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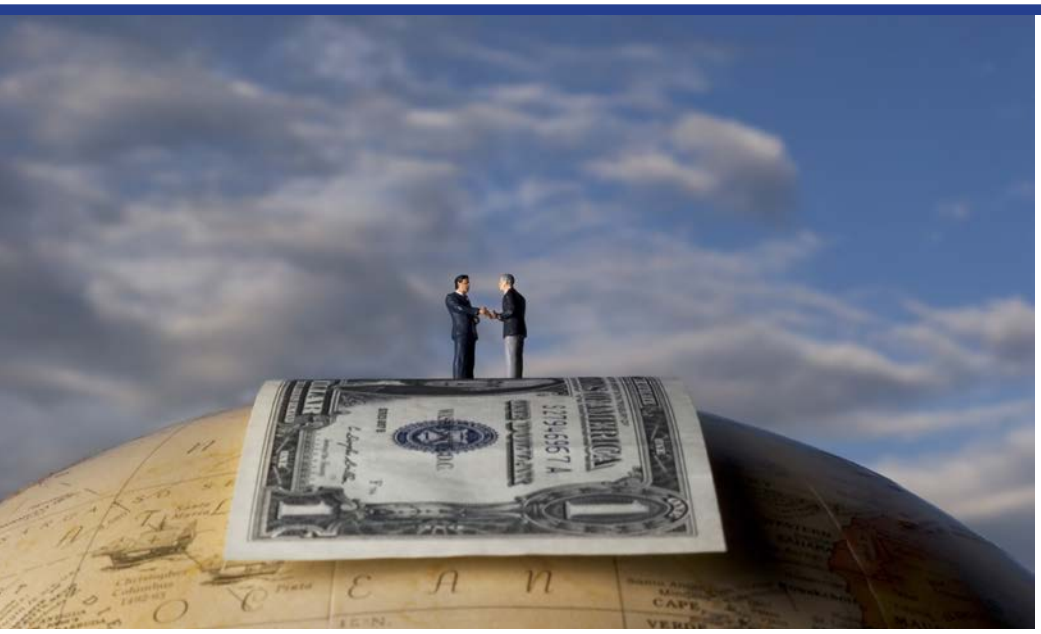


Artex acquires Kane's captive and insurance-linked securities business

Artex Risk Solutions has agreed to buy Kane's captive management and insurance-linked securities administration business for an undisclosed sum.

The deal will see Kane's Robert Eastham, Linda Haddleton, Ann West and their associates continue to operate from their locations in Bermuda, the Cayman Islands, Guernsey, South Carolina and Vermont.

Commenting on the deal, Simon Hinshelwood, group chief executive of Kane, said: "Our view at Kane is that the industry as a whole is over supplied and needs consolidation for its long-term future stability and profitability.

Kane was approached by a number of parties over the last six months who shared this view. The board determined that the best way to explore the value of these approaches and to determine what may be the optimum solution for all stakeholders, was to hold a tightly-controlled but small formal process."

"That process concluded with the board selecting to combine with Artex."

"Artex was chosen for multiple reasons, but importantly for our staff and clients because of its culture, its distribution reach, its strength in Europe and the USA, and the growth opportunities we believe it affords the Kane team."

Commenting on the newly combined entity, David McManus, president and CEO of Artex Risk Solutions, said: "We believe we're the fastest growing and most diverse insurance manager in the industry."

Continued on p2

Budget 2016: increase to insurance premium tax

The UK is planning an increase in the standard rate of insurance premium tax (IPT) that will hit all insurers that provide non-exempt insurance cover for UK risk.

The amendment, announced on 16 March, will increase the rate of IPT paid on premiums, which are taxed at the standard rate of IPT, by half a percent.

The current IPT standard rate stands at 9.5 percent.

Tax revenue raised from the IPT amendment will be used to fund flood defences and resilience, according to the UK government.

The new standard rate of IPT will be due on insurance premiums treated by the legislation as received on or after 1 October 2016, except where insurers operate a special accounting scheme.

