if I continue to participate in the industry, I think the learning process will also continue, which can only benefit my career and the clients that I work with. I want to provide the highest quality of service to my clients and I can only do that if I continue to learn.

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

You'll truly get out of the industry exactly what you put in. If you take the time to get to know the people that make up this close-knit community of professional service providers and captive owners, they'll take the time to share their knowledge and experiences which are extremely valuable. ■

"Erin's dedication to providing our clients with exceptional service and her commitment to developing our team members exemplifies her proactive leadership. She consistently exceeds expectations and serves as a role model within Crowe in expanding our captive practice. Erin's commitment to the captive industry is also evident in her volunteerism within the industry and the community. We look forward to supporting her as she continues to advance her career and enhance the captive community"

Joe Pieksza
Insurance audit partner, Crowe

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The latest moves in the captive industry

Aon Risk Solutions has confirmed Andrew Christie will be relocating to Arizona to start his new role as head of captive operations.

Starting on 1 October, Christie will report to Ward Ching, managing director, the western region at Aon Risk Services. Christie currently works as a senior consultant at Aon, based in New York.

He specialises in captive insurance company feasibility studies and utilisation studies, including insurance programme design, captive domicile and financial projection analysis.

In 2018, Christie was awarded the Vermont Captive Insurance Association (VCIA) scholarship for the International Centre for Captive Insurance Education (ICCIE) programme. ■

Risk Strategies has named president John Mina as the firm's new CEO, succeeding Michael Christian.

Blight, who is also a member of the commission's board after being appointed last year, has more than 30 years of experience in the financial services industry having served as CEO at Credit Suisse Gibraltar.

This appointment comes after the current CEO Samantha Barrass—whose second term as CEO ends August 2020—announced she is returning to the UK to pursue the next stage of her career. In a statement, the GFSC said: "The commission's board and staff look forward to welcoming and working with Blight in his new role." ■

Jeff Marchino has joined BevCap Management as executive vice president, based in McKinney, Texas.

With more than 25 years of experience in employee benefits, Marchino's background in health insurance will further enhance BevCap capabilities. Marchino joins BevCap from Holmes Murphy & Associates, where for two years he advised clients on their employee benefits programmes. Prior to Holmes Murphy, Marchino was a sales director at Aetna for 22 years.

Commenting on his new position, Marchino said: "My passion for helping people reach their optimal health can be traced back to my pre-professional career. Whether it was from my playing days in college at Northwestern or coaching my kids in youth sports, I've always enjoyed helping others reach their potential."

He added: "Today, helping employers understand their health risks and do something about it is very rewarding." ■

Todd Jones has been appointed as CEO of QBE North America, based in New York.

Jones, who has 25 years of insurance and financial services experience, takes on the new role from Russell Johnston, who stepped down in September after holding the position for over three years.

Prior to joining QBE, Jones worked in multiple senior-level positions in Willis Towers Watson, most recently the head of global corporate risk and broking and the co-leader of North America. ■