



## Banana Skins poll ranks regulation as top concern for the insurance industry

The greatest risk currently facing the insurance industry comes from new regulations that are being introduced at international and local levels, according to a recent survey that ranks insurance sector risk.

The Centre for the Study of Financial Innovation's latest Insurance Banana Skins survey, conducted in association with PwC, shows that new rules governing issues such as solvency and market conduct could swamp the industry with costs and compliance problems.

The survey polled more than 600 insurance practitioners and industry observers in 54 countries to find out where they see the greatest risks coming from over the next two to three years.

Regulatory risk emerged as a clear leader in many major markets, including North America, Europe, and Asia.

The EU's Solvency II Directive—now in its seventh year of planning—was the focus of strongest concern, particularly since many non-EU countries are awaiting the outcome before they finalise plans of their own.

David Lascelles, survey editor, said: "It is ironic that the industry's greatest risks are seen to come from regulation, which is intended to reduce risk, at a time when operating and underwriting conditions are also very hard."

"It is no surprise that these pressures are reflected in rising concern about the ability of management to handle them."

David Law, global insurance leader at PwC, added: "Once again regulation is the number one risk. The fragile economic environment and subdued investment performance also remain high on the list of concerns. Managing these challenges is clearly a critical boardroom priority."

[readmore p2](#)

## Advantage appoints GSO as exclusive portfolio advisor

Advantage Insurance Holdings has selected GSO Capital Partners to serve as the firm's exclusive portfolio advisor.

GSO—the credit investment affiliate of The Blackstone Group—will be responsible for deploying the capital and surplus of Advantage's licensed insurance subsidiaries into secured bank loans, collateralised loan obligations and other corporate credit investments.

The Advantage portfolios will be managed by GSO's London-based affiliate, GSO Capital Partners International.

Walter Keenan, the newly appointed president and CEO of Advantage, said: "We are extremely pleased that GSO has partnered with Advantage to deliver GSO's loan investing expertise to the growing market for customised insurance products."

[readmore p2](#)

## High court approves R&Q move

The High Court of England and Wales has approved the scheme of arrangement between Randall & Quilter Investment Holdings to redomicile its holding company from the UK to Bermuda.

Pursuant to the scheme, 70,966,335 old R&Q shares have been cancelled, and trading of the shares ceased at 8am on 5 July.

Scheme shareholders have received one new R&Q share of two pence each for every one old R&Q share held by them.

Old R&Q has been re-registered as a private company limited by shares and is now wholly owned by the new Bermuda-based holding company.



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## Banana Skins poll ranks regulation as top concern

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“But there’s a risk that by solely focusing on these recurring issues insurers could miss other threats and opportunities coming up over the horizon. The industry faces transformational shifts in technology and customer expectations, which are reshaping how insurance is sold, how risk is priced and even what we mean by insurance.”

Arthur Wightman, insurance leader of PwC in Bermuda said, that the captive sector is no exception to the regulatory woes of insurance CEOs around the world.

“Whereas regulatory development is occurring at different speeds in domiciles and markets around the world, we see global harmonisation of regulation as being an inevitability in the medium to long-term. In the world’s leading domicile for captives, Bermuda, significant progress has been made towards achieving Solvency II equivalence in a proportionate and risk-based fashion.”

“And while concerns had initially been expressed about there being a significant increase in the cost of doing business for a captive company as a result, in reality the framework that exists today is largely accepted as being ultimately fit for purpose in a Solvency II environment. As a result, captives in Bermuda can enjoy a competitive advantage now and in the future as the wave of harmonisation washes into other domiciles that have not yet sought to accomplish regulatory compliance to a global standard.”

## Advantage appoints GSO as exclusive portfolio advisor

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“With our new GSO partnership, Advantage’s clients and shareholders will benefit from the

access GSO provides to senior secured, floating-rate loans and collateralised loan obligations that have historically been held by banks and large institutional investors.”

Dan Smith, senior managing director of GSO, added: “The GSO team is excited about applying our credit investing skills to Advantage’s insurance-related investments, and we look forward to a long and productive partnership with Keenan and the Advantage team.”

## SIIA pushes for TRIA extension

The Self-Insurance Institute of America has increased its lobbying efforts to push for passage of federal legislation to reauthorise the Terrorism Risk Insurance Act (TRIA).

HR 508 would extend the federal/private sector partnership by five years to ensure the continued accessibility of affordable terrorism coverage.

The bill is currently pending in the House Financial Services Committee.

The legislation is relevant as many corporations with significant real property holdings utilise captive insurance companies for terrorism related risks.

If the law is not extended by congress, these ‘TRIA captives’ will no longer be viable alternative risk transfer vehicles.

