



### Online applications open for Utah captive insurers

The Utah Captive Insurance Division is now accepting online applications from prospective captive owners.

The new captive insurer application process will provide access to a simple, secure environment where applicants can digitally submit applications for new insurance companies.

Dave Snowball, captive insurance director for Utah, commented: "Our new captive insurer application gives applicants step-by-step directions to the required online forms, which makes the process quick and easy."

"The new application also lets you upload 'non-fillable' forms to our highly secure server, which encrypts the file upon upload."

[readmore p2](#)

### South Africa considers reinsurance amendments

The South African Financial Services Board (FSB) has proposed updates to alter the regulatory framework under which reinsurance business will be carried out in the country in the future, according to law firm Clyde & Co.

The FSB plans to allow foreign reinsurers to operate in South Africa through a branch, as long as their home jurisdictions have equivalent regulatory frameworks.

Regulatory tweaks such as an adjustment to the credit rating of locally registered reinsurers, as well as prohibitions on fronting and soliciting business in South Africa on a cross-border basis, have also been proposed.

[readmore p2](#)

## US Congress plans to raise 831(b) election premium limit to \$2.2 million

An amendment has been introduced into US Congress that proposes increasing the premium limit of the 831(b) election from \$1.2 million to \$2.2 million.

The amendment to a Senate-proposed change to HR 34, introduced in the House of Representatives by Kevin Brady, would increase the premium limit and mean that a greater number of small insurance companies, including micro captives, would only pay income tax on their investment income.

According to the amendment, dubbed the Tax Increase Prevention and Real Estate Investment Act, to ensure that the 831(b) election is not abused, no more than 20 percent of net written

premiums for a tax year would be attributable to any one policyholder.

The amendment also states that alternatively, a company would be eligible for the exception if each owner of the insured business or assets has no greater an interest in the insurer than he or she has in the business or assets, and each owner holds no smaller an interest in the business than his or her interest in the insurer.

It would also eliminate the ability of small insurance companies to meet the tax tests for risk distribution through risk pooling arrangements.

The provisions would be effective for tax years beginning after 2015.

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## Online applications open for Utah captive insurers

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As the process is new, it will not be compulsory until 1 April 2016, although the Utah Captive Insurance Division is encouraging applicants to use it during the testing period so the transition is smooth.

Snowball added: "Utah's captive insurance division is committed to being an aggressive captive insurance domicile that looks for strategies to be convenient and simple in the ways it works with owners and providers."

"Utah will continue to look for ways to improve systems and procedures to provide the best service possible."

## South Africa considers reinsurance amendments

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According to Ernie Van der Vyver, partner, and Johann Spies, senior associate, both of Clyde & Co: "[The proposals] reflect a substantial deviation by the FSB from its previous proposals, which included assumed downward credit rating adjustments in respect of foreign reinsurance supplied on a cross-border basis, branches of foreign reinsurers and Lloyd's, and a prohibition on reinsurers conducting composite business, both proposals which appear to have been abandoned."

"While the FSB has yet to propose draft regulations for public comment encapsulating the amendments to the reinsurance framework, it would appear that the proposals are crystallising."

## Louisiana court backs LRRRA over Direct Action Statute

The Louisiana Supreme Court has refused to hear a case against risk retention group Allied Professionals Insurance Company (APIC), leaving the lower court's favourable decision intact.

A Louisiana court of appeal ruled earlier this year that the Direct Action Statute, a state law that allows a third-party to sue an insurance company, would pre-empt the federal Liability Risk Retention Act (LRRRA).

Plaintiff Ronald Courville brought the case against his chiropractor, Thomas Rathmann, and named his insurance company, APIC, under Louisiana's Direct Action Statute.

APIC moved for arbitration under the Federal Arbitration Act and the LRRRA, which the court of appeal eventually backed.

The court of appeal also followed a 2014 decision in New York state court, which held in

favour of APIC that New York's Direct Action Statute couldn't pre-empt the LRRRA.

APIC chairman and general counsel Mike Schroeder commented: "This case follows a series of favourable decisions so far overruling direct action statutes and anti-arbitration statutes."

