captive insurance times
The primary source of global captive insurance news and analysis
VCIA Conference Edition

Vermont in the spotlight

Behind the scenes at Vermont's captive insurance division

Tennessee Focus

Commissioner Lawrence on attracting captive insurance companies to the state

Agile Premium Finance

Recent disruptions to the industry and the different financing options available

www.captiveinsurancetimes.com

Published by

Black Knight Media Ltd

23 Metro Business Centre
Kangley Bridge Road
London
SE26 5BW

Editorial

Group Editor: Bob Currie
bobcurrie@blackknightmedialtd.com

Deputy Editor: Jenna Lomax
jennalomax@blackknightmedialtd.com

Reporter: Frances Jones
francesjones@captiveinsurancetimes.com

Contributor: Klea Neza

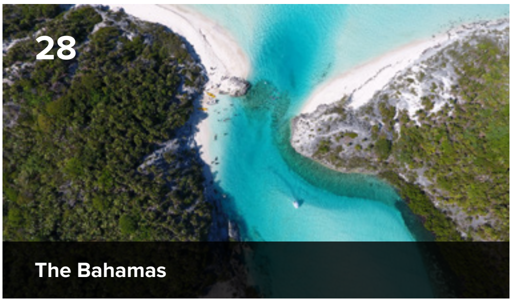
Lead Designer: James Hickman
jameshickman@blackknightmedialtd.com

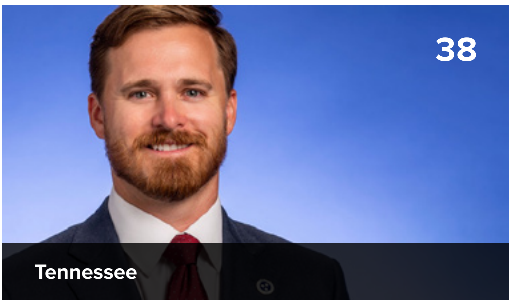
Marketing and sales

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com

Associate Publisher: John Savage
johnsavage@captiveinsurancetimes.com

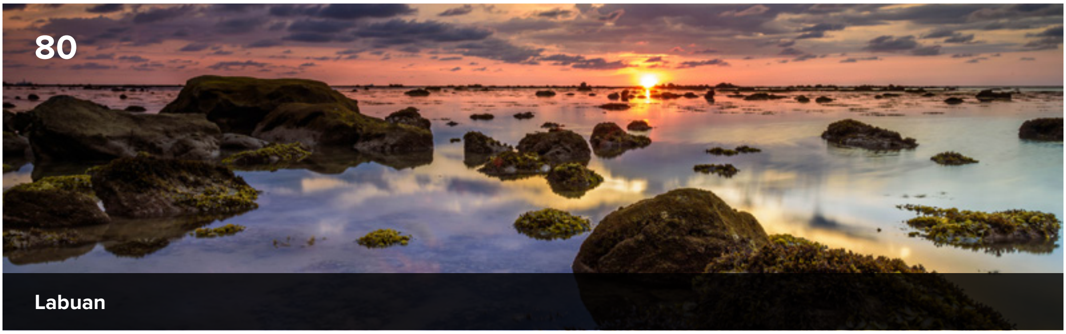
Contents





Contents

Contents



Behind the scenes of Vermont's captive insurance division

Sandy Bigglestone, Christine Brown, Jim DeVoe-Talluto, Dan Petterson and Brittany Nevins discuss the running of Vermont's captive insurance division and how each of them work to attain a "gold standard" of captive insurance regulation

Vermont

How long have you been with the Vermont Department of Financial Regulation (DFR)'s captive insurance division and what is your current role as deputy commissioner?

Sandy Bigglestone: I have been with the division for 26 years. My current role, as deputy commissioner, involves overseeing a staff of approximately 30 people. Together, we licence and regulate captive insurance companies and risk retention groups (RRGs) domiciled in Vermont. I represent Vermont at the National Association of Insurance Commissioners to stay abreast of varying requirements and changes, including any impact on captive insurance regulation, and to recommend best practices with respect to RRGs. I also represent Vermont at various industry events, including education and next generation initiatives. Reporting to the commissioner of the DFR, my role may involve broader administrative activities on behalf of the department or State of Vermont.

Can you explain your responsibilities in the administration and regulation of captive insurance companies?

My responsibilities include legislative initiatives and testimony. I am also in charge of the captive insurance division's annual budget. I am involved in discussions with division staff on administrative, technical, or process improvement projects, and discussions with the industry on regulatory issues, business plan changes and prospective company applicants. I perform the final review of company applications for licensing, approve company plan of operations changes, and review final examination reports.

What led you to pursue a career in captive insurance regulation, and what aspects of your experience have been most valuable in your current role?

Before joining the division as an examiner, I was in public accounting. One of the firm's partners had audit clients that were Vermont-domiciled captive insurance companies. I had audit engagements involving public entity risk pools and governmental entity risk pools and therefore I had familiarity with group risk sharing and insurance operations. When an examiner position opened up, I was encouraged to apply and talk to Len Crouse, who was the division's leader at the time.

My background as a certified public accountant, with auditing experience, was beneficial to adding value at the entry level, and in each of the positions I grew into at the division.

Aside from my professional and technical background and development, I attribute a great deal of value in my current role to the knowledge and experience I gained from each of the various positions I occupied in the division, along with what

I learned from my interactions with colleagues, other regulators and the many industry experts I have come to admire.

As a CPA and CFE, how do your qualifications contribute to your work in overseeing captive insurance companies?

The efforts involved in obtaining the designations prepared me for the technical qualifications of the work involved in understanding insurance operations. I maintain the designations by engaging in professional education every year, keeping up to date with the insurance, accounting, financial examination and analysis requirements. Access to technical resources and training through various professional organisations has allowed me to be prepared for any challenge we might be faced with — or at least feel confident in researching issues that may come up.

What goals or initiatives do you have for the captive insurance division under your leadership as deputy commissioner?

Continue to support the Vermont economy in a responsible way by upholding the mission of the division and employing the best standards for captive insurance regulation. I want to enhance Vermont's position as a global leader for captive insurance and support a robust marketplace by continuing to grow, while attracting talent to the various job opportunities in the industry.

I want our division to continue to provide the type of regulatory environment, responsiveness and friendly customer service our industry values. Internally, I want to maintain a healthy work culture for my staff, to ensure they know how valuable they are and how important the work they do is to the success of our domicile, building upon its character and reputation. As a leader, I want to be the reason staff feel welcomed, seen, heard, valued and supported. In turn, I want Vermont to be the reason companies also feel this way. ■

Sandy Bigglestone
Deputy commissioner of captive insurance
Vermont Department of Financial Regulation

Vermont

What is your role as director of captive insurance and how long have you been with the division?

Christine Brown: I started my career with the captive insurance division in 2003 as an insurance examiner and spent 13 years on the examination team in various roles, participating in all aspects of statutory exams and analysis. In 2016, I was promoted from an assistant chief examiner to the assistant director of captive insurance, where my focus shifted to captive licensing, legislative initiatives and industry outreach. In 2022, I was promoted to director of captive insurance to directly support deputy commissioner Sandy Bigglestone in the supervision of our more than 650 active licensed captives. In my role as director, I oversee new captive licensing, assist in the review of requests for business plan changes, help develop changes to laws, regulations, bulletins and guidance, supervise the analysis of non-RRG captive insurance companies, and participate in educational sessions and industry outreach. I am lucky to work with an expert team of approximately 30 captive insurance professionals, who work diligently to maintain high standards in licensing and solvency monitoring.

Could you elaborate on the responsibilities involved in managing Vermont's captive regulatory operations?