TRIA—first passed in 2002 and extended in 2005 and 2007—was enacted to address the disruption in the terrorism insurance market, caused by the terrorist attacks of 9/11.

Over the past few weeks, SIIA lobbyists have met with key members of congress on the House Financial Services Committee to discuss the legislation and educate them about TRIA captives to dispel the perception that this legislation only benefits the commercial insurance industry.

As a result of these meetings, the SIIA has

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learned that many in congress are reluctant to support the reauthorisation, primarily due to increased skepticism of the federal government and its role in the private insurance marketplace.

While many lawmakers are unwilling to consider the impact of TRIA's expiration, members from both parties have told SIIA that they are willing to extend the programme to ensure terrorism coverage does not become too costly or unavailable. Insiders confirmed that industry stakeholders will need to pressure committee and party leadership to understand the costs of the programme expiring.

### DC says no to medical stop-loss captives

Washington DC is not in favour of medical stop-loss captives, according to Dana Sheppard, associate commissioner of the District of Columbia Department of Insurance, Securities & Banking (DISB).

In a recent interview with the Captive Insurance Council of the District of Columbia, Sheppard explained that the District of Columbia fully supports the policy objectives of the Accountable Care Act, and that the city is working to establish its healthcare exchange.

But despite the support the DISB has decided that, due in part to its relatively small size, all individual and small group products must be sold on the exchange.

"Regarding medical stop-loss captives, Washington DC is not in favour of allowing small employers located in DC to self-insure their health care risks, including the establishment of medical stop loss captives, if their motivation for doing so would result in removing young and healthy persons out of the exchange, and leaving older less healthy employees in the exchange. We believe this will turn the district's exchange into a high risk pool, a result the district would obviously wish to avoid," said Sheppard.

### A.M. Best rates Cayman cell captive

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and issuer credit rating of "a" of Eastern Re. The outlook for both ratings is stable.

The ratings recognise Eastern Re's affiliation with its holding company, Eastern Insurance Holdings, and the member companies that comprise the Eastern Alliance Insurance Group, its profitable operating results and its stand-alone capitalisation.

"These positive rating factors are partially offset by Eastern Re's exclusive reliance on Eastern Insurance Holdings and Eastern Alliance Insurance Group for the production of all its business, as well as the mono-line orientation of Eastern Re, which primarily acts as a workers' compensation reinsurer," said the rating firm in a recent statement.

Eastern Re is a segregated portfolio company or cell captive. Its general cell is a wholly owned subsidiary of Eastern Insurance Holdings, which also indirectly owns Eastern Alliance Insurance Group, and all these workers compensation insurance companies produce business through regional agents.

The insurance companies provide both fronting capabilities and reinsurance protection to Eastern Re.

Factors that could result in either an upgrading or a downgrading of Eastern Re's ratings include a change in the overall risk profile of Eastern Alliance Insurance Group as well as a change in the consolidated capital strength of the segregated cells.

### ACE expands critical catastrophe limits in US

ACE Group has increased its critical catastrophe

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The capacity will be offered through ACE's network of property businesses that includes customised fronting and captive solutions.

"ACE has a long history in the property business delivering sophisticated risk transfer and multinational fronting capabilities with proven claims performance. We are pleased to offer more meaningful property capacity to our distribution partners and clients," said John Lupica, chairman of Insurance for North America.

"Since consolidating the structure of our property businesses in 2009, we have been able to distribute capacity where our clients need it most. With this increase, clients will further benefit from ACE's ability to coordinate capacity across our retail and excess and surplus lines businesses in North America."

### DTA between Hong Kong and Jersey gets the go ahead

The ratification of a double taxation agreement (DTA) between Jersey and Hong Kong has

been welcomed by Jersey Finance, expanding its growing business in the Far East.

The DTA—originally signed in February 2012—was formally introduced into law on 28 June this year following the completion of all relevant regulatory and legislative procedures in both jurisdictions.

Geoff Cook, chief executive of Jersey Finance, said: "The benefits of this DTA right across Jersey's wealth management, expat banking and corporate service areas are significant."

"This DTA will add greatly to the reasons for investors and institutions in Hong Kong to have confidence in and choose Jersey as their preferred European financial centre to invest in Western markets."

### Downward pricing to continue, says Guy Carpenter

Guy Carpenter & Company reports that reinsurance market rates on line continue to be driven by an influx of capital from third party investors at the 1 July renewals, despite catastrophe losses reaching approximately \$20 billion during the first six months of 2013.