"When certain state laws unfavourably attempt to regulate the business of insurance for risk retention groups, those statutes are pre-empted by the federal law, as demonstrated by this and other recent decisions."

The Louisiana and New York rulings will help in another case concerning pre-emption of the LRRRA, according to Joe Deems, executive director of the NRRA, which has been intervening in the litigation.

"We are also hopeful that this will inspire a similar result in our other pending petition in Ziegler & Inspeq Services v the Housing Authority of New Orleans, where CPA Mutual Insurance, a risk retention group, named as the liability insurance carrier for one of the defendants, was similarly dismissed by the trial court on almost identical issues to those of Courville v APIC and Rathman."

## Aon Benfield develops new French flood model

Aon Benfield Impact Forecasting has developed a French flood scenario model.

The model, developed in conjunction with reinsurer SCOR, will help to better understand and prepare for the potential cost of a flood affecting the country's major cities.

Since 1980, France has annually averaged more than \$500 million in economic losses from floods, ranking the second-costliest peril after windstorm.

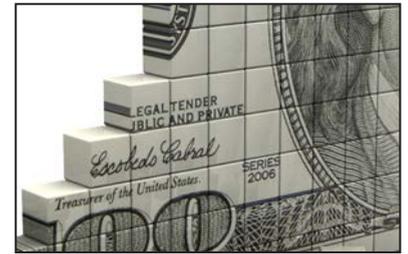
In addition, simulations from the model show that a reoccurrence of historical flood events, such as Paris and Lyon, might cause significant flood losses today.

The new model quantifies losses for historical and hypothetical flood scenarios for the cities of Paris, Lyon and Toulouse to help SCOR and Aon Benfield clients enhance their view of catastrophe risk in these high exposure areas.

The first step of the model development was the collaboration between SCOR, Impact Forecasting and Aon Benfield's Paris team.

Data from and analyses of historical records, along with recent studies, were incorporated into the model to reflect current hydrological conditions and potential flood risks.

"The key component for success was the detailed discussions with SCOR throughout the



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model development process and the flexibility of our elements loss calculation platform to incorporate critical elements such as the latest modelled flows, flood extent shapes and vulnerability functions,” explained Petr Puncchar, head of flood model development at Aon Benfield Impact Forecasting.

## Guernsey Finance expands in Hong Kong

Guernsey Finance will open a representative office in Hong Kong early next year.

The office will be the promotional agency's second overseas outpost, in addition to its Shanghai office, which opened in 2008.

Wendy Weng, Guernsey Finance's China representative, who is based in Shanghai, will use the office as a base to carry out further promotional activities on the wider Southeast Asia market.

In addition, it will also be utilised by the Guernsey Financial Services Commission (GFSC) to provide regulatory advice to those in the region who might be considering Guernsey-specific ventures.

Dominic Wheatley, chief executive of Guernsey Finance, commented: “The Hong Kong office is an exciting development not only for Guernsey Finance, but also the Island's financial services sector which has a growing interest in the region.”

“We believe that establishing a larger presence in Asia reflects current industry trends and is fundamental to our future strategy, particularly as Hong Kong is such an important hub not only for China, but Southeast Asia overall.”

“Full details of the events will be announced in due course, but it is important for those in the South Asia market to be aware that the office will be ‘open for business’ before then, most likely by the end of January.”

The office will become operational during Q1 2016, with a launch event scheduled to take place in Hong Kong during the first week of March, according to Guernsey Finance.

Guernsey's commerce and employment minister, Kevin Stewart, commented: “We are delighted that Guernsey Finance will have a physical presence in Hong Kong which, in conjunction with the Shanghai office, will assist [Guernsey's] finance sector in the promotion of its services in the region and reflects the priorities set out in the government's finance sector strategy.”

## Not enough SMEs worry about cyber, says Zurich

The number of small and medium-sized enterprises (SMEs) concerned about cyber

crime has doubled in two years, according to a Zurich survey, although the figure is still relatively small.