Upholding Vermont's regulation comes with great responsibility. Our team is responsible for licensing quality captives that meet our stringent regulatory requirements and expectations; monitoring compliance with relevant laws, regulations and guidelines; conducting risk assessments and performing analysis for financial solvency. This robust regulatory framework ensures that captive owners are better prepared to weather adverse market conditions and inevitable setbacks that sometimes come with owning and operating an insurance company.

In addition, we are involved in rule-making and policy development to ensure effective regulation in a rapidly changing market. We frequently participate in industry outreach and education to raise awareness about captive insurance and regulatory requirements. We take pride that we have gained the trust and confidence of domestic and international businesses and captive insurance regulators from many other jurisdictions. An essential key to our regulatory approach is to stay responsive to captive owners and the changing market dynamics while upholding our commitment to the highest of standards.

How has your background in public accounting, particularly in the captive insurance field, influenced your work in the division?

I was lucky enough to get my start in the captive industry as an auditor with Johnson Lambert, learning from some of the industry's brightest people like John Prescott and Magali Welch. This experience gave me a strong foundation and deep understanding of the operations and financial statements of captive insurance companies. Regulators and auditors think alike and have very

similar objectives. Today, I rely on our approved auditors to provide independent and objective opinions on the financial statements of captives domiciled in our state. Their work empowers me and my team to make informed decisions and helps us maintain the stability of our regulatory system.

What are the key factors or indicators you consider when monitoring the financial condition of captive insurers domiciled in Vermont?

No two captive insurance companies are the same, so we find that taking a balanced and deliberate approach works best. When looking at solvency ratios and financial results, we consider each captive's unique approved business plan, its retained risk, fronting and reinsurance partners, sources of funding, and the financial strength of its parent or owner(s) and their ability or intent to support the captive.

Can you highlight any notable achievements or developments during your tenure as director of captive insurance?

When I first moved from the examination team to support the director and deputy commissioner in 2016, I used my knowledge in risk focused exams and analysis to enhance our licensing process to provide information to our examination team that assists in focusing our resources in areas we consider to be higher risk at the time of licensing. This approach and working together as a team promotes effectiveness and efficiency in regulation. ■

"No two captive insurance companies are the same, so we find that taking a balanced and deliberate approach works best"

Christine Brown
Director of captive insurance
Vermont Department of Financial Regulation

What is your role as assistant director of captive insurance and how long have you been a part of the captive division?

Jim DeVoe-Talluto: I was hired as a captive examiner and analyst in 2004. Later that year, I was promoted to examiner-in-charge (EIC), a position I held through 2008, at which time I left the division and embarked on a one-year sabbatical in Central America with my family. I was re-hired in late 2009 and continued in my role as EIC until September 2022, when I accepted the assistant director position. In total, I have been with the captive division for more than 18 years.

Could you provide insights into the specific tasks and responsibilities you handle in supporting Vermont's captive regulatory operations?

As assistant director of captive insurance, I provide direct support to Christine Brown, director of captive insurance, and Sandy Bigglestone, deputy commissioner.

One of my primary responsibilities is conducting reviews of captive applications that we receive throughout the year. In these reviews, we assess the strength of the parent or sponsor, analyse the captive projections and other financial information included with the application, as well as evaluate corporate governance and prospective insurance policies and other agreements.

I also participate in introductory meetings with prospective captive applicants and their Vermont business partners. In these meetings, we discuss the proposed business plan, initial capitalisation and key partners in the programme. Other responsibilities include support and oversight of the annual analysis process for pure captives and participation in industry conferences along with our partners at VCIA and the Vermont Department of Economic Development.

How does your prior experience in public accounting and captive management contribute to your work in the captive division?

In public accounting, I worked in the audit and tax space for mid-sized businesses, so while these companies were not captive-specific, I gained perspective on both auditing standards and corporate tax issues. As a captive manager, I developed a deeper understanding of the captive accounting and reporting requirements, and I was on the other side of the examination process in support of our captive clients.

What are the key challenges or considerations involved in monitoring the financial condition of captive insurers?

For pure captives, the captive is often only as strong as its parent company, so we look closely at the financial condition of the parent as well as the leadership and governance that occurs at the parent level. A strong culture of risk management is also critical. Specific to the captive entity, we look to key solvency ratios, such as premiums to surplus or reserves to surplus, to determine the health of the entity.

At formation, statutory minimum capital levels are typically a starting point and additional capital is often warranted based on the risks and limits written.

From your perspective, what advantages does Vermont offer as a domicile for captive insurance companies and how does the captive division contribute to maintaining that reputation?

The captive division has an unrivalled depth of experience among its staff.

A majority of our staff members have similar backgrounds and experience, with 10 or more years of regulatory experience, combined with previous tenures in captive audit or management.

We rely on this depth of knowledge to inform future decisions and support innovation in the captive industry. When we take a prospective applicant's call, there is frequently more than 60 years of combined regulatory experience that will inform our decision-making. ■

"At formation, statutory minimum capital levels are typically a starting point and additional capital is often warranted based on the risks and limits written"

Jim DeVoe-Talluto
Assistant director of captive insurance
Vermont Department of Financial Regulation

Vermont

Can you describe your role as the director of captive examinations and the main responsibilities of your team in the captive division?

Dan Petterson: As the director of captive examinations, my role is to oversee the monitoring function of our Vermont captive industry, with an ultimate goal of ensuring the solvency and health of our captive insurers and their respective stakeholders. Solvency monitoring essentially encompasses two primary components, examinations and analyses, and operates in a cyclical nature whereby ongoing analyses roll into exams and back into analyses. Operationally, my role entails strategising, organising and directing our team of 25 examiners and analysts in the ongoing completion of up to 125 captive exams per year, annual analyses of 85 risk retention groups, and various analyses on our more than 500 other captives.

How does your background in public accounting and experience in regulating traditional insurance companies contribute to your work in overseeing Vermont captive insurance companies?

My background in auditing captive insurers and experience in regulating traditional insurance companies is initially what led to the opportunity to regulate captive insurers. That experience was invaluable in preparing me for the role I am currently in, but things are rapidly changing. Our jobs require us to be knowledgeable about laws and regulations, financial examinations, financial analysis, auditing, accounting, risk management, actuarial standards, traditional insurance, and captive insurance as well as others. My background provided a great foundation, but there is something new to learn every day. All of this keeps the jobs interesting and it keeps us on our toes.

What are some of the key factors or criteria your team considers when examining and ensuring the responsible operation of Vermont captive insurance companies?

Our monitoring procedures are all risk-focused. We put an emphasis on those areas of the companies that we assess as providing for the greatest risk to solvency. These risks could be numerous for a captive, or they could be few. Much of our assessment will depend on the size, sophistication and complexity of the companies we are reviewing. For most captives, we look to see if the parent or sponsor is healthy.

A large parent with a small captive programme may pose little risk in the larger picture, but if that parent is having financial difficulties, it could have an impact on the captive. It is nice to know that a parent or sponsor has resources if a captive gets into trouble, but if there are fewer resources at that level, we must ensure that the captive has the ability to weather some variability.

We also always look to see if capital is sufficient for the business being written. It is important to note that sufficient capital is typically not the same as — and is generally more than — our statutory minimum capital requirements. We look to see that pricing and reserving are adequate, that governance and controls are effective, and that the company is in compliance with its business plan and Vermont laws and regulations. It is important to note that we look at the risks that could impact a captive's ability to continue to operate in a healthy and solvent manner moving forward. We are interested in where a captive has been and how they look today, but we are also where theyare going and whether they have the ability to get there.

How do you stay updated on the latest rules, regulations and industry best practices to effectively carry out your role in the captive division?

Communication is key! We are fortunate to be part of such a large and diverse team that is constantly communicating and learning from one another.

To some degree, we stay updated because of our willingness to share what we are all hearing and learning daily as part of our job.