From 1 February 2017, the new rate applies to all premiums.

Captive payments fail risk shifting and distribution test

A convenience store and gas station operator's payments to its captive insurance company did not meet rules on deductible insurance premiums, a New York tax court has ruled.

The New York State Division of Tax Appeals ruled on 10 March that Stewart's Shops Corporation's payments to its captive, Black Ridge Insurance Corporation (BRIC), lacked sufficient risk shifting and distribution to warrant a tax refund.

Continued on p2

Artex agrees to buy Kane's captive and insurance-linked securities business

Continued from page 1

Mc Manus said: "This exciting combination of operations and capabilities allows Artex to consolidate its position amongst the top three insurance management service providers in the world, with over 1,400 customers, served through over 900 risk bearing entities in 27 domiciles and 370 employees, providing our clients and business referral networks with substantially greater scale and resource breadth."

Artex's operations in Bermuda and Cayman will combine into Kane's under the respective leadership of Eastham and Haddleton who, together with Kane's Guernsey team, will report into Nick Heys, CEO of Artex International.

Kane's US operations in South Carolina and Vermont will merge into Artex's US business under the leadership of Jennifer Gallagher, president of Artex North America.

Kane LPI Solutions and its subsidiaries—the firm's third-party administration and fund administration business for the life, pension and investment market—was not involved in the sale process.

Captive payments fail risk shifting and distribution test

Continued from page 1

BRIC was formed as a captive in New York in 2003, under one parent corporation. It wrote crime risk, after the commercial sector withdrew a policy due to a substantial claim, as well as various traditional risks.

The New York Division of Taxation conducted an audit of BRIC for the financial years 2006 to 2010 and found that the captive was not entitled to a refund of the captive premium tax under Article 33 of the Tax Law, which Stewart's Shops contended following its dissolution of the captive.

On appeal, the New York State Division of Tax Appeals found that because BRIC was a part of Stewart's Shops and not a separate subsidiary, insufficient risk shifting and distribution was in place to exempt it from captive premium taxes.

The court ruled: "As the petitioner's [Stewart's Shops] wholly owned captive, a payment by BRIC to the petitioner for a covered loss will directly affect the petitioner's balance sheet and net worth."

"Thus, risk shifting is not present in this arrangement. The arrangement also lacks risk distribution because the risk is not spread among various subsidiaries and any loss by the parent is not subject to the premiums of any other entity."

Commenting on the decision in a client note, Charles Capouet and Andrew Appleby of law firm Sutherland Asbill & Brennan wrote: "The outcome likely would have been different if the taxpayer had a parent holding company with multiple subsidiaries (including the captive) below it."

OID aims to control its own fate

The Oklahoma Insurance Department has asked the state legislature to stop providing it with appropriated funds.

Insurance commissioner John Doak wrote to Oklahoma governor Mary Fallin on 14 March to make the request as the state faces a $1.3 billion budget shortfall.

As a recipient of appropriated funds, the Oklahoma Insurance Department does not keep the fees it collects. Instead, it is awarded funding every year and returns fees to the state.

Doak wants the Oklahoma Insurance Department to be in charge of making its own cuts as the state looks to balance its budget in difficult economic circumstances.

Since January 2011, when Doak first took office, the Oklahoma Insurance Department has received just over $9 million in appropriated funds from the state, but it has paid back $28.5 million in that time.

He argued in his letter: "Going non-appropriated will allow the department to better prepare for all revenues and expenses throughout the year which, in turn, should provide more flexibility to achieve cost-cutting measures."

Doak pointed out that his department has had to take on a number of responsibilities over the course of his tenure as commissioner, including the regulation of captive insurance companies, without the need for additional funding.

At the end of 2015, the Oklahoma Insurance Department had 73 captives to regulate, generating $391,106 in premium tax.

"We have shown a pattern of running the office like a business despite taking on more responsibilities and duties from the legislature," Doak wrote in his letter.