The survey, which polled 3,000 executives and managers at SMEs across 15 countries in Europe, the Middle East, Africa, the Americas and the Asia Pacific, showed that the number of SMEs concerned about cyber crime increased to 8 percent from the 4 percent seen in 2013.

From a list of nine potential consequences of cyber crime, 28 percent of SMEs globally rated the theft of customer data as the most critical. In addition, 16 percent of SMEs ranked damage to reputation following a cyber attack.

One in six, 17 percent, of SMEs still consider themselves to be too insignificant to attract the attention of cyber criminals. Zurich believes that hackers are not only looking at the size of the potential gain, but also at the ease of committing the crime.

Lori Bailey, global head of special lines at Zurich, commented: “The results of this year's SME survey, as well as the Advisen Cyber Survey findings, reveal that demand for cyber insurance is growing significantly around the globe. However, there is still a misconception among some SMEs that they will not be affected by this pervasive issue.”

Zurich also recently released the results of its fifth annual Advisen Cyber Survey of US-based risk managers, which revealed a growing interest in increased limits and security breach response plans and showed that greater attention is being paid to emerging risks from new technology.

## CICA reveals line up for 2016 international conference

The Captive Insurance Companies Association (CICA) has revealed the line up for the CICA 2016 International Conference.

The 6 to 8 March conference will be held at the Westin Keirland Resort in Scottsdale, Arizona.

The 2016 theme will focus on expanding a captive's horizons and, according to CICA, will offer a wealth of new ideas to help design innovative captive strategies.

CICA president Dennis Harwick said: “Opportunities and challenges are growing rapidly in the captive arena.”

“Cyber risk, healthcare reform, employee benefit changes, technological advances and increasing regulatory oversight are converging and creating a need for big ideas for captives.”

The conference opens on 6 March with a reception, followed by a keynote presentation from author Peter Navarro on 7 March.

Programme sessions will cover healthcare captive trends, impacts of the Affordable Care Act, next generation enterprise risk management, tax updates for captive business, and cyber solutions.

The programme will also feature expanding captive boundaries with reinsurance, bolstering value through analytics, balancing investment risks and rewards, and captive exit strategies.

## Nissan captive receives 'excellent' rating

Bermuda-based Nissan Global Reinsurance (NGRe) has had its “A- (Excellent)” financial strength and “a-” issuer credit ratings affirmed.

A.M. best said the ratings reflect NGRe's strong capitalisation and improved underwriting performance over the past three years and its conservative underwriting strategy.

The ratings also consider NGRe's role as a captive for its parent, Nissan Motor Company.

A.M. Best believe that these factors are partially offset by the company's concentration in asset-backed securities account for nearly two times policyholders' surplus and are composed of the higher risk automobile loans originated at Nissan's financing company.

NGRe is a single parent captive of Nissan and provides a range of insurance coverages in the US and a variety of other countries.

Coverages include global property, global marine transport, global product and general liability, workers' compensation and a global platform for extended service contract and extended warranty business.

NGRe also benefits from the group's proprietary data warehouse, extensive risk management practices and loss control programmes.

A.M. Best believes the ratings and outlook for NGRe are well-positioned at their current level, however, the company's rating outlook could see positive movement if the company's operating performance continues to improve and investment returns remain solid while maintaining a strong level of risk-adjusted capitalisation.

## Large rate increases for cyber

Cyber insurance stood out in Q3 as the only line of insurance with consistent, large rate increases, averaging more than 15 percent in the US, according to Marsh's latest global insurance market quarterly briefing.

The average cyber insurance limits purchased exceeded the \$20 million level for the first time and limits purchased were up more than 10



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percent, on average, compared to the same period last year.

The report also identified that the UK and the Asia Pacific region posted the largest composite rate decreases, followed by Europe, Latin America and the US, respectively.

Property insurance had the largest rate declines, with decreases averaging more than 5 percent. Rate decreases for property insurance occurred across all regions in Q3, led by the Asia Pacific, followed by Europe and the US, with Latin American and the UK showing the smallest decreases regionally.

According to the report casualty insurance rates, on average, had declines consistently from 2 percent to 4 percent across all major regions, led by the Asia Pacific and the UK.