We talk to captive managers, attorneys, accountants, actuaries and other service providers. We have discussions with management, directors and other key captive contacts where possible.

Our team is active in conferences from a presenting and training aspect, as well as a networking aspect, and at various industry training sessions.

We are active on NAIC working groups and disseminate information that we receive as part of that relationship. We have a very active advocacy group, the VCIA, which also provides training and a great deal of information to our team.

We are readers, listeners, and often contributors to all the various publications and broadcasts covering our industry and disciplines. We also monitor and interact on social media.

There is so much information to stay current on and so many resources that it can be quite overwhelming for one or even a few individuals to keep track of.

Collectively, however, we are able to funnel the important stuff into our processes and into the hands of those that need to know and the decision makers.

What strategies or initiatives has your team implemented to promote compliance and maintain the integrity of the captive insurance market in Vermont?

Many of the more recent initiatives revolve around being as efficient and effective as possible in all that we do. We strive to provide a value-added environment by interacting with our companies, by allocating resources to areas that pose greater risks, and by being consistent in our regulatory efforts. We have also fostered a very collaborative working relationship with various captive service providers that typically serves as our first line of defence in monitoring our companies.

The tone throughout industry is very upbeat and the message is clear — we want to be the regulator of choice when it comes to captives, we want to be the first place you look to or call when you have a question, and we want to continue to deliver as well as or better than we ever have. ■

Dan Petterson
Director of examinations:
Vermont Department of Financial Regulation

As captive insurance economic development director, what are your primary responsibilities in promoting Vermont's captive insurance industry?

Brittany Nevins: My primary responsibility is to market Vermont globally as a captive insurance domicile and to engage with businesses that may be interested in forming a captive insurance company and are considering Vermont as a domicile. How this looks in practice is managing our website, social media, content creation, and the coordination of our various sponsorships, article opportunities and events we participate in. A significant part of my role is ensuring that Vermont is represented authentically and that our information is clear and accessible.

How do you collaborate with the DFR and Vermont Captive Insurance Association (VCIA) to enhance the state's reputation as a premier captive insurance domicile?

While I am in the Vermont Department of Economic Development in the agency of commerce and community development, and I am intentionally separate from the regulatory aspects of the captive insurance programme, I work very closely with my colleagues at the DFR captive insurance division. I also work closely with the VCIA in the facilitation of educational information and collaborating around various association events and activities. For me to do my job well, I need to be able to lean on our regulators and their expertise to provide thought leadership and give input into the various marketing initiatives I am undertaking. Their input is extremely valuable to my work — it allows me to fairly represent the work of the division and the expert regulation they provide. We have a regular standing meeting with the division and the president of the VCIA, where we can brainstorm and collaborate on the projects I am working on and where they can also provide ideas for future projects. Finally, I attend various conferences throughout the year and work closely with my colleagues at the DFR and VCIA to speak with businesses and on panels.

Could you elaborate on your role in advising Vermont's governor and secretary of commerce on captive insurance legislation and policy recommendations?

I send a weekly report to the secretary of the agency of commerce and community development and the governor's office that includes updates on the captive insurance programme, such as articles published, points of collaboration, and any information I feel is important for the leadership to be aware of. During the legislative session, I will include updates in the legislative process and will request a meeting with the leadership when necessary. The legislative process is very smooth as the captive bill is drafted every year with input from the VCIA and proposals are carefully vetted — so typically, I do not need to engage with leadership beyond regularly updating them. They are very supportive of the captive insurance industry in Vermont and want to see its continued success.

What specific strategies or initiatives have you implemented to attract the expansion and relocation of businesses within Vermont's captive insurance industry?

I focus much of my time on maintaining Vermont's strong reputation as the "gold standard" of captive insurance regulation in the world. Vermont has a particular brand of accessibility to regulators, efficiency and quality regulation.

Because this is authentically who we are and we have decades of work supporting this reputation, I really focus much of my energy on storytelling and thought leadership.

Those who are interested in forming a captive, and professionals in the industry, want to hear from our expert regulatory team and service providers in Vermont and I spend quite a bit of my time facilitating this sharing of knowledge and “putting a face” to this robust industry.

This also has the added benefit of raising awareness about captive insurance as a potential career path in Vermont, which is an area of focus we have identified.

I also work with the VCIA in the consideration of future road shows and international trade missions where we can raise awareness about captive insurance as a possible tool for companies and organisations.

Lastly, conferences and events are important for us as we meet quite a few businesses that are interested in forming a captive insurance company. I work to ensure that we have appealing resources and information available at our conference booth for companies at these various events.

I love coordinating the purchase of locally made maple syrup to have at our booth and supporting local businesses in our conference giveaways.

How do you engage with Vermont’s congressional delegation to monitor policy related to captive insurance regulation and financial services industries?

In my time in this role, I’ve had to engage with the congressional delegation very little. There is tremendous support for the captive insurance industry at all levels of government and it is rare for a concern to rise to the level of the congressional delegation’s attention. Occasionally, they will have questions they send my way that I will field to the appropriate regulator and schedule a meeting when necessary. The industry in Vermont is tremendously stable, so there is little need to engage with the congressional delegation — which is a good thing! Whenever we have needed to engage, they have been eager to learn and support in any way they can, recognising the tremendous benefits to the Vermont economy. ■

Brittany Nevins
Captive insurance economic development director
Vermont Department of Financial Regulation

Further insight into Vermont's captive market

Sandy Bigglestone, deputy commissioner of captive insurance, provides more insight into the current state of the Vermont captive market and how the division intends to adapt to regulatory changes

How would you describe the current state of the Vermont captive market in terms of growth and development?

Vermont's captive market is thriving. In 2023, we are experiencing a similar positive growth pattern as we have over the last few years, pointing to a real need for organisations to manage their risk using a captive insurance company.

What factors have contributed to Vermont's continued success as a leading domicile for captive insurance companies?

It is a culmination of years of a consistent regulatory approach, a stable political environment and dedication to the industry.

While efforts are spent developing the domicile, we find it equally important to continue to have a wealth of talent and expertise so we remain engaged with efforts to grow the workforce to support the industry.

Another factor is the Vermont infrastructure, which is a model of excellence.

Are there any emerging trends or patterns within the Vermont captive market that you have observed recently?

Most notably, we are seeing a continuation of the challenging commercial marketplace prompting growth for captive insurance in all the typical commercial lines of business.

Can you provide an overview of the types of industries or sectors that are predominantly utilising captive insurance in Vermont?

All industries and sectors. In terms of new licences, the majority comes from the following industry sectors: healthcare, construction, real estate, insurance, manufacturing, retail, agriculture, entertainment, professional services, transportation, energy, nonprofits and technology.

How does the captive division adapt to changes in the regulatory landscape to ensure the competitiveness and attractiveness of the Vermont captive market?

The division stays engaged with industry and attends various industry events. We also attend the National Association of Insurance Commissioners (NAIC) meetings and participate in NAIC activities, which enables us to engage with other regulators. Internally, we exercise our critical thinking skills by constantly looking at what we do and ways in which we can improve our regulatory processes. Further, we gather feedback from our stakeholders about what we are doing right and areas we might improve.

What initiatives or strategies has the captive division implemented to promote the growth and expansion of the Vermont captive market in recent years?

We have increased our visibility, which seems to have had a positive effect on promoting ourselves and showcasing our talent. Companies tell us they chose Vermont because we have quality regulation and an experienced infrastructure of service providers, plus a stable political environment. We are being intentional about ways in which we can focus on our strengths.

Upholding the same regulatory approach, focusing on culture and talent acquisition, are great ways to solidify our success. ■

Sandy Bigglestone
Deputy commissioner of captive insurance
Vermont Department of Financial Regulation

All change

Agile Premium Finance talks to John Savage about the recent disruptions to the captive industry and the different types of financing options that are available

With all the recent changes and disruption in the banking industry, how have you been affected?