In a recent briefing, Guy Carpenter said that

robust catastrophe bond, sidecar and collateralised reinsurance activity throughout the year has for the first time pushed pricing in the capital markets to "decouple" from levels set by the traditional market.

This has in turn prompted downward pressure on overall traditional market pricing.

According to the report, convergence capital now accounts for an estimated \$45 billion of the global property catastrophe limit, or approximately 14 percent of the market.

The amount of excess capital in the market helped mitigate the impact of catastrophe losses resulting from severe tornado activity in the US and floods in parts of Europe, India and Canada during Q2 2013.

David Flandro, global head of business intelligence at Guy Carpenter, said: "At 1 July, we saw continued significant decreases in US property catastrophe programme pricing. Although the impact of convergence was less dramatic elsewhere, general downward pressure on rates was observed for property business in several other regions and across some casualty lines."

"Without further significant catastrophe losses in the remainder of 2013, we expect that this downward pricing trend will likely continue

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through the remainder of the year and into the 1 January, 2014 renewals.”

Lara Mowery, global head of property specialty at Guy Carpenter, explained that for the third consecutive year, the firm has seen a significant shift in market conditions during the second half of the renewal season.

“This behaviour is contrary to the market’s historical precedent, as the factors that typically impact the mid-year renewals are normally driven by those already present in January.”

“As seen in this year’s July renewals, the excess capital in the market, and more importantly, the behavior of that capital, has encouraged a dramatic shift that triggered downward pricing in the traditional market in order to remain competitive.”

### Low P&C rates cause reinsurers to take defensive action

Reinsurers are taking robust defensive measures to maintain market positions recently eroded by new capital markets entrants, according to Willis Re’s 1 July renewal report.

The report, entitled Supply Chases Demand, found that despite the impact of the \$30 billion Superstorm Sandy loss, the key battleground is in US property catastrophe where capital markets have been most active so far.

John Cavanagh, global CEO of Willis Re, said: “Traditional reinsurers’ defensive actions include offering price reductions, larger line sizes and, in some cases, broadening of cover by offering options such as multi-year agreements, extended hours clauses and additional reinstatements.”

“Capacity for aggregate cover is also more widely available. As most programmes are well over-placed, buyers are facing the challenge of signing down reinsurers’ shares.”

The offering from collateralised markets has also continued to evolve, offering primary buyers increasingly flexible cover and minimising their basis risk.

Peter Hearn, chairman of Willis Re, commented: “The trend for traditional reinsurers to set up sidecar-type structures, providing third-party capital access to the risk they are accepting, continues to expand. Similarly, the catastrophe bond market continues to grow rapidly and is on track to surpass the previous record high issuance in 2007 of \$7.2 billion. With the strong inflow of new funds, the challenge for insurance linked securities (ILS) fund managers is how to source enough demand to satisfy investor demand for ILS products.”

The report found that this is proving challenging, as growth in the US catastrophe market remains modest, despite the increasing competitiveness of price as compared to traditional reinsurance products.

### First protected cell captive established in Jersey

Vantage Limited has formed the first protected cell captive insurance company in Jersey, Black Pearl Insurance 1 PC.

This is the first cell of an insurance protected cell company to receive regulatory approval from the Jersey Financial Services Commission.

The captive is a cell of Vantage’s own in-house protected cell company, Black Pearl

Insurance (Jersey) PCC. It has been set up for the Polygon Group and will act as a captive insurance company for some of its professional indemnity and directors and officers’ risks.

Richard Packman, managing director of Vantage Limited, commented: “We are delighted to have been appointed to establish and manage Jersey’s first insurance protected cell.”

“Protected cell companies have been widely used by the other financial service sectors in Jersey since the legislation was passed in 2006. This is an exciting development for ourselves and indeed Jersey’s insurance business as a whole and is the first of what I hope will be numerous other captive insurance cells set up here.”

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## The Bahamas is back on the map

Peter Strauss, managing member of the Strauss Law Firm, recently claimed that the Bahamas has “risen from captive insurance extinction”.

Speaking at an industry briefing in the Bahamas hosted by the Insurance Commission and Bahamas Financial Services Board, Strauss said: “The main message was really about awareness, and the fact that the captive industry in the Bahamas is alive and well, vibrant you might say, and close—if not already ready—to compete on a global stage and be a pre-eminent jurisdiction for captive business.”

“It can be as big as they want it to be. If you get good support from the business community, and as long as the regulations are appropriate and the laws competitive with those in other jurisdictions, I don’t see any reason why the Bahamas can’t keep on growing at the rate it is.”

Martin Eveleigh, chairman of Atlas Insurance Management, explained that there has been a huge change in the Bahamas.