Financial and professional lines of business presented mixed rate results during Q3.

The report revealed that the global composite index for financial products decreased 5 percent, however, the US and Latin American both posted small increases.

Marsh believes this is largely a consequence of cyber insurance, which increased the US in Q3. In addition, financial and professional rate increases declines steadily in other regions, particularly in the UK.

The report also showed that the Marsh Global Insurance Index stood at 0.944 in Q1 2015, down from 0.956 in the previous quarter.

Paul Denny of Marsh commented: "Cyber is a unique exposure—it continues to evolve and it is clearly here to stay.

"Organisations that understand the nature of potential threats and their exposure to cyber attacks will be best suited to develop a comprehensive risk management strategy to counter them."

### Bahrain insurance sector sees continued growth in 2014

The Central Bank of Bahrain has revealed that the Bahrain insurance market experienced annual growth during 2014, with gross premiums and contributions increasing by approximately 5 percent over 2013 to register 270.76 million Bahraini dinar (\$717.7 million) in 2014.

The rise was attributed to an increase in medical insurance, which has risen from BHD 40.83 million (\$108.2 million) in 2013 to BHD 48.59 million (\$128.8 million), showing an increase of 19 percent and representing almost 18 percent of the total premiums and contributions written in the insurance market last year.

The takaful industry in Bahrain generated gross contributions amounting to BHD 57.29 million (\$151.84 million) in 2014 compared to BHD 57.22 million (\$151.66 million) in 2013.

They represent around 21 percent of the gross premiums and contributions in 2014.

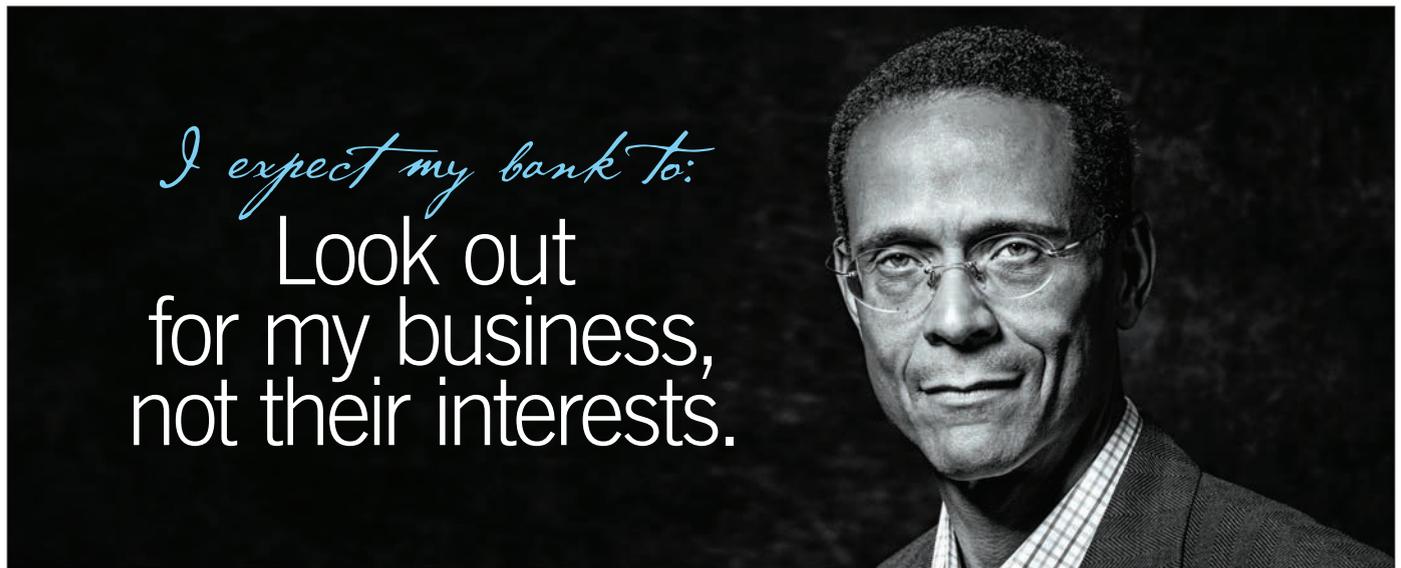
By end of 2014, Bahrain's domestic insurance market comprised of 25 locally incorporated firms and 11 overseas insurance firms carrying out insurance, reinsurance, takaful, retakaful and captive business in Bahrain.