We believe that banking problems can create opportunities for innovation in the financial sector. We have always strived to foster innovation and encourage the development and adoption of financing as a funding option for captives.

With our proposed innovative funding solutions, we can streamline the funding process, reduce opportunity costs, and enhance captive owner experiences. Our focus is to make financing more accessible and efficient.

How can you lessen the burden of rising interest rates?

Navigating the current interest rate landscape can pose challenges for firms seeking cost-effective borrowing options. However, our affiliation with a bank allows us to explore innovative solutions that help mitigate the impact of elevated borrowing costs.

As a result, our borrowing index tends to be lower compared to conventional captive lenders. Our primary focus is streamlining the financing process to minimise the time and effort required to secure funds.

What are the different types of financing options available in the captive space?

There are several types of funding options available for a captive owner. We provide an alternative funding source by customising financing options that include collateral financing, premium financing and alternative loan backs and the formation of Private Premium Finance Company.

How can these alternative financing options reduce dependency on traditional banks and make funding more accessible for businesses and individuals?

Our funding solutions are tailored specifically to the unique requirements of captive insurance programmes. Unlike traditional banks, we have a deep understanding of the intricate needs of captives. This expertise allows us to design and deliver targeted solutions that address captive-specific challenges. While we recognise that captive owners may still require access to funds from traditional banks for other areas where they feel more at ease, rest assured, our solutions are designed to co-exist harmoniously with traditional banking relationships — ensuring that the captive owners' borrowing capabilities remain intact in their preferred lenders.

What are the potential benefits of diversifying funding options for captive insurance companies?

Diversifying funding options for captive insurance companies offers significant advantages in adapting to market changes. By accessing specialised lenders that cater to captive financing, captives can optimise their capital structure and funding strategies while preserving their borrowing capacity for other types of loans with traditional banks.

Moreover, diversified funding options unlock strategic growth opportunities for captive insurance companies. The availability of additional capital empowers captives to embark on expansion initiatives, enter new markets, or introduce innovative product offerings.

This strategic approach allows captives to strengthen their competitive position, maximise growth potential, and seize promising prospects in the evolving insurance landscape.

How does premium financing help with cash flow management in a captive insurance programme?

By opting for premium financing, the company can preserve its cash flow and maintain liquidity by making smaller regular payments over the policy period, instead of paying a large premium amount upfront. Companies can agree to customised financing terms according to the repayment period, frequency of instalments, and even structure the financing to align with their revenue cycles.

This flexibility helps to optimise cash flow and align it with the company's operational requirements. By utilising premium financing, companies can redirect their available cash into other investment opportunities that may yield higher returns.

Instead of tying up their capital in a lump sum premium payment, they can invest in projects, acquisitions, or growth opportunities that can generate additional revenue or improve their financial position.

What are the key considerations when deciding whether financing is a viable option for a captive insurance programme?

These considerations should include; cost of financing, cash flow analysis, long-term financial strategy and risk management. Determine the cost of borrowing the funds needed for premium financing by assessing the interest rates, fees and other charges associated with the financing arrangement. Compare these costs with the benefits and cash flow advantages the financing provides.

Evaluate the company's cash flow situation by understanding the timing of cash inflows and outflows, including revenue cycles, operational expenses and other financial obligations. Assess whether financing the insurance premiums aligns well with the company's cash flow patterns and whether it will help improve liquidity and cash flow management.

Identify whether financing the captive insurance premiums aligns with the company's broader financial objectives. Assess the impact of premium financing on the company's financial stability, debt capacity and ability to pursue other investments or growth opportunities.

Evaluate the historical performance of the captive, claims experience and underwriting practices. A stable and well-managed insurance programme is more likely to be suitable for financing, as it provides confidence in the premium calculations and the long-term sustainability of the captive.

Ensure that the financing arrangement complies with applicable laws, regulations and accounting standards. Consider consulting legal and tax professionals with expertise in captive insurance and premium financing to ensure compliance and mitigate any potential risks.

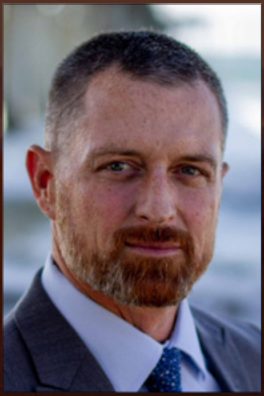
Seek guidance from insurance professionals, captive insurance specialists, financial advisors and legal experts with experience in captive insurance programmes and premium financing. These professionals can provide valuable insights, evaluate the specific circumstances of the company and offer tailored advice to make an informed decision.

Why would a company seek financing for their captive insurance programme?

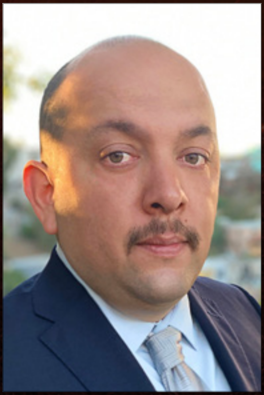
While the captive owner may have the resources to fund the captive, doing so could necessitate liquidating working assets, potentially undermining their overall financial strategy. Raising funds through private investors often involves demanding a significant fixed return on investment and acquiring an equity position in the captive. Opting for financing provides a viable solution to steer clear of such scenarios.

Ultimately, the decision to seek financing for a captive insurance programme depends on the company's specific circumstances, risk profile and financial objectives. It is advisable for companies to assess their captive's financial needs and consult with captive experts, risk advisors, and financial professionals to determine the most appropriate financing approach for their unique situation. Captive owners can feel confident that there are creative funding and premium finance solutions at their disposal in today's marketplace. ■

Dan Duncan
Captive specialist
Agile Premium Finance - Captive Specialists



Michael Vincent
Captive Specialist
Agile Premium Finance - Captive Specialists



Francisco Tamayo
Sales and marketing coordinator
Agile Premium Finance - Captive Specialists

Delivering for a captive audience

Michele Fields, superintendent of insurance at the Insurance Commission of The Bahamas, outlines how the commission continues to enhance the captive industry by streamlining the application process and maintaining a robust regulatory and supervisory framework which meets international standards

The Bahamas

The Bahamas' participation in the captive insurance industry dates back to the 1960s. Given the islands' rich history in this niche industry, The Bahamas Government has taken steps in recent years to ensure that the business of captive insurance actively contributes to the overall growth of the financial services sector.

Local insurance managers and other financial intermediaries are still finding ways to promote both their own services and the jurisdiction in the captive market. The Bahamas Financial Services Board (BFSB) has helped them do so, highlighting the jurisdiction as a competent and competitive international financial centre that promotes synergies between the industries of the financial services sector.

The history

Over the last 10 years, the number of licensed captive insurance entities registered in The Bahamas has grown – at first very rapidly and, in the last five years, steadily. As a result, growth has occurred in overall net premium volume along with the expansion in the number of parent company regions throughout the US and Europe.

The growth in The Bahamas' captive market is largely attributed to small-to-medium sized entities (SMEs) seeking to set up their own segregated accounts. This option has proven to be cost-effective for those SMEs, especially since they can and do outsource administrative and operational oversight to locally registered insurance managers, financial and corporate service providers, and other financial service professionals such as lawyers and accountants.

In 2021, as part of its strategic plan to amalgamate legislation, the commission began a review of the jurisdiction's two principal insurance laws – the Insurance Act, 2005 and the External Insurance Act, 2009.

The purpose of the review, which is still in progress, is to streamline regulatory and supervisory requirements and to enhance legislation to help insurance structures.

The Commission's intent to amalgamate those two pieces of legislation is to introduce categories of licences that emphasise the type of insurance business that the entity will be conducting and the structure of the entity, rather than where the policyholders are located.