“Recently, the public and private sectors have co-operated, largely co-ordinated through

the Bahamas Financial Services Board, with the result that new legislation was introduced in 2009.

The new captive insurance legislation was welcome and helped to persuade us that we should be forming captives in the Bahamas again.”

“It was very difficult at one time (2002-2003) to get anything done and the key really has been the change in the regulatory structure by forming the Insurance Commission of the Bahamas.”

Eveleigh said that when Atlas Insurance Management first began to do business in the Bahamas applications had to be approved by not only the regulator but also the minister, which slowed the process down tremendously, to the point where it became impossible.

Another reason that change came around so slowly, said Eveleigh, is that everything was tied in with passing the domestic insurance legislation rather than the captive insurance legislation, which had many aspects that were regarded as somewhat controversial.

“We now enjoy a cordial, open and productive relationship with the staff at the Insurance Commission of the Bahamas, who are showing an ever increasing understanding of captives.”

“To date, the focus has been on micro captives taking the 831(b) election, but we are ready to form larger captives in the Bahamas, which, after all does have a sophisticated, proven financial services infrastructure and excellent professional service providers.”

## A.M. Best withdraws RRG ratings following termination

A.M. Best has withdrawn the financial strength rating (FSR) of “B++ (Good)” and issuer credit rating (ICR) of “bbb” of Healthcare Safety & Protection Risk Retention Group (HSPRRG) following its dissolution.

HSPRRG was affiliated with NORCAL Mutual Insurance Company which has an FSR of “A (Excellent)” and ICR of “a”.

The rating action reflects the dissolution of HSPRRG as of 30 June 2013, documented with ‘Articles of Dissolution’ filed with the secretary of state of the state of South Carolina and approved by the South Carolina Department of Insurance.

Under the filings, NORCAL arranged all services necessary to effectuate the termination of HSPRRG’s business, operations and its corporate existence.

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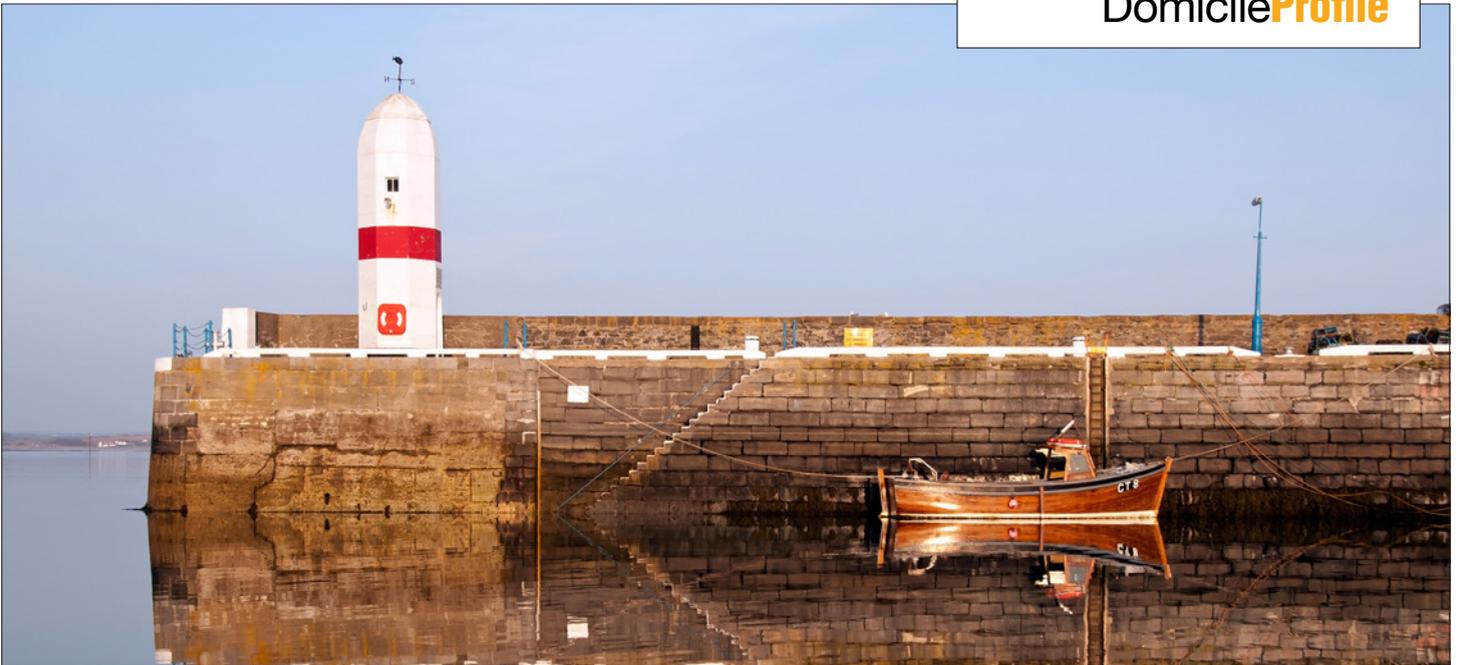
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## International flavour

