



Record 2014 for cat bonds, says GC Securities

The final quarter of 2014 saw a flurry of activity that resulted in full year 144A property and casualty catastrophe bond issuance exceeding \$8 billion—an industry record, according to a GC Securities briefing.

This followed one of the slowest Q3s to date for 144A property and casualty catastrophe bond issuance.

Total risk capital outstanding as of 31 December 2014 totalled \$22.87 billion, the highest level of outstanding risk capital the market has ever supported.

GC Securities stated that it expects repeat and new sponsors to continue to utilise the insurance-linked securities (ILS) market in 2015.

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Industry praises Guernsey regulators at masterclass

Panellists at a Guernsey funds technical masterclass in London praised the jurisdiction for its “progressive nature” in tackling international regulatory developments.

Delegates were told that Guernsey’s response to initiatives such as the Alternative Investment Fund Managers Directive (AIFMD), Markets in Financial Instruments Directive (MiFID) II, the Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) had set it apart from many of its competitor jurisdictions.

Dominic Wheatley, chief executive of Guernsey Finance, said: “It was great to hear that Guernsey’s approach to FATCA and CRS has struck a chord with international practitioners.”

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Spencer Capital to acquire USA Risk

Spencer Capital Holdings, a global investment firm, has agreed to acquire USA Risk Group for an undisclosed sum.

The transaction is subject to customary closing requirements and regulatory approval, and is expected to close during Q1 2015.

USA Risk currently serves more than 300 clients, holding \$9 billion in assets under management.

According to Spencer Capital, its financial and operational support will provide USA Risk with the opportunity to “grow and expand its client capabilities while maintaining its longstanding autonomy”.

Spencer Re, a reinsurance subsidiary of Spencer Capital, and USA Risk are expected to both benefit from cross-selling opportunities.

“USA Risk’s unparalleled reputation and leadership position in the captive industry is a welcomed addition to Spencer Capital Holdings as we seek to assemble a robust platform of leading and value-driven companies in the insurance and financial services industries,” said Ken Stein, chairman of Spencer Capital.

Lincoln Miller, group chairman of USA Risk, added: “We have been approached by many suitors over the years, but until we met the team at Spencer Capital, we did not view a transaction as being in the best interests of our customers and employees.”

“Stein and his team embody the same ethos we instill in our employees and we share the same long-term interests for growing USA Risk.”

“This also allows us to maintain our long-held philosophy of independence from conflicts of broker-owned managers.”

[readmore p2](#)

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Spencer Capital to acquire USA Risk

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Once the transaction closes, USA Risk will keep its name and continue to operate as it has done for than 30 years. Miller will join the board of directors of Spencer Capital and Gary Osborne, currently president of USA Risk, will join the board of directors of Spencer Re.

As well as its base in Vermont, USA Risk has established member companies in 10 additional locations, servicing 20 captive domiciles, inside and outside the US market.

It most recently set up shop in Texas, where it will operate under the name Lone Star Captive Management.

Record 2014 for cat bonds, says GC Securities

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"Sponsors took advantage of strong investor demand as more than 70 percent of deals coming to market in 2014 settled at greater notional value than initially expected," said Cory Anger, global head of ILS structuring at GC Securities.

In Q4 alone, of the six new deals that came to market, four closed at higher notional limits.

Eighty-one percent of the property and casualty risk capital (based only on 144A catastrophe bond transactions) was structured with an indemnity trigger on either a per-occurrence, annual aggregate or multi-year aggregate basis.

The use of indemnity triggers increased steadily from a low of 30 percent in 2011 to 55 percent in 2013.

In addition to 144A property and casualty transactions, Q4 2014 was an active quarter for the private catastrophe bond market.

According to GC Securities, as of 31 December 2014, approximately \$561.5 million of limit was transferred to the capital markets via 17 transactions.

These figures represent a 210 percent increase in the notional amount of limit placed year-over-year, and a 183 percent increase in the number of transactions year-over-year.

A notable transaction in Q4 2014 was the \$75.69 million Regulation S placement of notes through Kaith Re to benefit Gebäudeversicherung Bern (GVB) and provide protection against Swiss natural peril.