Currently the amalgamation is well underway, and it is anticipated that the draft legislation will be issued for consultation in Q3 2023. Following any feedback and proposed amendments from the consultation period, we would then seek to get the amended bill passed through parliament.

Amalgamating the legislation appropriately corresponds with our risk-based supervisory framework whereby as a jurisdiction we eliminate the perception of varying our supervisory oversight based on the current demarcation of international business versus domestic business.

We have a very robust domestic insurance market in The Bahamas. External insurers will have a similar level of supervision based on their risk profile. As such, our risk based supervisory framework considers the size, nature and complexity of the institution which determines the regulatory measures that we take; no matter whether the policyholders are in The Bahamas or abroad.

Looking ahead

Given the current hard market conditions, entities with a firm understanding of their risk and loss history may be seeking alternate ways to finance their cost of insurance coverage. Such conditions act as a catalyst for captive formations.

The captive, as an alternative risk transfer mechanism, is always going to be a consideration for company owners, because they are looking at containing costs.

In this regard, The Bahamas is a competitive, cost-effective jurisdiction given the local and international expertise and resources present within the financial

services sector. The robust nature of our regulatory framework is such that we can oversee any type of international insurance business.

Also, The Bahamas as a jurisdiction can boast of its professionally trained and highly skilled service providers. This includes accountants, lawyers, and insurance managers; and should the need arise for outsourcing specific services this can be achieved with relative ease.

Key factors such as fair regulatory costs, highly-skilled and varied professionals and the way that we employ a risk-based approach to our supervisory oversight of the industry, continue to be attractive considerations for international and captive insurance businesses. ■

"The Bahamas is a competitive, cost effective jurisdiction given the local and international expertise and resources present within the financial services sector"

Michele Fields
Superintendent of insurance
Insurance Commission of The Bahamas

Ian-Edward Stafrace
Chief strategy officer
Atlas Insurance PCC

Leveraging protected cells for ESG

a forward-thinking approach

Ian-Edward Stafrace of Atlas Insurance PCC shares his insights on leveraging protected cells for advancing ESG goals and driving sustainable change

In a world in which ESG considerations increasingly dictate business strategy, risk and insurance managers are uniquely positioned to lead the charge. As ESG, sustainability and climate change adaptation ascend corporate agendas, insurance-protected cells can provide potent tools to drive positive ESG outcomes.

The strategic intersection of protected cells and ESG

With their flexibility and efficiency, protected cells can significantly bolster their parent organisations' ESG strategy. They align with the long-term strategic view of leading organisations, working proactively to meet the escalating pressures and expectations from investors, governments, regulators and consumers. In this context, risk managers should integrate ESG considerations into their risk financing strategy, aligning with and positively influencing the wider group's ESG priorities.

The UN Environment PSI

The UN Program's Principles for Sustainable Insurance (PSI) provide a global framework for addressing ESG risks and opportunities. Cell owners can reap several benefits by adopting the PSI for risk management, innovation and solution development, policy influence and transparency, and accountability. The PSI encourages organisations to consider ESG issues in their decision-making process, which can lead to more comprehensive risk management. By identifying and addressing ESG risks, cell owners can protect their assets and ensure long-term sustainability.

The PSI promotes collaboration to develop solutions for ESG issues, which can lead to innovative covers and services that meet the cell owner's and society's evolving needs.

It encourages engagement with governments, regulators, and other stakeholders to promote action on ESG issues, which can give cell owners a voice in shaping policies that impact their business and wider society. In addition, the PSI requires regular public disclosure of progress in implementing its principles. This transparency can enhance a cell owner's reputation, build stakeholder trust and demonstrate commitment to sustainable practices.

This adoption can provide cell owners with a strategic approach to managing ESG risks and opportunities while demonstrating their contribution to the broader societal goal of sustainable development.

Commitment to sustainability

Atlas Insurance PCC is actively committed to sustainability and community engagement. It has recently partnered with renowned swimmer, ocean activist and world record holder Neil Agius. Agius' 'Wave of Change' initiative is a movement that raises awareness of the impact daily decisions have on our seas and oceans. Through this collaboration, Atlas supports initiatives related to sustainability, lessening pollution and increasing wellbeing. The partnership underscores Atlas's belief in the power of community engagement to drive positive and sustainable change.

Addressing emerging climate change risks

Organisations face emerging climate change issues, including transition and adaptation risks. Companies can use their protected cell as a pre-funding and uncertainty management tool for future risks. They can identify current or future transition risks that will have the most significant impact on the organisation and which assets are likely to be most exposed. They can leverage their data and relationships with actuaries and reinsurers to plan for and address these risks.

Carbon footprint and sustainability reporting

A captive may need to report on ESG due to regulatory requirements. Protected cell companies (PCCs) may have economies of scale to share in this area as they evolve with the changing regulatory reporting landscape. As a PCC is a single legal entity inclusive of the cells it hosts, it has proven itself to be efficient in external reporting. In the EU, for example, a PCC produces a single own risk solvency assessment (ORSA), regular supervisory report (RSR) and solvency and financial condition report (SFCR).

The Partnership for Carbon Accounting Financials (PCAF) has recently created a standard for calculating insurance-associated carbon emissions. Broadly speaking, this entails multiplying the carbon footprint of the insured by the insurance premium charged, divided by the revenue of the insured, which is then added to the insurer's carbon footprint. There is, therefore, an added carbon cost for insurers and reinsurers. Consequently, forward-looking risk managers are keen to help their organisations reduce their carbon footprint as it can help their long-term risk financing ability.

A group may also fall within the European Corporate Sustainability Reporting Directive (CSRD) scope. Leading organisations can benefit from CSRD by improving their transparency, accountability and reputation among their stakeholders. It may help risk managers gain further insights into their ESG risks and opportunities, which could help align the organisation's strategy with the EU's sustainability goals while enhancing its resilience and competitiveness.

However, captives could potentially face challenges when complying with CSRD, such as collecting and managing data from multiple sources, ensuring consistency and comparability of disclosures, adapting to changing standards and expectations, and controlling costs and resources. To combat this they can adopt shared resources of PCCs.

Investing with purpose

By investing in sustainable funds that are potentially ESG-rated, a protected cell can align its investment strategy with the group's purpose. This alignment supports the group's ESG strategy and demonstrates a commitment to sustainable investment practices.

More asset managers are now offering high-quality liquid funds with sustainability credentials that can fit the typically lower risk appetite for liquidity and credit risk, helping contain capital requirements. The EU's Sustainable Finance Disclosure Regulation (SFDR) is accelerating progress through the creation and availability of such investments.

The advantage of domiciling in the EU

With an elevated focus on broader sustainability and ESG considerations, the domicile preference onshore versus offshore often depends on stakeholders' expectations, regulators, tax authorities, investors, customers or employees.

Although offshore jurisdictions can offer a low capital and cost base, growing stakeholder pressure has heightened interest in the establishment of risk financing vehicles within the EU.

Ireland, Luxembourg and Malta are among the EU member states that have tailored themselves to proportionally enable captives while still adhering to EU minimum standards and requirements, including Solvency II and the Insurance Distribution Directive.

Malta, in particular, stands out as the only EU member with protected cell legislation, offering unique advantages for organisations seeking to establish protected cells.

The efficiency and substance of protected cells

Protected cells offer a unique blend of cost-effectiveness and efficiency. EU Solvency II recognises cells as ring-fenced funds, meaning there are no minimum capital requirements for individual protected cells having recourse to the core, as these apply at an overall company level.

Stakeholders are raising the bar for substance. Insurers, including captives, are increasingly expected to have adequate on-the-ground staff and employed key function holders. PCCs can help address substance requirements as cells form part of a broader single entity that provides shared board, governance and key functions in Malta.