"Our office continues to do more with less which is exactly what Oklahoma businesses have to do during this difficult economic downturn. Cutting expenses while shoring up revenues is a common practice in the private sector."

"I encourage the legislature to seriously consider taking us to a non-appropriated status and putting a monthly ceiling on our revolving account to maintain at least half of our approved budgeted amount at all times."

Contents

Strong growth for Hong Kong market

Hong Kong's insurance industry generated total gross premiums of HK $365.8 billion (US $47.2 billion) in 2015, beating the previous year by 10.9 percent.

The insurance commissioner's office released the provisional statistics on the Hong Kong insurance industry on 15 March, revealing the 10.9 percent increase on 2014's HK $329.7 billion (US $42.5 billion) in total gross premiums.

The total amount of revenue premiums of long-term in-force business was HK $319.8 billion (US $41.2 billion) in 2015, which has increased by 11.9 percent since 2014.

On reinsurance inward business, gross premiums decreased from HK $11.5 billion (US $1.5 billion) to HK $11.1 billion (US $1.4 billion).

Net premiums increased from HK $6.1 billion (US $786.6 million) to HK $6.5 billion (US $838.2 million) in 2015.

Hong Kong has ramped up efforts to develop its insurance industry, including its captive insurance business.

Captives have enjoyed a 50 percent profits tax reduction for their insurance of offshore risks since 2014.

SRS sells stake to Coverys

Coverys has made a strategic acquisition of a minority stake in Strategic Risk Solutions (SRS).

Under the agreement, Coverys will have a representative on the SRS board but will have no day-to-day operational involvement.

SRS will benefit from Coverys to help expand its growing clients base.

Brady Young, president and CEO of SRS, commented: "Remaining independent is paramount to our business for both staff and clients alike."

"Coverys's investment provides us with not only an effective option to perpetuate our independence but a tremendous opportunity to build on what we have developed. Like SRS, Coverys has a long-term perspective and is very focused on building strong relationships with its clients."

Gregg Hanson, Coverys CEO and president, added: "We are excited to have an ownership stake in SRS which we view as the premier captive management firm."

"Our investment will ensure continued access to SRS' expertise for Coverys clients interested in using captive insurance options as part of their overall risk financing strategy."

Stormy February in the US

Severe storms in the Northern Hemisphere led to the greatest number of February tornadoes in the US since 2008, according to Aon's Impact Forecasting catastrophe report.

According to the report, damage resulting from tornadoes, straight-line winds and large hail was noted in the Plains, Midwest, Southeast, Mid-Atlantic and Northeast.

Virginia endured the strongest February twister on record for the state. Combined economic losses in the US, which also includes damage resulting from heavy snow and ice, are expected to top $1 billion.

Windstorms Norkys and Ruzica, known locally as Henry and Imogen, brought high winds and coastal flooding to parts of Ireland and the UK. The report suggests that total combined economic losses from both storms were estimated at $175 million.

In addition, the report revealed that the Southern Hemisphere registered its strongest tropical cyclones on record.

Tropical Cyclone Winston caused landfall on Fiji's island Viti Levu, killing at least 44 people and damaging or destroying more than 24,000 homes.

Total economic losses were estimated at $470 million, which equals roughly 10 percent of Fiji's GDP. Insurers noted claims were expected to reach $47 million.

Steve Bowen, associate director and meteorologist at Impact Forecasting, said: "Despite starting to show signs of weakening in the Central and Eastern Pacific Ocean, the record-tying El Niño left its fingerprint on many global natural disaster events in February."

"From Tropical Cyclone Winston's record intensity landfall in Fiji to flooding rains in California to the worst drought in decades across parts of Southeast Asia and Africa, it is clear that the El Niño phenomenon will continue to impact atmospheric and oceanic patterns in the months ahead."

Bowen added: "These events pose a risk of further straining government disaster recovery budgets. This will only reinforce the importance of insurance and risk analysis; particularly in countries with lower insurance penetration levels."