This particular transaction was unique because it was the first-ever Swiss franc-denominated catastrophe bond.

GC Securities predicts that the market will continue to see more innovative catastrophe bonds issued in 2015, with structural features on a larger scale that may include non-modelled natural perils such as meteorite impact, wildfire and volcanic eruption.

The firm also claimed that man-made perils (including terrorism), longer duration bonds (greater than five years), and increased usage of ILS by corporate sponsors will all be present in 2015.

Industry praises Guernsey regulators

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"Our approach to these issues follows our established pattern of clarity and transparency of purpose allied with excellence and pragmatism in execution. This helps everyone know exactly where we stand and makes implementation as smooth as possible for the industry."

Wheatley continued: "Similarly, it was encouraging to hear from the panellists how efficiently our dual regulatory regime in response to AIFMD is working."

"The Guernsey model maintains access to the EU, but also offers a non-AIFMD product for non-EU investors who don't like the cost and compliance burden associated with AIFMD."

Guernsey continues to liaise with the European Securities and Markets Authority regarding third country provisions and the expected introduction of full passporting for non-EU managers in respect of AIFMD.

The event took place at the British Museum on 28 January and attracted nearly 250 delegates.

The UK experts were Steve Darrington, partner and CFO at Phoenix Equity; Debbie Anthony, tax partner at Deloitte; and Kate Downey, partner at Kirkland & Ellis.

The Guernsey-based panellists were Grant Cameron, managing director at Investec, and Emma Bailey, director of the investment supervision and policy division at the Guernsey Financial Services Commission (GFSC). Barney Lee, partner at Mourant Ozannes, moderated the debate.

One of the audience members, partner at CMS Cathy Pitt, commented: "Hearing what everyone is doing was useful and it's no surprise that the jurisdictions that have made private placement relatively easy are still getting access to a lot of funds. Hearing 'war stories' on FATCA is always really helpful."

Iain Katimbo, financial controller at Valiance, said the panel achieved a good balance with the speakers, making the discussion very relevant.

Latest news

Plans are afoot in Gibraltar to rationalise more than 80 different pieces of current legislation and multiple guidance notes into one act and a single accompanying regulatory handbook

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Latest news

The state of Oklahoma issued 37 new captive licences in 2014, bringing its total to 47 in just two years

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Latest news

Hawaii licensed 15 new captive insurers in 2014, according to the state's insurance commissioner

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Domicile update

With year-end results season in full swing, it is always interesting when one of the established domiciles is able to come up with a surprise. In Bermuda it seems, 2014 was most definitely the year of ILS

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People moves

There were changes at JLT Insurance Management, Lockton, Liberty Specialty Markets and Willis China

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"We, from a manager point of view, have a number of different aspects touching us."

"It was good to get a diversity as to what to expect as well as experience of what's happening at the moment. This forum was useful and I'd like to see more regular access to these kinds of comments," he said.

The event was hosted by Guernsey Finance in conjunction with the Guernsey Investment Fund Association, while the sponsors were BNP Paribas Securities Services and Carey Group.

Guernsey Finance is also hosting the free to attend thought leadership event, ILS Insight London, at the British Museum in London on 18 March and its annual Funds Forum on 14 May.

Cigna purchases QANI

Cigna has entered into an agreement to purchase New Jersey-based QualCare Alliance Networks (QANI).

The agreement combines Cigna's portfolio of health-related products and services with QANI's expertise and capabilities in working with hospital systems.

The transaction is expected to close during Q1 2015, following customary regulatory approvals.

The alliance has stated that it will continue to offer its full suite of existing products and services and will continue to be led by Annette Catino, QANI's founder and CEO.

QANI was founded in 1993 to serve as the parent organisation to: Qual-Lynx, a managed care provider and multi-state third party administrator for property, casualty and workers' compensation; QualCare Captive Insurance Company, the first sponsored cell captive insurance structure approved by the captive division in New Jersey; and QualCare Management Resources, which provides management and financial services to regulated insurance programmes.

Headquartered in New Jersey, QANI serves approximately 200,000 customers in self-funded health plans and has more than 900,000 customer relationships, including network access arrangements for workers' compensation and other products.