Popular in South Africa and an offshore domicile of choice for UK captives, the Isle of Man has something to offer the industry, as CIT finds out

### JENNA JONES REPORTS

The Isle of Man—situated in the Irish Sea between the islands of Great Britain and Ireland—launched itself as an international insurance centre in 1980, and as it currently stands there are 225 licensed entities located on the island.

Isle of Man Captive Association chair Gaynor Brough explains that captives domiciled on the island tend to be very international in flavour, with parent companies spanning 25 different countries including Australia, Japan and Singapore.

“Naturally, given our proximity to the UK, the Isle of Man has always been and will continue to be the offshore domicile of choice for UK parented captives,” adds Brough.

Interestingly, the Isle of Man is also the largest captive domicile for South African business outside of onshore South Africa, with historical ties that Brough claims date as far back as the 1880s.

She says: “The Isle of Man has for many years proved to be a good home for South African owned captives/insurers ... Approximately 10 percent of the Isle of Man’s population is South African and the island is well known as an attractive location for South African companies to conduct business.”

“There is no particular industry dominance in terms of South African companies with captive insurance companies domiciled in the Isle of Man and any homogeneity is borne from the fact that they are large South African corporates with a global footprint.”

Claire McCormick, director at PricewaterhouseCoopers (PwC), explains that PwC sees a wide range of industries represented in the Isle of Man including manufacturing, engineering, construction, automotive, aviation, health-care and retail.

“These captives themselves insure a diverse range of risks from property and business interruption, through professional indemnity and product recall to environmental risks ... The majority, but by no means all, of the Isle of Man captives are a part of a group with a UK presence.”

Simon Phillips, head of captive insurance, wealth and investment management at Barclays, states that the firm has now been involved in the captive insurance market for more than 10 years.

According to Phillips, Barclays provide transactional banking, letters of credit, and investments and trusts to assist captive insurers with their fronting insurance arrangements and the day-to-day banking requirements of their captive.

Phillips says: “The Isle of Man is a key jurisdiction for Barclays Wealth and Investment Management. We’ve got a substantial business there that is home to a large proportion of our captive insurance team. We also service Bermuda and the Cayman Islands from the Isle of Man, so it is a very important hub for us.”

### A (work) force to be reckoned with

While Brough feels that the insurance legislation in jurisdictions such as the Isle of Man and

Guernsey is very similar, the Isle of Man differentiates itself from its competitors with its strong and stable workforce.

Brough says: “Unlike many of our competitors which suffer from a highly transient workforce, the Isle of Man operates a pragmatic work permit system and this supports the attraction and retention of insurance/finance professionals.”

“Our top quality and stable workforce translates into an uninterrupted and unrivalled client service model, which is highly valued by our clients and ensures that the island has a strong reputation and is preeminent in managing large and complex captives.”

McCormick highlights that the island has also established a regulatory code that is specific for insurers. She explains that the Isle of Man regulator, the Insurance and Pensions Authority (IPA), strives to be accessible to its customers by allowing groups to enter into bespoke discussions to ensure that individual circumstances can be reflected in the capital requirements.

“Regulatory development in the Isle of Man continues to be closely aligned with the insurance core principles as laid down by the International Association of Insurance Supervisors—widely seen as an international gold standard for insurance supervision.”

“The IPA has created a regulatory framework for captive insurance that is tailored to the nature, scale and complexity of insurance operations, while maintaining sufficient supervision to protect policy-

holder interests and the reputation of the island.”

McCormick also adds that as the Isle of Man is outside the European economic area (EEA), insurers based there would not be required to comply with the provisions of Solvency II when they come into force.

Phillips also supports the Isle of Man’s regulatory system, explaining that the island’s robust legislation is very attractive to clients.

“[The Isle of Man] has a well-established infrastructure in terms of captive managers, accountants, lawyers and banks that can help to provide support services for captives based there.”

“It is [also] a very stable jurisdiction, with a well-established legal framework, with a history of a stable political environment ... the combination of all these factors produces a very high quality product, that is attractive to captive owners.”

## Economically speaking

According to Brough, outside of the government the insurance industry is the largest employer on the island.