'Excellent' ratings for National Grid captive insurer

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and the issuer credit rating of "a" of National Grid Insurance Company (NGICL), a captive of National Grid.

According to A.M. Best, the ratings reflect NGICL's strong risk-adjusted capitalisation, as its importance as a risk management tool within the NG group.

In addition, the ratings reflect NGICL's strong but volatile earnings track record. The outlook for both ratings remains stable.

A.M. Best believes that NGICL's risk-adjusted capitalisation will remain very strong, supported by the captive's low underwriting leverage ratio and its catastrophe reinsurance protection.

Prospective underwriting performance remains subject to volatility, due to the captive's exposure to low frequency, high severity losses in property damage and business interruption accounts, said A.M. Best.

The captive has a track record of strong technical performance, reflecting a five-year average combined ratio of approximately 31 percent, according to A.M. Best.

The ratings company believes that NGICL remains core to NG's risk management strategy as its principal captive.

It is well integrated into the parent's overall risk management framework, with its primary objective to mitigate NG group's European exposure to casualty, property damage and business interruption risks.

WNS to manage QBE Insurance's analytics operations

WNS Holdings has been selected to deliver analytics for QBE Insurance Group.

Under the agreement, WNS will manage analytics for QBE in the areas of claims, underwriting, distribution and fraud.

Keshav Murugesh, group CEO at WNS, commented: "WNS is thrilled to partner with an industry leader like QBE.

"This relationship also helps strengthen WNS's position as a leader in the Australian BPM market."

R&Q acquires Rank Insurance

Randall & Quilter (R&Q) II Holdings has acquired a Guernsey captive in run-off.

Regulatory approval for the acquisition of Rank Insurance has been granted and the captive wil merge with Capstan Insurance Company, R&Q's consolidation vehicle in Guernsey, subject to the necessary consents.

Ken Randall, chairman and CEO of R&Q Investment Holdings, commented: "We are delighted to have acquired Rank Insurance and this continues to demonstrate the ability of R&Q to provide exit solutions for end of life captive insurance companies."

"This is one of a number of current transactions we have been assessing and we remain excited about our legacy acquisition pipeline."

Gen Re reorganises P&C operations

Gen Re will reorganise its direct global property and casualty (P&C) operations in an effort to position its team for the future.

According to Gen Re, it evaluated its footprint globally to most effectively serve clients. As a result, the company has decided to run six smaller P&C operations that will be integrated into teams in larger locations to facilitate a more robust delivery of services to its clients.

Gen Re will also discontinue P&C operations in Charlotte, Seattle, and St. Paul, Riga, as well as those in Hong Kong and Melbourne. The company will remain committed to these markets, servicing clients and pursuing new opportunities across all regions.

Gen Re said that throughout the transition, the company will work closely with its regulators to ensure that the transition is appropriately managed, regulations are followed and obligations to its clients are met.

Bob Jones, president and P&C chief marketing officer of Gen Re, commented: "We have reviewed our entire global footprint, and with this change, we are positioning Gen Re's P&C operation to address the realities of today's markets, while capitalising on tomorrow's opportunities."

Dublin our efforts

It might take a bit of hard graft, but the future looks good for the captive industry, heard attendees of Dublin's European Insurance Forum

The rise of Ireland to the position of insurance powerhouse has been somewhat of a revolution, heard attendees of the recent European Insurance Forum in Dublin, with Sarah Goddard, CEO of the Dublin Insurance and Management Association (DIMA), charting the path the domicile has taken since 1999.

She said: "When I see the transformation from when this conference started in 1999, we were talking about Ireland becoming the Bermuda of Europe, and in that period of time, Ireland has become the island of an international industry."

But she maintained that Ireland has not taken risky chances on the road to 2016. "We are a risk industry, we are cautious by nature in certain areas. We weigh risk, we transfer risk, we look at risk as fundamental to our activity."

Looking to the future, Goddard suggested the industry needs to be prepared to take on a different sort of risk, to ensure that the future of international insurance and reinsurance in Ireland stays on the path to success.