JLT relaunches CTM practice

JLT Specialty has relaunched its global communications, technology and media (CTM) practice, with Sam Tiltman appointed as head of practice.

Tiltman has been at JLT Specialty for six years, spending the last three and a half working in the global CTM practice in various positions, most recently as deputy head.

In this time Tiltman has focused heavily on CTM industry research and development, advanced consulting projects for clients and project-managed numerous major CTM practice projects ranging from multiline multi-year insurance programme deals and structured risk finance solutions through to advanced product development and risk landscape consulting.

The appointment reflects JLT Specialty's continued commitment to the CTM sector as one of its key specialisms, with the practice providing global support on industry strategy across the JLT international network and with key global insurers.

The team will continue to provide research and development, events, benchmarking information and product development for its global client base, in addition to JLT's core insurance broking and risk management offerings.

These will be focused on issues such as industry convergence, increasing risk complexity and integration, the further transformation from tangible to intangible risks as well as the continued distortion of geographic and legal boundaries, according to JLT.

Tiltman said: "I am delighted to lead JLT's global CTM team working within this highly dynamic and exciting industry sector."

"Our mission is to build upon the leading client-focused approach we have developed over the past 10 years, collaborating across the JLT International Network to deliver superior industry-driven advice and innovative solutions for our clients."

Positive response for Feldman's captive check-up

The Feldman Law Firm has revealed a "positive response" to its Captive Health Checkup programme, launched in late 2014.

The check-up consists of a team of lawyers and insurance professionals examining all aspects of a client's existing captive programme.

The tax and corporate lawyers, who have carried out more than 175 captive projects since 1998, undertake an in-depth examination as to the status of a client captive from the federal, state, and excise tax vantage points, as well as compliance with insurance regulatory requirements.

In 2014, Feldman lawyers were successful in winning the dismissal of three tax court captive insurance controversies that had lingered for upwards of four years.

Feldman is the affiliated law firm of Capstone Associated Services, which has

gained experience operating in 10 different domiciles, both in the US and abroad.

Gibraltar begins regulatory overhaul

Gibraltar's Financial Services Commission (FSC), along with the domicile's government, has initiated plans to rationalise more than 80 different pieces of current legislation and multiple FSC guidance notes into one act and a single accompanying regulatory handbook.

The joint initiative, dubbed the Legislative Reform Programme, has been undertaken in order to deliver a streamlined legislative and regulatory framework for financial and professional services in Gibraltar.

Within the proposal paper, the FSC stated that the reforms will affect multiple entities, including insurance companies and managers.

The handbook will provide guidelines on conduct specific to insurance mediation, giving investment advice, acting as an insolvency practitioner, and acting as an auditor.

According to the FSC, the legislative reform is further projected to ensure that the legislation relating to financial and related professional services is "easier to understand" and "more navigable for practitioners".

"We recognise the significance for financial and professional services firms and we are keen to work with practitioners to develop a regime that is fit for purpose for the Gibraltar market."

The commission has confirmed that it will be conducting "extensive" consultation on the legislative changes and will provide regular updates on the progress of the Legislative Reform Programme.

Bumper sophomore year for Oklahoma

The state of Oklahoma issued 37 new captive licences in 2014, bringing its total to 47 in just two years.

Oklahoma has licensed pure, association, sponsored, and special purpose captives, and is also able to license branch and industrial captives under the state's modernised insurance laws.

"Oklahoma is now an extremely competitive domicile with a straightforward and efficient captive formation process," said insurance commissioner John Doak.

"My staff and I are committed to making Oklahoma the domicile of choice through modernised laws and regulations, business-friendly requirements and forms, and fast, responsive service to our industry."

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Incentives for captives in Oklahoma include low tax rates and fees, potential tax advantages over other risk transfer methods, and what the Oklahoma Insurance Department has called a "supportive" regulatory environment.

James Mills, director of the captive insurance division at the insurance department, said that he is encouraged that the Oklahoma Captive Insurance Association has been formed by the industry in response to the state's "modernised regulatory approach".

He commented: "It is very promising to see the industry respond so favourably to the work we are doing."

"I look forward to working with them to continue Oklahoma's success as a captive domicile."