“Unlike other captive domiciles, the Isle of Man has dedicated insurance supervisor who

has extensive industry and regulatory experience and this signifies the importance of the sector. The Isle of Man government is committed to support the insurance industry and invest in marketing and ensuring that the island remains a friendly but responsible place to do business.”

McCormick explains that the captive insurance industry in the Isle of Man is very well developed, with an annual growth rate in the last 10 years averaging 7.7 percent and 36 percent of its gross domestic product from the finance sector. Making the island a suitable destination for PwC clients.

She says: “A flexible but established and internationally regarded regulatory regime is often cited as the reason for domiciling in the Isle of Man. The low headline corporate tax rate is also attractive to [clients], as is the relative speed (usually less than three months) of setting up and licensing an insurance operation.”

“Practical aspects, such as ease of access from much of Western Europe and an established financial services industry with a strong talent base are also important.”

And while the Isle of Man’s economy certainly benefits from the insurance industry, Brough understands that no one captive domicile will fit all. “If one has extensive operations in the EU, then

the Isle of Man may not be attractive as it is unable to issue policies directly into most EU countries. However, saying that there is increasingly different considerations as the uncertainty surrounding Solvency II and increased costs associated with this are proving to be stimulating more enquiries in captive domiciles such as the Isle of Man.”

Phillips adds that there is “increasing competition out there from a jurisdictional perspective but there are still things that the Isle of Man can, and is, doing to promote itself”.

According to McCormick, one of the island’s biggest drawbacks is that it is not in the EEA, therefore a UK company with an Isle of Man captive cannot benefit from the new UK controlled foreign company rules in quite the same way as a group with a captive in a EEA could.

“Some expect that when Solvency II is implemented, EEA-based entities seeking business with other insurers or reinsurers not within the zone may face additional restrictions or risk higher capital requirements; this could make it more costly to reinsure onwards from the Isle of Man.”

“Whilst not unique to Isle of Man, organisations operating in low-tax environments may face additional scrutiny from stakeholders including regulators, fiscal authorities, employees and customers.” **CIT**

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# Revival of the fittest

Aliya Allen of the Bahamas Financial Services Board tells CIT how the country has managed to put itself back on the captive map

## JENNA JONES REPORTS

### What can the Bahamas offer that other captive domiciles may lack?

Importantly for the support of the captive industry in the Bahamas is our highly experienced and diversified asset and wealth management industry. We have developed a reputation as a leader in these areas, which has helped us recognise the synergies with the insurance market. There are any number of jurisdictions that have similar positive attributes, but few of them will have all of the combined advantages that we do as a long established international financial services centre. At the bedrock is the fact that our government and the private sector work hand-in-hand together. This is echoed throughout our industry to ensure that the environment is one that is business friendly and highly skilled.

### Lawyer Peter Strauss recently stated that the Bahamas has managed to market itself better to the outside world. How has it done this?

The level and intensity of the interaction between the private and public sector has been a fundamental factor in enabling us to tell a very compelling story about the advantages of the Bahamas as an attractive location for captive business. This partnership is the basis of the modern and compliant regulatory regime that we have in place and the market responsive insurance legislation that exists in the Bahamas. These factors combined with our experience and expertise in other areas of international financial services allows us to position and speak confidently about the benefits and advantages of the Bahamas as a location for captives and other insurance related business.

### Other than marketing, how else has the Bahamas managed to re-establish itself as a captive insurance domicile?

When we started over 80 years ago as a destination for capital investment, we really followed the coming of the winter residents in the Bahamas. Since that time, we have grown in depth and expertise as an industry. We are no longer a destination for capital or money. We are a place for real and substantive businesses. We are a place where you can follow your money, and ground your business. We are a place where you can invest from the Bahamas and manage your businesses all around the world.

The captive insurance market is a case in point. We have worked hard to ensure that the legislative and regulatory environment awaiting new arrivals is proactive and recognises the business needs of entities.

We have minimum capital requirements, which are competitive with other jurisdictions. We encourage our potential licensees to work through an insurance manager who is familiar with the Bahamas, but we are quite flexible. With potential licensees we always make it a priority to ascertain that they have the necessary expertise required to run the business and have an assessment of their feasibility of how they would operate if they were to be licensed. The Insurance Commission of the Bahamas (ICB) carries out due diligence on risk managers and directors of the companies interested in coming here, so we can confirm that the policy holders have adequate protection.

### Why do you believe that cell captives have become so popular in the Bahamas?

There are clear advantages to choosing the Bahamas as a domicile, including stability, location and accessibility, attractive capital requirements and banking infrastructure. Our cell legislation also is very attractive, providing robust statutory protection to ensure that the assets and liabilities of each account are truly considerate separate and distinct. Further, cell captives benefit from the natural economies of scale created within such structures and our regulatory regime is a clear response to the demand for cost effective means of entering into captive or self insurance for small to medium sized enterprises while satisfying international standards.