Maltese PCCs have shared economies of scale and they are placed within the remit of the EU, yet they are without a standalone company's complexities, costs and time restraints. These factors can potentially save capital. Additionally, some PCCs actively write EU business through their active non-cellular core. Atlas's core, for example, is a long-established contributor to its local economy as a traditional non-life domestic insurer. Through occupying multiple branches and offices in Malta, Atlas can provide ample substance to the PCC.

"Stakeholders are raising the bar for substance. Insurers, including captives, are increasingly expected to have adequate on-the-ground staff and employed key function holders"

PCCs that actively cover risks in their domicile also address arbitrage objections from stakeholders on insurance companies that only cover risks outside their domicile.

As the world continues to grapple with ESG challenges and opportunities, the role of protected cells in driving positive outcomes is becoming increasingly evident. By leveraging the unique advantages of these structures, organisations can meet their ESG objectives and drive improved risk management.

Ultimately, the journey towards a sustainable future is a shared responsibility. On this journey, protected cells can serve as powerful allies, equipping organisations with the necessary tools and strategies to navigate the complex landscape of ESG risks and opportunities. ■

Tens across the captive board

Carter Lawrence, commissioner of the Tennessee Department of Commerce and Insurance, talks to John Savage about attracting and retaining captive insurance companies in Tennessee

Congratulations on the recent licensing of the 1000th risk-bearing entity by the TDCI's Captive Insurance Section. What does this milestone signify for the captive insurance market in Tennessee?

We're very proud of hitting that important milestone. The 1000th risk bearing entity milestone indicates our success and the growth we have experienced in the last 12 years.

It shows the captive insurance world that Tennessee's captive insurance model is thriving.

It's proof that Tennessee has had and continues to have real traction among companies who are continuing to explore their best options for risk management. It also shows that many companies are specifically thinking about captive insurance as an option.

Tennessee is one of the oldest domiciles for captives in the US. However, it wasn't until our captive insurance statute was modernised in 2011 that there was a 'rebirth' of the captive insurance market in the state.

Once our statute was modernised, it took the hard work and leadership of our governors — both past and present — to make our captive insurance industry as successful as it is now.

We must also thank the leaders in our legislative body and the General Assembly.

Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance

"We have an award-winning, highly-trained captive insurance team that is laser-focused on customer service. Our insurance department is dedicated to serving all risk management needs and all types of captives"

Could you provide an overview of the current state of the captive insurance market in Tennessee and its importance to the state's economy? In addition, what key factors have contributed to Tennessee's position as the ninth largest captive domicile in the US?

The state is also the 13th largest domicile in the world, according to Allianz's global 2022 rankings. To put that in perspective, Tennessee businesses paid a total of US$2.4 billion in premiums in 2022.

We have an award-winning, highly-trained captive insurance team that is laser-focused on customer service. Our insurance department is dedicated to serving all risk management needs and all types of captives.

Tennessee's legislation for captives is state-of-the-art — we remain committed to working with the industry to improve our legislature and to build upon what already works for our statutory construction.

The leadership from our governor, the Tennessee General Assembly and our legislative body are key facets to our success.

All those factors have afforded us the success that we've experienced.In addition, we've been very intentional about our marketing of Tennessee.

Michael Schultz is the Tennessee Department of Commerce & Insurance business development director, a newly created role.

He is broadly responsible for marketing Tennessee's risk management capabilities with a specific focus on captives. He has been appointed in an effort to make sure that we don't overlook local growth that we could have in Tennessee.

We recognise that Tennessee has developed enough as a captive domicile to be able to provide the complex regulation that the state needs.

We were really proud that the International Paper Co. moved its captive insurance company to Tennessee from Vermont.

It recognised that Tennessee had developed enough as a captive domicile to be able to provide the complex regulation that they needed.

And I think IP is just the start of continued redomestications on the horizon that we are really excited about.

Tennessee has grown in population and we've grown in companies, and we want to make sure that that growth happens in Tennessee as well.

“This year, we announced our 1,000th risk-bearing entity”

Tennessee Announces 1,000th Risk-Bearing Entity Milestone

One of the First States to Adopt Captive Insurance Statute, Tennessee Commemorates 1,000th Risk-Bearing Entity

Monday, May 08, 2023 | 07:00am

NASHVILLE – The Tennessee Department of Commerce & Insurance (“TDCI”) announces that Tennessee has now licensed its 1,000th risk-bearing entity since the Captive Insurance Section began licensing this unique risk-management tool for businesses.

Tennessee ranks as the 9th largest captive domicile in the United States by the Insurance Information Institute’s 2022 rankings and 13th largest domicile in the world according to Allianz Global 2022 rankings. Further, Tennessee businesses paid a total of $2.4 billion in premiums in 2022.

“While Tennessee is one of the oldest domiciles in the U.S., it wasn’t until our captive insurance statutes were modernized in 2011 that the captive insurance market in Tennessee began to flourish,” said TDCI Commissioner Carter Lawrence. “Since then, Tennessee’s captive industry has grown both in company size, licensees, and professional captive service providers every year. The support of Governor Bill Lee, the Tennessee General Assembly, and the Tennessee Captive Insurance Association has enabled captive insurance to grow steadily in Tennessee, and I am proud TDCI has been able to facilitate that development.”

TDCI’s Captive Insurance Section is responsible for regulating the Tennessee captive insurance industry. Captive insurance represents an option for businesses that want to take financial control and manage risks by underwriting their own insurance coverage rather than paying premiums to third-party insurers.

“Businesses utilizing captive insurance pays dividends for all Tennesseans,” said TDCI Captive Insurance Section Director Mark Wiedeman.

“Captive insurance helps keep costs low which in turn helps companies create new jobs and make new investments that create direct and indirect economic impact in the years ahead. Tennessee’s reputation continues to rise among risk managers, captive managers, and other captive professionals. We are grateful and look forward to continuing to assist the industry by providing a balanced and predictable regulatory environment that allows for continued captive growth.”

On the occasion of Tennessee licensing its 1,000th risk-bearing entity, captive insurance licensees are speaking about impact of the Department and its emphasis on responsible regulation.

Formed in 1983, Distributors Insurance Company, a wholly owned subsidiary of the Tennessee Valley Public Power Association (“TVPPA”), is the oldest continuously operating association captive insurance company domiciled in Tennessee.

TVPPA President and CEO Douglas Peters said the company was created “to provide workers’ compensation, general liability, and auto insurance to TVPPA member distribution utilities.”

Peters said, “The parent company and most of our members are located in Tennessee, so it was natural for us to consider Tennessee as the domicile for our captive. In addition to our location, Tennessee’s innovative approach to captive insurance regulation caused Distributors Insurance to choose to domicile in Tennessee and, we have found no reason since to question that original decision.”

Pinnacle Financial Partners redomesticated to Tennessee from Nevada because of Tennessee’s modernized captive insurance statute.

“Tennessee’s captive statute was, and still is, the gold standard for captive formations in the U.S.,” said Pinnacle Chairman, Rob McCabe.

Tennessee Captive Insurance Association President Kevin Doherty said, “This is a defining achievement for Tennessee and shows how the hard work of the domicile and everyone involved has helped to create dramatic growth over the last 12 years. It is also emblematic of the success of the public-private partnership in Tennessee pursuant to which the Department and the captive insurance industry have worked together to create one of the top U.S. domiciles.”

“As we commemorate the 1,000th risk-bearing entity, I want to thank the captive managers of the companies who were among the first to either open a domicile in Tennessee or move to the Volunteer State because of what the difference they found here,” said TDCI Assistant Commissioner for Insurance Bill Huddleston: “Whether a company has just begun their work in Tennessee or if they have been here for years, our team is ready to answer their questions and assist them in any we can.”