Hawaii maintains solid growth in new formations

Hawaii licensed 15 new captive insurers in 2014, according to the state's insurance commissioner, Gordon Ito.

Hawaii's captive insurance division has also confirmed that it continues to see solid growth and interest in captives from the US and Asia Pacific region.

Hawaii is ranked fourth in the US for largest

captive domiciles and 11th in the world based on total number of active captive licences.

In the fiscal year 2013 to 2014, Hawaii's captive insurers wrote more than \$2.85 billion in premium volume and generated more than \$20 million in economic benefits to Hawaii through various taxes and fees, professional services, annual conferences and visitor industry businesses.

Since Hawaii's captive legislation was enacted in May 1986, almost 300 captive insurers have been licensed.

Over the past five years, there has been continued growth with an increase in the total combined asset base from \$7.22 billion to \$15.66 billion.

Demotech retained by ARTSSI

Demotech has been retained by Alternative Risk Transfer Statistical Solutions (ARTSSI), a statistical reporting entity, to address the needs of captive insurance providers and alternative risk transfer entities, including risk retention groups.

According to Joseph Petrelli, president of Demotech: "Quite often, captive insurers, risk retention groups, and other alternative risk transfer entities do not retain, evaluate

or submit unit statistical data to a statistical reporting organisation."

Demotech will administer ARTSSI to assist captives, including 831(b)s, risk retention groups, self-funded insurance entities, mutual protective associations, public liability insurance pools, and other specialty insurers.

By independently collecting and compiling premium, loss and risk management information in policy or claim level detail, under the direction of anti-trust counsel, ARTSSI will enable specialty insurers, their managers, actuaries and other service providers to review and analyse credible premium and loss information that is specific to the insurer's operations.

Subscribers to ARTSSI will be positioned to use the data of similar specialty carriers focused on the same niches, rather than relying on the industry averages which are dominated by a small number of larger carriers.

ARTSSI has been approved as an advisory organisation in Arizona, Delaware, Kentucky, Nevada, Ohio, South Carolina, Tennessee, Utah and Vermont.

Applications are pending with a number of other state insurance departments, according to Demotech.

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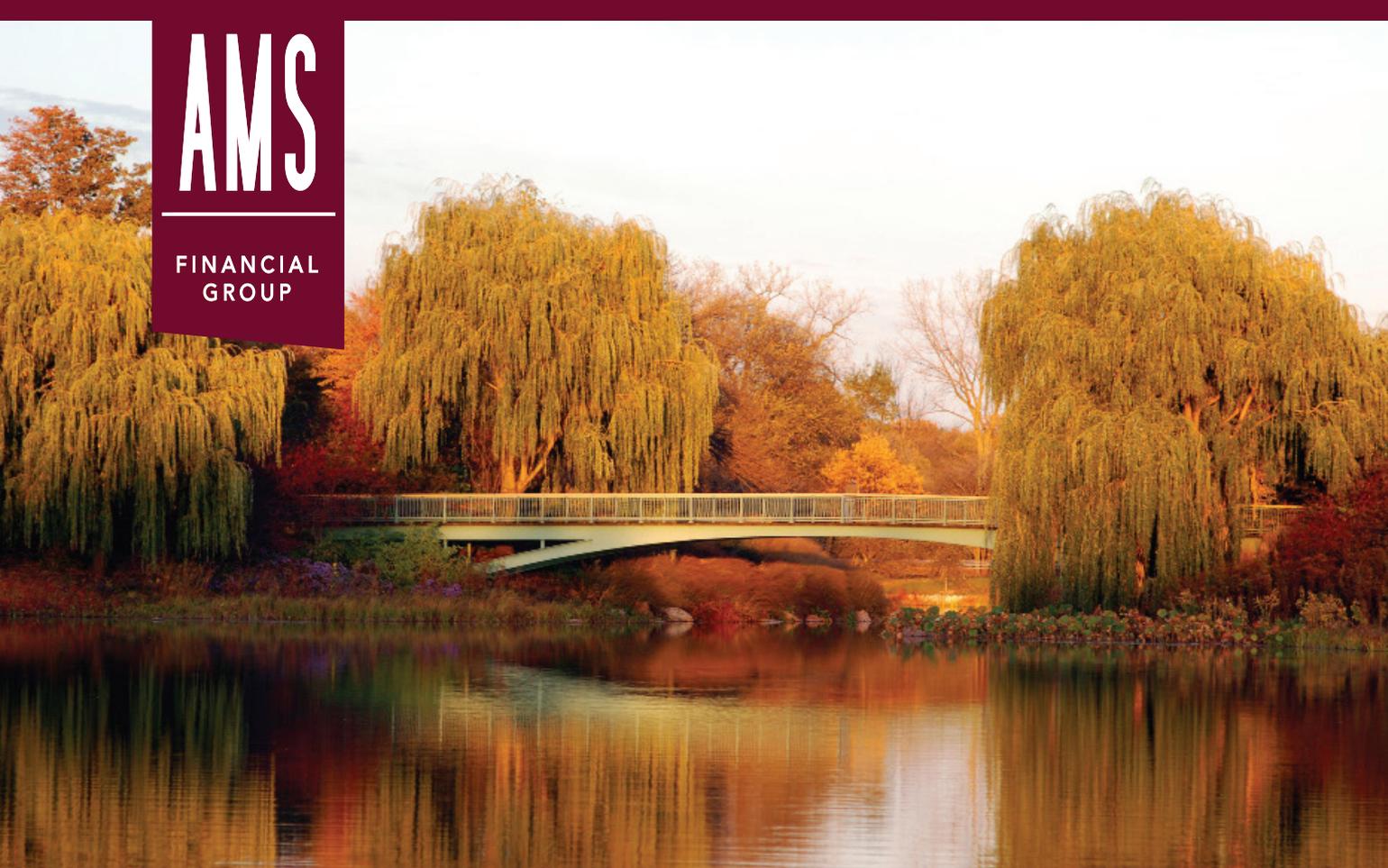