In addition, and just as important as the previous factors mentioned, the government of the Bahamas has affirmed in the clearest possible terms a strong desire and willingness to maintain the necessary framework which will ensure that the Bahamas is an attractive business centre for insurance.

### Has the country noticed a decline in business due to US firms moving back onshore?

The main challenge in 2013, as it has been in the past few years, will be the general soft conditions in global markets as this has impacted the growth of the industry in general. As more

locations throw their weight into the captive sector, it is vital that we have efficiency and flexibility on our part to respond to the changing market demands. From our perspective there are still a lot of people looking for alternative domiciles since diversifying risk remains as important as ever, and that also means diversifying captive domiciles that host the captive setup of a parent company. There is the opportunity for international mid-market companies and also for domestic companies and professional associations to consider alternative risk solutions. The Bahamas is a very attractive choice for this type of business.

### Strauss also commented on the renewed interest in captives. What were the causes of the lull in business before the expansion?

As noted above, international financial services has been an integral part of the business culture in the country for more than 80 years. Over that period we have seen the bedrocks of our financial services industry—private banking and trust services and more recently asset management services—grow in size, stature and significance.

This has not diverted our attention from other areas of international financial services since, by example, the Bahamas has always had market friendly insurance legislation in place. The difference now is the legislative changes in recent years have consolidated the jurisdiction's approach to the insurance sector and provided a stronger, more dynamic platform for insurance business. **CIT**



**Aliya Allen**  
CEO and executive director  
The Bahamas Financial Services Board



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# Onshore captive domiciles: contemplating competition

The new kids on the block have a job on their hands if they are going to attract the right type and level of business, says Phillip Giles of Artex Risk Solutions



During the past few months, several states have either passed or enacted new captive insurance legislation. Ten years ago, there were only four states (Arizona, Hawaii, South Carolina, and Vermont) that could be counted as onshore domiciles. With the recent legislation enactments in Florida, North Carolina, and Texas, the number of states serving as domiciles currently stands at approximately 37.

Domicile establishment has quickly become one of the most competitive segments within the alternative risk industry. Domicile selection has always been one of the most important aspects of captive formation.

So, what do these new domiciles need to do in order to competitively differentiate themselves from others in order to attract captive business? What do captive owners need to evaluate (in addition to the traditional considerations) when choosing an onshore domicile?

Below are a few observations:

- First and foremost, the state needs to equip itself with regulators having significant captive expertise—this will help determine its initial qualitative competitiveness as a domicile.
- Passing 'innovative' legislation is one thing; the next Rubicon to cross is maintaining unwavering consistency in the approval, enforcement, and ongoing management processes. The regulatory staff needs to separate itself, or at least be equivalent with, the other top domiciles in terms of expertise, accessibility, flexibility, consistency, and communication ability.
- What will the overarching 'attitude' of the captive regulators be as compared to that

of other insurance regulators within the state? In a very competitive industry segment, captive regulators will need to exhibit a significant pro-business approach to approval and regulation. How will this approach be perceived and received by the other insurance regulators that may consider themselves as having a more discerning regulatory approach?

- Each new domicile will need to formulate a well-constructed marketing and promotion plan. This starts with the development of a sound value proposition. The value proposition is derived from the mission statement and will serve as the 'operational compass' for market positioning and conducting business. The value proposition will need to convey the true market differentiators (also known as competitive advantages) of the state in comparison to other domiciles.
- How many captives will the state need to legitimise itself as a top domicile? The actual number of captives needs to be quantified in terms of revenue: 100 micro captives will not produce the same revenue as 100 large (more traditional) single-parent or group captives. What is needed to establish and support the necessary infrastructure?
- Domicile characteristics: some domiciles (Kentucky and Utah) are perceived as micro captive havens while others (Hawaii and Vermont) have traditionally been viewed as domiciles for larger captives. Captives will have a desire to choose a domicile, favoured by other captives having similar business characteristics, with regulators having familiarity with their industry type, lines of business within the captive, and size of their captive.

## If you build it, they won't always come

Long-term vision and business continuity for the domicile is important. Whether it's a new formation or a redomiciling of an offshore captive, there is now an overabundance of onshore choices.

As domicile competition increases, it will become more difficult for states to position themselves to attract their desired mix of business.