Abdul Rahman Al Baker, executive director of financial institutions supervision at the Central Bank of Bahrain, commented: "The insurance sector in Bahrain holds tremendous promise for growth, as demonstrated by the industry's strong performance not only during 2014 but also during the past five years."

"Bahrain is fast becoming a hub for major regional and international reinsurance and retakaful firms as evidenced by the number of such firms that are set up in [Bahrain]."

### Bermuda is Solvency II equivalent with a captive carve-out

The European Commission has formally recognised Bermuda as fully equivalent with Solvency II.



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Bermuda's captives and special purpose insurers (SPIs) remain out of scope of the Solvency II equivalence assessment.

This means that the regulations governing class 1, 2, 3, A and B insurers and SPIs remain largely unchanged going into 2016.

According to the Bermuda Monetary Authority (BMA), the insurance prudential framework for these insurers is fully aligned with the standards outlined by the International Association of Insurance Supervisors (IAIS).

Jeremy Cox, CEO of the BMA, commented: "It is extremely fortunate to have succeeded in becoming the world's leading insurance-linked securities market, premiere captive domicile, as well as a global reinsurance and insurance hub."

"The authority has ensured that these important markets are being supervised appropriately."

The regulatory standards applied to European reinsurance companies and insurance groups are now in accordance with the requirements of Solvency II, according to the BMA.

The EU legislation that will recognise Bermuda fully equivalent with Solvency II was adopted on 26 November 2015 and is currently in its three-month review by the European Parliament and council.

The legislation will cover full equivalence for Bermuda reinsurers licensed as class 3A, 3B, 4, class C, class D and class E reinsurers, insurers and Bermuda insurance groups.

Cox added: "This is significant news for Bermuda and the island's future as a strong financial services centre."

"Solvency II equivalence would mean Bermuda's commercial reinsurers, insurers and insurance groups will not be disadvantaged when competing for, and writing, business in the EU."

"Being an early adopter of Solvency II has granted certainty to commercial reinsurers and insurers operating from Bermuda."

### Xchanging signs up Aon

Xchanging has signed a contract with Aon to provide Xuber software, implementation services and ongoing support for its wholesale broking operations platform for the London market.

In 2015, Xchanging has secured 20 contract wins with new and existing customers, in addition to growing existing Xuber business.

Chief executive Ken Lever said: "We are very pleased to be announcing this larger Xuber win today, and continue to pursue further material Xuber contracts."

### Positive outlook for Zale Indemnity and life subsidiary

A.M. Best has revised the outlooks to positive from stable and affirmed the financial strength rating of "B++ (Good)" and the issuer credit ratings of "bbb+ for Zale Indemnity and its wholly owned subsidiary, Zale Life Insurance Company.

According to A.M. Best, the ratings for Zale Indemnity, which acts as a captive insurer for the customers of its intermediate parent, Zale Corporation, reflect the strong underwriting and operating results.

The ratings for Zale Life reflect its role as a provider of credit insurance within Zale Corporation and its favourable level of risk-adjusted capitalisation.

A.M. Best believes that the ratings for Zale Life reflect its role as a provider of credit insurance within Zale Corporation and its level of risk-adjusted capitalisation, strong liquidity and the high credit quality of its investment portfolio.

Positive rating factors for Zale Indemnity include continued stability at both the captive and the parent while maintaining strong operating results and risk-adjusted capitalisation, according to A.M. Best.