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The logo for AMS Financial Group, featuring the letters 'AMS' in a large, white, serif font on a dark red background. Below the letters, the words 'FINANCIAL GROUP' are written in a smaller, white, sans-serif font, stacked on two lines.

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A scenic photograph of a river with a bridge and weeping willow trees. The trees are in autumn, with yellow and orange leaves. The bridge is a simple, light-colored structure with a railing. The water is calm, reflecting the trees and the sky.

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The year of the insurance-linked security

With year-end results season in full swing, it is always interesting when one of the more established domiciles is able to come up with a surprise. In Bermuda it seems 2014 was most definitely the year of the ILS

STEPHEN DURHAM REPORTS

As one of the leading domiciles for alternative risk transfer outside of the US, Bermuda has become somewhat accustomed to posting positive end-of-year results. Although 2014 carried on this tradition of success, much of the headlines were stolen by the apparent rush for insurance-linked securities (ILS). During the year in question, Bermuda was

the domicile of choice for 57 percent of ILS transactions conducted worldwide.

From a standing start in 2009, the island's ILS sector has grown exponentially, with nearly \$16 billion listed on the Bermuda Stock Exchange (BSX) at the end of 2014. With the value of ILS reaching record levels in 2014,

BSX president and CEO Greg Wojciechowski claims that a number of other jurisdictions are now trying to win more market share. As a result, Bermuda faces strong competition from newcomers such as Malta, Gibraltar and Puerto Rico, as well as from the more established players such as the Cayman Islands, Guernsey and Dublin.

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Wojciechowski says that the record level of ILS listings on the BSX in 2014 underscored the island's position as the premier jurisdiction in the world for the setup, listing and support of ILS structures. In total, the BSX saw a 5 percent increase in its ILS listings from 77 in 2013 to 118 in 2014. Meanwhile, the value of these securities grew to \$15.91 billion from \$9.71 billion from the same period in 2013.

"Bermuda has proven time and again to be an innovative environment that encourages the growth of all forms of ILS—from cat bonds to sidecars and collateralised reinsurance vehicles," says Wojciechowski.

In October 2009, the Bermuda Monetary Authority (BMA) amended existing insurance legislation and brought in new standards for insurers, making the setup of special purpose vehicles a more straightforward process.