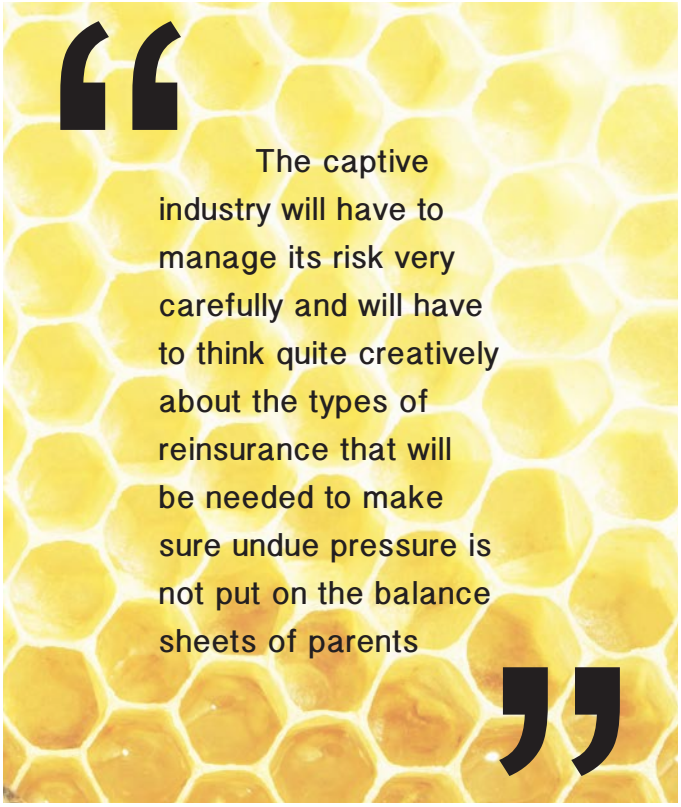
James Grennan, head of A&L Goodbody's insurance group and partner of the corporate department, explained that the reinsurance and insurance sector has reached a challenging place and asked: "Are we on the road to revolution or the road to nowhere?"

Grennan asked panellist Des Potter, managing director and head of GC securities in Europe, the Middle East and Africa (EMEA) at Guy Carpenter, to set the scene of what he believes the insurance industry is going to look like in 2026.

Potter said the insurance and reinsurance industry will remain vibrant in the future. He claimed that one of the challenges the world will face will be in new emerging markets, suggesting that there will be growth in demand for risk insurance and changes in the industry, including the effects of climate change and population growth. He explained that these changes will lead to a high demand for water, food and natural resources, and will affect housing prices.

Potter suggested these changes will lead to an "increasing demand for insurance and reinsurance and [will increase] the strain on the public purse".

He said that, because of increasing demand, governments will use the insurance and reinsurance sector more, meaning corporates



will expand, their captives will be bigger and demands for transfer volatility will increase.

He said: "This will be the cause of a very much changed and revolutionised reinsurance and insurance sector."

An audience member asked Potter whether the captive sector will be in a good position come 2026, to which he responded: "While corporates continue to get bigger and continue to feel uncomfortable spending money in the reinsurance and insurance sector, and instead look to retain more risk, I do think the captive industry will continue to grow."

However, according to Potter, the captive industry will have to manage its risk very carefully and will have to think quite creatively about the types of reinsurance that will be needed to make sure undue pressure is not put on the balance sheets of parents.

Another big discussion point was the recent implementation of Solvency II. The directive, which kicked into action on 1 January this year, has now been adopted across Europe. Each of the 28 European member states are currently undergoing the transitional stage of the implementation.

Most pressingly under Solvency II, insurers are required to submit annual and quarterly reports in multiple formats, the first of which are due on 20 May.

Ronan Mulligan, director of the PwC insurance practice, suggested that the understanding of the industry, and its resilience, has improved because of Solvency II, although challenges do remain.

He asked: "Where do we go next, what does the future hold for Solvency II, is everyone ready for Solvency II, are regulators ready for all the information they are about to receive, and is the industry ready to supply everything they need to supply?"