Recent news supplied by the Tennessee Department of Commerce & Insurance

TDCI Announces New Captive Insurance Section Director

Tuesday, February 07, 2023 | 11:22am

NASHVILLE – The Tennessee Department of Commerce & Insurance ("TDCI") proudly announces that Mark Wiedeman will serve as director of TDCI's Captive Insurance Section.

A Utah native, Wiedeman is a graduate from Brigham Young University with a bachelor of arts in history and a master's in public administration. Wiedeman began his regulatory career working as a valuation analyst for the Utah State Tax Commission. He joined the Utah Insurance Department in 2012 as an auditor before being promoted to senior examiner and eventually rising through the ranks to become assistant division director. In 2022, Mark left the Utah Insurance Department to start a business in contract insurance examinations and captive insurance consulting.

"Mark's return to the field of insurance regulation is a huge win for TDCI, for all of Tennessee's captive insurance licensees, and for the State of Tennessee," said TDCI Commissioner Carter Lawrence. "His proven leadership and sterling reputation in the captive insurance industry will build on our momentum as a first-choice domicile for captive insurance companies both domestically and internationally. I am thrilled to welcome Mark to the TDCI team, and I am confident he will take Tennessee to the next level of success."

Businesses can use captive insurance as an option to help mitigate risk and manage costs in certain aspects of their operations. In Tennessee, TDCI regulates captive insurance companies. Tennessee has 151 active licensed captive companies and a total of 562 risk-bearing entities with annual gross written premium exceeding $1.72B. Currently, Tennessee is ranked 10th worldwide for captive domiciles and is the 6th largest captive domicile in the United States.

Said TDCI Assistant Commissioner for Insurance Bill Huddleston: "While a large part of captive insurance focuses on analyzing numbers and regulatory compliance, building relationships with people is crucial to an agency's success both internally and externally. Having a person of Mark's caliber leading TDCI's Captive Insurance Section will make the Division of Insurance stronger and will make our department stronger as a whole."

Said Wiedeman: "Tennessee has a great reputation among captive domiciles, and I am excited to be joining Tennessee's team where I will work to help them continue in their success. My goal is to maintain a regulatory structure that allows for stable and sustainable growth while giving captive companies a domicile in which they can succeed in providing their parent companies with innovative insurance products."

Recent news supplied by
the Tennessee Department of Commerce & Insurance

"We also announced the arrival for our new captive section director"

"We always invest in our people to better serve our customers. Most of our team come to us as CPAs, but if they don't have captive experience when they start, we give them the chance to obtain the relevant designation"

In what ways does the TDCI's Captive Insurance Section contribute to the overall success and effective regulation of Tennessee's captive insurance industry?

As the regulator, we hope we are doing a good job of fostering success and providing effective regulation. Tennessee consistently works to allow captives to be able to build on their capital of success, while maintaining a reasonable, sensible regulatory environment that does not hinder that ability. We are continuously evaluating our rules and our statutes to keep up-to-date with the industry, while at the same time not sacrificing the robust regulatory structure that we must maintain.

Could you share any initiatives or programmes aimed at attracting and retaining captive insurance companies in Tennessee, as well as any that ensure a favourable business environment?

We always invest in our people to better serve our customers. Most of our team come to us as CPAs, but if they don't have captive experience when they start, we give them the chance to obtain the relevant designation. For example, the Associate in Captive Insurance designation allows them to further their captive insurance education. They work closely with senior members of the department's captive leadership, the captive managers and also the owners to decide what options best suit the client that they might be assigned to.

Our HR department also carried out a total compensation study in which it monitored what state employees earn compared to the private sector. It resulted in the vast majority of our commerce and insurance employees recieving a pay increase. HR's action increased the total rewards for our team which has helped us with talent retention and recruiting the best possible people to our team.

Additionally, if employees receive designations relevant for their work we have approval from HR to give those employees an increase in salary. That allows someone to begin a role, receive training and get rewarded for the training. It makes our recruitment more attractive and our retention rate increases because the employee can mature their regulatory career with us. If they wish, they can begin and end their career at the state of Tennessee, we certainly want to make that a possibility.

"With the help of our team leaders and legislative staff, we'll never miss an opportunity to improve upon our existing legislation to ensure greater attraction to Tennessee"

Looking ahead, what is your vision for the future of the captive insurance market in Tennessee, and what steps do you plan to take to further enhance its growth and success?

We want captive insurance to be seen as a component of risk management. Tennessee has taken the relatively unique step of breeding a captive for the management of certain lines of risk and we've domiciled in the state — the relationship that we've had with the Treasury Department in which the captive is located, has been phenomenal.

They've been really pleased with the regulation that we provided.

Our overall vision is to continue to grow captive insurance in Tennessee by providing the highest quality customer care.

We want captive owners and support vendors to have unfettered access to their analysts. In this world of more virtual work, we want our customers to reach out to us so that we can better understand their needs.

We will continue to work with our governor and our General Assembly to make sure that we are well positioned for future growth. I'm sure the support that we've enjoyed from the governor will only continue. This will allow us to build a strong captive insurance industry. With the help of our team leaders and legislative staff, we'll never miss an opportunity to improve upon our existing legislation to ensure greater attraction to Tennessee.

Tennessee has beautiful scenery, a wonderful climate and is world-renowned for its music. It's an amazing place to live and work. ■

"In 2022, the State of Tennessee started its own captive"

New Tennessee Captive Insurance Company to create savings on insuring state property

Tuesday, February 07, 2023 | 11:22am

With a focus on fiscal responsibility, the State of Tennessee has established the Tennessee Captive Insurance Company to create additional efficiencies and savings when insuring state property.

Administered by the Tennessee Department of Treasury, Division of Claims and Risk Management, the State of Tennessee is self-insured for property and general liability. This covers all state-owned buildings and contents, including the campuses of Tennessee public institutions of higher learning, with a total property value of $ 31.4 billion as of July 2022.

Businesses can use captive insurance to mitigate risk and manage costs in certain aspects of their operations. Implementing the Tennessee Captive Insurance Company allows the State to operate with a high degree of efficiency as it works to insure property losses up to deductible limits, access the wholesale reinsurance markets to reduce premiums, minimize volatility in pricing, and underwrite the state's own unique risks.

The Division of Claims and Risk expects the captive to help them insure unique and difficult risks and reduce overall insurance costs. The use of a captive will also allow the State to better evaluate and control the risks of Tennessee state government.

Captive insurance companies in Tennessee are regulated by the Tennessee Department of Commerce and Insurance, which recently granted the nonprofit state captive authority to operate, following its recent approval of the authorizing legislation by the Tennessee General Assembly.

"Commerce & Insurance has advocated for captive insurance as a smart business option to lower costs and increase specifically tailored protections," said Department of Commerce & Insurance Commissioner Carter Lawrence. "Now that the State is establishing a captive insurance company, taxpayers will benefit from these same advantages."

The potential savings from the captive will benefit taxpayers as they will be used to write policies with lower premiums, or to return or invest the savings to prepare for future claim payouts and ultimately save taxpayer money. The state captive insurance company initially will only issue property and cyber liability policies, but the State may add other lines of coverage in future years.

The Tennessee General Assembly recently enacted legislation permitting the State Treasurer, David H. Lillard, Jr., to create the state captive with the approval of the Tennessee Board of Claims.

"I thank the Tennessee General Assembly for giving our state the ability to operate in a fiscally smart manner," Treasurer Lillard said. "The Tennessee Captive Insurance Company will save Tennessee taxpayers millions of dollars in the coming years. This is yet another way Tennessee works to keep taxes low for our citizens."

The legislation, passed unanimously by the 112th General Assembly, was sponsored by Senate Majority Leader Jack Johnson (R-Franklin), and in the House of Representatives by Chairman Gary Hicks (R-Rogersville).