Brad Adderley, partner at Appleby in Bermuda, comments: "The regulatory framework and the operational infrastructure in Bermuda offers institutional investors a level of comfort that no other jurisdiction can provide. The island's deep experience and longevity in supporting the ILS sector has contributed to Bermuda becoming a centre of excellence and the jurisdiction of choice for the ILS market."

According to Aon Benfield Securities, \$8.03 billion of property catastrophe bonds were issued in 2014—the highest ever figure in the history of the sector. In addition, there has been a record amount of collateralised reinsurance capacity put to work (reaching \$36.2 billion by 30 June 2014), which was up approximately 23 percent from the \$29.4 billion seen a year earlier.

By 31 December 2014, there was a total of 762 securities listed on the BSX. Included in the new listings in 2014 were several additional variable rate notes and programmes from Alamo Re, Azora Re, Citrus Re, Gator Re, Golden State Re II, Kilimanjaro Re, Kizuna Re II and URSA Re.

"Maintaining liquidity in the ILS sector is hugely important to sustaining this growth, and in this regard the BSX has since 2009 been very helpful," adds Paul Schultz, the CEO of Aon Benfield Securities.

"The listing of catastrophe bonds on the BSX has become an efficient, well regulated process, and the exchange has proved itself in being able to house the expertise necessary to satisfy the demands of both our clients and ILS investors."

Aside from the record annual issuance, 2014 has witnessed several further records being established in the ILS sector, according to Aon. This includes a record Q2 issuance total of \$4.5 billion across 12 catastrophe bond transactions, a record H1 issuance total of \$5.9 billion, and a record value of catastrophe

bonds on-risk—which stood at \$22.7 billion as of 30 November 2014.

The year also saw a new record established across other forms of collateralised reinsurance capital. As of the end of June 2014, collateralised reinsurance capacity, excluding catastrophe bonds, had reached a record \$36.2 billion, compared to \$29.4 billion in 2013 and just \$7.7 billion in 2009.

“ The listing of catastrophe bonds on the BSX has become an efficient, well regulated process, and the exchange has proved itself in being able to house the expertise necessary to satisfy the demands of both our clients and ILS investors ”

Schultz claims that that 2014 has been characterised by "more than just largesse".

"We have taken positive steps to expand the scope of the ILS offering by structuring innovative deals to address new perils, new territories, and new currencies, as well as making ILS solutions more accessible to smaller firms and those companies wanting to structure smaller transactions."

"Our outlook for the ILS sector for 2015 remains highly positive, and we anticipate

that the capital inflows and strong pipeline of opportunities seen in 2014 to continue."

Bermuda will host its third ILS Bermuda Convergence event in 2015, which brings together leaders from the alternative reinsurance, convergence and the ILS marketplace.

As well as the lucrative new frontiers that Bermuda has explored in the past year, the BMA also registered 89 new insurance entities in 2014, made up of 65 new insurers and 24 new intermediaries.

Shelby Weldon, director of licensing and authorisations, states: "The most significant area of growth in 2014 was in our long-term (life) sector, with four new Class E insurers, five Class C insurers, and one Class A insurer establishing in Bermuda during the year. This compares to six long-term registrants in 2013—three Class C insurers, two Class B insurers and one Class A insurer."

Class E licence holders are the largest of Bermuda's long-term insurers, each required to have total assets of more than \$500 million. The new Class E insurers commenced business with more than \$2 billion of assets.

"An influencing factor in the growth of our long-term sector was the National Association of Insurance Commissioners granting conditional qualified jurisdiction status to Bermuda in December 2013," Weldon continues. This status allows reinsurers from a particular domicile to reinsure US risk on a non-discriminatory basis and benefit from reduced collateral requirements. In December 2014, the NAIC granted Bermuda full qualified jurisdiction status, which became effective on 1 January.

In addition to the 10 long-term insurers, 16 new captives, 11 new commercial insurers writing general business and 28 special purpose insurers registered during 2014.

Both captive and commercial registrations remained moderate during 2014, according to Weldon, a though the BMA has granted approval to an additional 22 captive and commercial insurers—which the authority anticipates will formally register in Q1 2015.