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# A game of cat and nous

The insurance-linked securities market is pivoting to focus on bringing new types of risk and new sponsors. Aaron Koch of Milliman explains

BECKY BUTCHER REPORTS

**ILS assets under management continue to grow but at a slower rate than recent years. Have you seen this and what would you attribute it to?**

The insurance-linked securities (ILS) market has enjoyed rapid growth over the past five years, roughly tripling in size since 2010. It is true that the growth has slowed somewhat over the past year, particularly among 'traditional' ILS assets such as catastrophe bonds. At the same time, however, we're starting to see alternative capital investment funds sponsor a number of new structures, such as Lloyd's syndicates and rated reinsurers. Even if these initiatives are not precisely ILS, they fill a similar role and are bringing new capital to the market.

Over the longer term, the market is unlikely to sustain its recent growth rates without a significant expansion among the sources of risk that are covered by ILS. The recent slowdown is largely attributable to major sponsors reaching limits on the amount of ILS they are willing to purchase. As a result, the market is pivoting to focus on bringing new types of risk and new sponsors to the market—with captives being a notable example of potential new sponsors.

**How much do captives participate in the ILS market in the US?**

To date, captive use of ILS in the US is still relatively limited—there are only a few examples of major catastrophe bond transactions that have been sponsored by captives. However, most of these deals have taken place within the last year, which suggests that there may be an increasing willingness in the captive market to explore ILS as a risk transfer tool.

**How and why do captives access the ILS market?**

So far, captive ILS transactions have insured against 'peak perils', including US hurricane

and earthquake risks, which have around a 1-in-50 to 1-in-100 chance of occurring. There are a few reasons why a transaction like this might be attractive to a captive.

First, it may allow a captive to secure catastrophe coverage at an attractive price, as the cost of catastrophe bonds has fallen significantly over the past several years and is now competitive with traditional reinsurance prices on certain risks.

Second, it may allow a captive to tailor its catastrophe coverage to meet its specific needs. Each of the captive-related catastrophe bonds to date has utilised a parametric trigger, meaning that the bond pays out to the sponsor based on the physical characteristics of an event, for example, wind speed, storm surge levels, instead of the actual insured loss suffered by the captive.

This type of structure may be attractive to sponsors because it pays out more quickly and is not dependent on the outcome of the loss adjustment process.

Finally, captives may be able to use ILS to secure more catastrophe coverage than they are able to obtain in the traditional reinsurance market. Each of the captive ILS transactions to date have secured upwards of \$250 million of coverage limit for its sponsor. The ability to obtain this much coverage in a single, fully collateralised transaction, which eliminates the credit risk faced by the sponsor, is something that may appeal to captive owners.

**Why is Bermuda a popular domicile for ILS vehicles?**

Bermuda has emerged as a leading domicile for ILS vehicles because of a number of factors. Bermuda has developed an efficient process for registering the special purpose vehicles (SPVs) that house ILS transactions, and offers a regulatory and tax environment that is attractive to investors and sponsors.

In addition, it benefits from its position as an international reinsurance hub, as the wealth of

expertise among Bermuda's service providers and reinsurance entities has translated well into supporting the ILS market.

**What about other insurance domiciles regulating for ILS business? Are they well equipped to handle its growth?**

As ILS has continued to grow, it has drawn interest from additional regulatory domiciles over the last couple of years. The most notable recent example is the UK, which has recently recognised ILS as a key growth opportunity and is devoting resources to try to bring ILS business onshore.

It will be interesting to see how the UK's efforts progress, because it will provide a case study for other major insurance domiciles. While the UK is known for its reinsurance expertise, it faces major hurdles on the regulatory and tax side.

The existing structures put the UK at a significant disadvantage relative to Bermuda with regard to the cost and speed of setting up ILS vehicles.

While it may present a challenge to close this gap, it is nevertheless encouraging to see the discourse progress to this level. It serves as a testament to the continuing maturation and future growth potential of the ILS market. **CIT**



**Aaron Koch**  
A director and consulting actuary, with the ILS group (P&C division) at Milliman

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## Industry appointments

**Stephen Hawkes** has returned to Guernsey to lead Marsh's captive solutions office, with immediate effect.

Hawkes reports to Ian Clancy, Marsh's captive practice leader for Europe, the Middle East and Africa (EMEA) and the Asia Pacific.