Manuela Zweimueller, director and head of department regulations at the European Insurance and Occupational Pensions Authority claimed that regulators have been preparing for a number of years for all the information they are going to receive in May.

She said: "We are excited about the amount of data we are going to receive."

Regulators will be looking for trends in the data, which, in the long run, will allow them to be more efficient, explained Zweimueller.

She noted: "Having this data and analysing it will make us, as regulators, more efficient. We're ready, I hope the industry is ready."

According to Andrew Coffey, CEO of the Central Bank of Ireland, regulators have set themselves a big task.

He argued that consistency among regimes is key to making sure there is financial stability in the insurance industry.

Coffey suggested that Solvency II has evolved and is a foundation on which future regulations are going to be built, but added that he is unsure about what sort of timeframe this will happen over.

Philip Whittingham, head of model validation and risk governance at XL Catlin, revealed that he is naturally concerned about regulatory burdens. He said: "XL Catlin has much sympathy for what regulators are trying to achieve."

Bermuda was formally recognised as being fully equivalent with Solvency II by the European Commission late last year, meaning that the regulatory standards applied to European reinsurance companies and insurance groups in Bermuda are now in accordance with the requirements of Solvency II.

Crucially, though, Bermuda kept captives and special purpose insurers out of the scope of Solvency II, thanks to the island's compliance with International Association of Insurance Supervisors (IAIS) standards.

Mulligan asked panellist Leila Madeiros, senior vice president, deputy director and corporate secretary of the Association of Bermuda Insurers and Reinsurers: "Bermuda has had a success in achieving equivalence for Solvency II and that's boomed the Bermuda industry. Were there lessons to be learnt from what you did there?"

Madeiros said: "I think Bermuda viewed the challenge or invitation to go for Solvency II. Bermuda recognised that there was a common framework being arranged in Europe."

Maderios explained that the benefits included a common language and regulatory platforms, adding that it can get extremely expensive to arrange a variety of different regulatory platforms.

She suggested that one benefit from being non-EU was that Bermuda got there before the rest of Europe. Bermuda had its first IAIS assessment five years go. Maderios noted that the benefits achieved from doing that meant the jurisdiction was working to Solvency II way ahead of the implementation date, and had time to transpose the Solvency II framework in advance.

Maderios added that the regulators' timetables seem to be aggressive, and that the industry should let the Solvency II framework find its way, however, she suggested that the outcome of the reporting will reflect that. She concluded by asking: "Can we hit the pause button just a little bit?" **CIT**

No cat bonds, we expect you to thrive

Insurance-linked securities could be an alternative to traditional reinsurance, and Bermuda is the place to explore the possibilities, says Brad Adderley of Appleby

How was last year in terms of ILS issuance and value? Is the market bigger than it's ever been?

The short answer is that 2015 was a very good year. The market is bigger than ever and growing.

From a Bermuda standpoint, 2015 was another year of robust growth from an insurance-linked securities (ILS) issuance and value standpoint. The Bermuda Stock Exchange (BSX) saw a record 58 ILS deals listed, with a capitalisation value of $6.16 billion.

The number of ILS listed on the BSX grew from 118 to 151, a 28 percent increase, while the value of these securities grew to $19.21 billion from $15.91 billion, a 21 percent increase from the same time in 2014.

According to a recent publication from Willis Capital Markets & Advisory, total worldwide aggregate non-life ILS capital reached a record $70 billion at year-end 2015, topping the previous record of $65 billion at year-end 2014.

ILS products such as sidecars, industry loss warranties and collateralised reinsurance showed considerable growth during 2015, and figures relating to total cat bonds on-risk also reached an all-time high.

What is the key to sustaining growth in the ILS sector?

The ILS sector in Bermuda is going from strength to strength and gaining momentum each year.

Experienced Bermuda service providers offer economic set up and listing options that should make ILS issuance in Bermuda increasingly attractive going forward.