In terms of the beneficial ownership of the new insurers, the US was the most significant jurisdiction, with Bermuda and Europe second and third, respectively. Two new insurers from Latin America and two captives from Canada were also among the new registrants in 2014.

Weldon says: "The 2014 registration activity continues to demonstrate Bermuda's global position as a leading alternative risk transfer marketplace. We remain the global leader in both captives and ILS and our international reinsurance sector remains one of the world's top reinsurance markets." **CIT**



Industry Events

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Industry appointments

JLT Insurance Management (JLTIM) has announced a raft of senior management changes.

Kilian Whelan, CEO of JLTIM, is leaving the group to pursue other interests, while executive chairman of the JLTIM group, **Steve Arrowsmith**, is to assume the role of CEO.

Arrowsmith has over 16 years of insurance, accounting and management experience in both the Bermuda and London insurance markets. He qualified as an accountant with Coopers & Lybrand London, specialising in the insurance industry.

Upon relocating to Bermuda, Arrowsmith joined International Risk Management (Bermuda) where he held a senior management position providing client management and accounting services to over 70 captives and other insurance and reinsurance companies.

Elsewhere, **Richard Daley** will ascend from the position of partner and vice president to become president of JLTIM Bermuda.

Daley has been at JLTIM since April 2006 following a move from Aon Insurance Managers (Bermuda), where he served as assistant vice president.

Melissa O'Sullivan will become executive vice president of JLTIM Bermuda and CFO of the JLTIM group. The appointments are subject to regulatory approval in Bermuda.

JLTIM's parent, the Jardine Lloyd Thompson Group, has also made senior appointment changes in its UK employee benefits business and JLT Asia, affecting the roles of **Mark Wood**, **Duncan Howorth**, **Dominic Samengo-Turner**, **Ian Robinson** and **Warren Downey**.

Wood is retiring from his role as CEO of JLT's UK employee benefits business and will be leaving the group at the end of May.

Howorth is returning to the UK after spending two years as CEO of JLT Asia, to take up the same position in JLT's UK employee benefits business, to become effective on 1 June.

He will continue in his role as the international chairman of employee benefits.

Samengo-Turner will join JLT Asia as CEO, starting on 1 May. He previously served at Willis, most recently as co-chief executive of global specialities and as director of Willis Limited.

Robinson, currently COO of JLT Asia, is joining Thistle Insurance Services as COO, on 1 July.

Downey, who is currently CEO of JLT Specialty's regional risk practice and trading division, has been promoted to deputy CEO and COO of JLT Asia, effective on 1 May and 1 July, respectively.



Lockton has promoted **Chip Monozzi** to executive vice president and leader of its Boston office.

He will also join the executive committee of the firm's northeast operations.

Monozzi joined Lockton as a founding member of the Boston operation and has worked in risk management and commercial insurance for more than 30 years.

His expertise includes development of captive insurance companies, alternative risk finance, and collateral funding alternatives.

He has held a number of senior positions at major brokerage houses in Boston and elsewhere in the US.

Tim Ryan, COO of Lockton's operations in the northeast of the US, commented: "Monozzi is a proven leader and played a critical role in our success when we entered the Boston market."

Liberty Specialty Markets (LSM) has appointed **Elizabeth Fullerton-Rome** to the newly created role of chief risk officer.

Fullerton-Rome will report to Nick Metcalf, president and managing director, and will take

responsibility for the firm's risk management and compliance functions and will sit on LSM's executive committee.

She brings 21 years of experience of the London and Lloyd's insurance markets, and previously served as the compliance officer on the managing agency board of directors.

Metcalf said: "Fullerton-Rome will ensure this will continue to be achieved as our business grows. She has a strong reputation in the London insurance market."

"Her appointment will provide tangible enhancements to our executive committee's analytical and strategic oversight of risk management."

Willis Group Holdings has made a series of internal promotions and moves to strengthen the Willis China leadership team.

Mitchell Ma has been appointed as chairman of Willis China. He has been CEO of Willis China since it was founded in 2004.

As chairman, Ma will focus on the growth and development of the business towards its goal to become the largest risk adviser and insurance broker in China. **CIT**