In this role, Hawkes will lead Marsh's captive operations in Guernsey, which provides strategic captive management advice to Marsh's captive clients globally.

Hawkes returns to Guernsey after having worked on the island as an insurance manager from 1988 and 1992. He relocated to Guernsey from Marsh's London office, where he worked in a variety of senior roles over the past 15 years.

Most recently, Hawkes served in the risk financing practice where he used data and analytics to advise large organisation on risk finance optimisation.

Clancy commented: "Data analytics and benchmarking are revolutionising captive insurance, by enabling clients to identify trends and quantify the advantages that captive vehicles can deliver. With Hawkes's deep industry knowledge and analytics expertise, Marsh is well-placed to offer our clients more control over their economic cost of risk."

In addition, the former head of the office, David Riley, has been appointed to a newly created role, in which he will focus on developing Marsh's growth initiatives in new and traditional Guernsey market areas, such as pensions longevity structures and special purpose vehicles.

**Richard Spotswood** has been appointed as a senior technology professional indemnity and cyber underwriter at Allianz Global Corporate & Specialty (AGCS).

Spotswood will report to Graeme King, regional head of technology and cyber in the UK, Ireland, Middle East, North Africa, Nordics and Australia. He will be responsible for growing AGCS's largest global clients.

Prior to joining AGCS, Spotswood worked in the insurance industry for more than 15 years.

Most recently, he worked as a technology professional indemnity and cyber underwriter for a niche Lloyd's managing general agent focused on US and international business.

King commented: "Technology professional indemnity and cyber is a significant growth area for AGCS. Recruiting the right talent is essential to ensure we offer our clients the service they expect and I am excited by the wealth of experience that Spotswood brings to the team."

**Martin Senn**, CEO of Zurich Insurance, has stepped down from the role after 10 years at the company.

Tom de Swann, who has been a member of the board of directors since 2006 and was named chairman in 2013, has been appointed interim CEO with immediate effect. Senn, whose departure has the backing on the board, will leave Zurich at the end of the year.

While serving as CEO, Swann will hold his mandates with other listed companies in abeyance. Fred Kindle, vice chairman of the board, will take on certain additional responsibilities to ensure continued good governance.

Senn's exit follows a difficult few months for Zurich that saw takeover of RSA fall through and numerous divisions post losses.

Senn commented: "After 10 very intense years with Zurich, I have decided to step down as CEO and to make way for new leadership. There have been some setbacks in recent months, but I am convinced that we have put in place the right measures for Zurich to reach its targets."

"I will remain closely tied to the company and am proud of what we have achieved together over the years."

De Swaan added: "The board of directors owes a massive thanks to Senn. First as our chief investment officer and in the past six years as CEO, he has successfully guided our company through a challenging environment, showing great foresight and tireless personal commitment."

Zurich said Senn's departure will have no impact on its strategic focus or financial targets.

Eurobase International Group has appointed **Richard Marsden** as group sales director.

In his new role, Marsden will support the company's plans for growth across its banking and insurance divisions.

Previously, Marsden served at Lexmark International where he was responsible for business development for the financial services sector. He has also worked at IBM, SunGard and Wolters Kluwer.

John Wilson, chairman and CEO of the Eurobase, commented: "Following significant product investment in our insurance and banking divisions over recent years, the group board recognised the need to strengthen the sales and marketing team to enable the company to maximise its exposure and opportunity."

Alliantgroup has appointed former US Internal Revenue Service (IRS) official **Ron Schultz** to its AlliantNational office in Washington DC.

In his new role, Schultz will help certified public accountants and taxpayers, including captives insurance companies, navigate uncertain tax positions and other tax controversy matters.

Steven Miller, national director of tax at Alliantgroup, commented: "In my years working side by side with Schultz at the IRS, there was no better advisor.

"His experience in multiple areas of the service and his vast tax background as a certified public accountant and tax lawyer will be a tremendous asset for our clients."

Schultz worked in a number of key roles at the IRS, including as senior technical advisor for the commissioners of tax exempt and government entities and large and mid-size business, as well as for the deputy commissioner for services and enforcement. **CIT**

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