Several keys to sustained growth in the ILS sector are: regulatory familiarity in both dominant and emerging ILS-friendly jurisdictions; continued capital market demand for alternative products; favourable macro-economic conditions in the US and other major world economies; introduction of new investors and new perils; no further softening of the reinsurance market; and proving that the ILS sector can withstand significant loss events and still attract investors.

The deal involving Amtrak's captive, Passenger Railroad Insurance, was among 2015's biggest. How active are captives in the ILS space and what do you see them achieving?

Amtrak's captive, Passenger Railroad Insurance, is a great example of a company (in this case National Railroad Passenger Corporation) using a captive to sponsor a cat bond, with a view to accessing the capital markets sector and bypassing the reinsurance marketplace, particularly where there are difficulties obtaining affordable reinsurance.

While we have not yet seen a large number of captives in the ILS space, PennUnion Re along with others such as MetroCat Re in 2013 and Acorn Re in July 2015, are fantastic illustrations of how captives can use an innovative and modern structure where, for example, there might have been unattractive pricing in the traditional reinsurance marketplace.

This will inevitably continue to peak the interest of captives who may want to explore alternatives to traditional reinsurance.

What barriers exist to captives entering the ILS space?

The primary barriers, particularly with captives being used to sponsor cat bonds, are the amount of work and upfront costs associated with forming cat bond structures. However, leveraging the wealth of experience of modelling firms and legal counsel in the ILS space can achieve not only an innovative structure but also more palatable terms of protection and pricing—an opportunity to consider alternatives to traditional reinsurance. **CIT**

> "Leveraging the wealth of experience of modelling firms and legal counsel in the ILS space can achieve not only an innovative structure but also more palatable terms of protection and pricing"

Brad Adderley, Partner, Appleby

Industry appointments

Movers and shakers at Mactavish, Crawford & Co and the BDA

Mactavish, a UK-based insurance governance consultancy, has appointed **Malcolm Cutts-Watson** as senior adviser.

Cutts-Watson has spent the majority of his career in the captive insurance industry, advising stakeholders on strategic, operational and governance matters across a range of industries and jurisdictions.

He commented: "I have long admired the Mactavish goal of raising standards in the insurance industry, something that mirrors my own viewpoint. I look forward to working with the Mactavish team to maximise the value that captives deliver through enhanced and improved governance practices."

Bruce Hepburn, CEO of Mactavish, added: "We are delighted to have Cutts-Watson's join us and we look forward to working with him and our clients in the captive insurance sector. This sector is going through much regulatory and legal change and represents an exciting opportunity for us in the area of insurance governance."

Crawford & Company's third-party administration business, Broadspire, has appointed **Ian Sutcliffe** as managing director for UK business.

Maragaret Clubley, former managing director, has left the company to pursue new opportunities.

In addition, Mark O'Mahony, current business development director of Crawford UK, will assume the role of the UK client relationships director at Crawford.

Clive Nicholls, CEO of the Crawford UK and Ireland office, said: "Sutcliffe has extensive claims and operational management experience and is ideally placed to implement our planned investment in Broadspire's infrastructure."

Nicholls added: "O'Mahony appointment reflects our commitment to our clients and desire to continue delivering first-class services relevant to the needs of our clients while also identifying and exploiting new opportunities."

The Bermuda Business Development Agency (BDA) has appointed a telecommunication and technology expert to its board of directors.

Fiona Beck currently serves on the boards of several telecommunication and technology companies in Bermuda, the Cayman Islands and Mauritius.

She serves as the deputy chair of KeyTech and chair for the telecommunication group of the America's Cup Bermuda. As a BDA board member, she will act as a liaison for the telecommunication and technology industry.

BDA board chair Caroline Foulger commented: "I am delighted Beck has agreed to join our board as she brings a very different experience than most of our other current board members who are primarily from a financial services specialism."

Beck said: "I am delighted to have been invited to join the BDA board—it's an exciting opportunity to help Bermuda develop as a base for fintech, ICT and technology." **CIT**

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