The biggest hurdles for many new domiciles will be attracting the right regulatory expertise from a relatively small, and possibly diluted, talent pool, developing a solid value proposition and an aggressive marketing plan, and establishing unwavering regulatory continuity and consistency. **CIT**



**Phillip Giles**  
Division vice president—marketing  
Artex Risk Solutions

# *The British Virgin Islands*

The British Virgin Islands' (BVI) legislation provides for the formation and regulation of captive insurers. The application process is seamless; once the established criteria for the issue of a licence has been met a licence to carry on insurance business from within the BVI is issued. Local Insurance Managers provide the necessary expertise.

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## Industry appointments

Brown Smith Wallace has appointed **Darrick Fulton** as an insurance advisory services manager.

Fulton will use his 17 years of financial and operational audit experience to evaluate corporate risks and design risk-management strategies to serve the firm's insurance clients.

Prior to joining Brown Smith Wallace, Fulton served as a senior internal auditor for RGA Insurance Company, where he performed operational client compliance in addition to leading audits at RGA office and client locations around the world.

Hiscox Re has appointed four new members to its underwriting team who will join CEO, Jeremy Pinchin on the management team.

Hiscox Re is the firm's newly combined reinsurance business that operates from London, Paris and Bermuda.

**Damien Smith** has been appointed director of non-marine underwriting for Bermuda. He will also retain his role as director of underwriting for Hiscox Bermuda.

**Mike Krefta** has been named director of non-marine underwriting for London. He will also be head of North American underwriting and will chair client strategy for the firm's larger North American partner clients.

**Ben Love** will become head of client and broker strategy, managing broker and client strategies and operating models. He will also chair client strategy for global clients and continue to manage quota share relationships.

Finally, **Michael Jedraszak** has been appointed director of insurance linked securities (ILS), overseeing Hiscox's strategy and planning around ILS.

Bronek Masojada said: "These appointments are an important step on our journey to consolidate and then grow our reinsurance operations, which have been a mainstay of the group for many years."

Advantage Insurance Holdings has made a number of key changes to its executive faculty including **Walter Keenan** being named president and CEO of the firm.

Keenan has served as a consultant to Advantage since July 2012. From 2006 to 2011, he was director and then executive chairman of Medicus Insurance Holdings.

In addition, company founder **Ian Kilpatrick** has been appointed as vice chair of Advantage's board of directors. He will also continue to manage the firm's US subsidiaries.

**Fiona Moseley**, executive vice president of

Advantage, has been named COO and will continue to have responsibility for the firm's Cayman Islands business.

Finally, **Simon Kilpatrick** was named as senior vice president of business insurance and Stuart Jessop has taken on the additional management responsibilities in addition to his duties as chief financial officer.

Kilpatrick said: "We are all very pleased to have Keenan join Advantage to lead its ambitious growth plan."

"I am confident that Keenan's leadership will be of great help to Moseley and the Advantage team in achieving our goal of becoming the premier company in private placement life insurance and captive management services."

Commenting on his new appointment, Keenan said: "I am honoured that [Advantage] have asked me to become CEO, and I look forward to helping Advantage capitalise on the exciting growth opportunities we have identified over the past year."

The New Jersey Captive Insurance Association has appointed **Sheila Small** as its executive director.

Previously Small spent 21 years in risk management at Verizon, during which she was responsible for captive operations.

While president of Verizon's captive insurance company, the captive grew to be one of the largest in premium written in the US.

Willis Group Holdings has appointed **Todd Jones** as CEO of Willis North America, the company's largest business segment.

Jones will report to group CEO, Dominic Casserley, and will represent Willis North America on the Willis Group operating committee.

Vic Krauze, who joined Willis in 1997, has served as chairman and CEO of Willis North America since 2010 and will retain his current role as chairman.

Krauze will work closely with Jones in his new leadership position to strengthen and grow the business segment.

Prior to joining Willis, Jones held various leadership roles in the insurance brokerage industry.

Before entering the brokerage industry, Jones was a financial analyst and corporate banker for First Union National Bank, focusing on the telecommunications and healthcare industries.

Casserley said: "Jones is ideally suited to lead Willis North America at this stage of the business unit's growth, bringing to his position 10

years of increasingly prominent roles at our firm and having worked alongside Krauze as their unit established itself firmly as a market leader in North America."

Commenting on his appointment, Jones said: "Willis has been my home for the most rewarding 10 years of my career, and I look forward to working with Casserley, Krauze and my many fellow associates at Willis, to continue to serve our clients in the US, Canada and Mexico."

"While I have had a front row seat for some of the most challenging economic conditions that our industry has faced, I know that in the years ahead our clients will need our advice and solutions more than ever in an increasingly risky and interconnected world."

"We will bring the best resources of Willis from around the world to meet our clients' needs in North America." **CIT**

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