The captive is governed by its Tennessee Captive Insurance Board, composed of Tennessee state officials, including the State Treasurer, the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, and the Secretary of State.

Recent news supplied by the Tennessee Department of Commerce & Insurance

Captive and carrier cohabitation

Leading experts Diana Hardy, Adam Miholic, and Mike Meehan unravel the intricacies of hybrid insurance programmes

From a regulatory perspective, what challenges or considerations arise when a captive insurance company and an admitted carrier co-exist within the same insurance programme?

A key area is assessing how the captive looks to the admitted carrier on its books, if the carrier is retaining some of the risk in a captive.

There are different rules for Statutory Accounting Principles (STAT) primarily SSAP 97 and Generally Accepted Accounting Principles (GAAP) which under Financial Accounting Standards Board Accounting Codification Topic 810 may require consolidation where STAT really never requires consolidation.

Another major concern is the collateral necessary. STAT accounting principles establish a Credit for Reinsurance, known as Schedule F penalties for property and casualty carriers, and Schedule S for life and health carriers.

Therefore, under STAT accounting principles do not allow for a credit for reinsurance unless the reinsurer is "authorised" or there is collateral sometimes in the form of a letter of credit, investments/cash posted, and sometimes a trust for the benefit of the admitted carrier.

How does the presence of a captive insurance company impact the financial reporting and taxation requirements for the overall insurance programme?

It depends. The taxation typically does not have much of an impact, there are certain elections to have consolidated tax filings or not and life carriers have much more complexity.

Financial reporting is significantly different from admitted carriers who report on STAT versus GAAP. STAT under SSAP 97 records the value of the investment into a captive, assuming it is an insurance entity which is a subsidiary, controlled affiliate is measured at STAT equity, even though

Diana Hardy

"There are significant differences between GAAP and STAT ranging from reserving methodology to the manner in which deferred acquisition costs are recorded to the carrying value of investments, to deferred income taxes."

the captive would report to the regulatory authority on a GAAP basis.

There are significant differences between GAAP and STAT ranging from reserving methodology to the manner in which deferred acquisition costs are recorded to the carrying value of investments, to deferred income taxes.

A careful evaluation of the impact should be conducted anytime there is a captive arrangement with an admitted carrier.

Can you discuss any potential conflicts or areas of overlap between the accounting practices of a captive insurance company and an admitted carrier?

The conflicts are abound, to properly account for these types of transactions, it can be simple as in a traditional fronting carrier to significant differences with multiple types of books STAT/GAAP/Tax, you will likely have a few sets of books, which is a bit of a pain.

For instance, a captive may have consolidated reporting on a GAAP basis, but there are no consolidations on a STAT basis. ■

Diana Hardy, CPA, CFE
Audit partner
RH CPAs

Adam Miholic

What are the practical implications of integrating a captive insurance company with an admitted carrier in terms of policy administration, claims handling and risk management?

Any situation where a captive insurance company is participating in a programme with an admitted carrier, communication and clear delineation of expectations and responsibilities is paramount. Considering many captive insurance companies are non-rated and operating on a non-admitted basis there are numerous situations where this partnership is not only efficient but also contractually or regulatorily required.

In these situations it is important that the captive manager, captive shareholders and carrier representatives are all aligned on the programme details. Oftentimes, this also includes other service providers such as third-party administrators, loss control operations, brokers and legal.

While these situations often add additional layers of complexity in both operations and logistical terms, a strong partnership between a captive insurance company and their admitted carrier partners will frequently lead to increased captive utilisation for the shareholders as well as improved financial, strategic and operational benefits for both parties.

How does the interaction between a captive insurance company and an admitted carrier affect the allocation of premiums and claims within the insurance programme?

The allocation of premiums and claims should not be altered from the sheer fact that a captive insurance company interacts with an admitted fronting carrier. For example, a captive that takes a deductible reimbursement position does not have any bearing on the admitted companies rates, premiums, or claims responsibilities. In this situation, the captive is purely acting as a financial mechanism by which the insured is electing to accrue for their deductible or retention responsibilities. If, however, the captive insurance company is participating with the admitted carrier in the risk transfer of any liability then the allocation of both premium and claims must be properly accounted for in the actuarial study setting both measures.

To give an example, if the captive insurance company is participating as a 20 per cent quota share reinsurance company with the admitted carrier, then

"Any situation where a captive insurance company is participating in a programme with an admitted carrier, communication and clear delineation of expectations and responsibilities is paramount"

both the written premium and anticipated claims must take into account this allocation.

Could you provide insights into the governance structure and decision-making processes when both a captive and admitted carrier are involved in the same programme?

In most cases, governance-related items and decision-making processes are distinctly outlined in the contract between the captive insurance company and the admitted carrier. As previously discussed, clear and concise communication around roles and responsibilities in this relationship are key to its short- and long-term success.

The contract between the parties should clearly outline each of their respective responsibilities, scope of authority, liabilities and rights. In these situations it is always my recommendation that each party have their respective legal representatives thoroughly review all contract and governance documents to ensure alignment and agreement. While every effort should be taken to ensure fair and equitable conditions, I often defer to whichever party assumes more risk and liabilities as the primary participant. ■

"In these situations it is important that the captive manager, captive shareholders and carrier representatives are all aligned on the programme details"

Adam Miholic
Senior consultant, Global Captive Solutions
Hylant Global Captive Solutions

Mike Meehan

What considerations should be taken into account when assessing the risk profile of a hybrid insurance programme involving both a captive and admitted carrier?

Hybrid insurance programmes have proven to be a successful model for financing the risks of both individual organisations and for group programmes.

When a captive and a traditional carrier work together to provide the coverage needed by the parent organisation it may mean that the traditional carrier and the captive insure separate lines of coverage. It could also mean that the traditional carrier fronts the insurance policies and reinsures all or a part of the risk to the captive, or the traditional carrier may provide reinsurance coverage to the captive.

When assessing the value of hybrid risk financing models, there are several considerations. First and foremost, is the financial strength of each organisation involved in the programme. In hybrid models, both the captive and the carrier need to be confident that the other party will be able to meet its financial obligations under the terms of the insurance contracts. In certain situations, where one party is not able to, the other party could be responsible.

Secondly, is the experience of the carrier in the specific market. Other considerations would include the alignment of risk appetite and philosophy of the organisations as well as the evaluation of any operations issues, such as the systems and technology.

From the perspective of a captive, it is important for the carrier partner to have relevant experience to ensure proper underwriting. For fronted insurance programmes, the captive should also consider the fees and collateral requirements of its fronting partner.

How does the interplay between captive insurance and admitted carriers impact the actuarial modelling and calculations of expected losses and reserves?

The terms of the insurance contracts are key in the development of an actuarial model. That would include understanding the reporting provisions of claims, how loss adjustment expenses are treated, and the application of any reinsurance which could be on an excess of loss or quota share basis.

In addition, the captive and carrier have flexibility with respect to the administering of the hybrid

"Hybrid insurance programmes have proven to be a successful model for financing the risks of both individual organisations and for group programmes"

programme through the unbundling of services, including claims handling. The programme could elect to have claims administered by the carrier, an outside third-party administrator, or, in certain cases, internally by the captive's parent organisation.

Claims handling techniques and procedures can impact the closure rates and settlement costs which in turn can materially impact the loss forecasts and reserve estimates calculated by the actuary.

Therefore, it is critical that the party responsible for handling claims has the necessary level of expertise in the specific lines of coveragey.

Can you explain the implications of having a captive insurance company alongside an admitted carrier for the determination of appropriate insurance rates?

In hybrid insurance programmes, the captive will often refer to the carrier as its "reinsurance partner" or "fronting partner". That partnership can lead to a more open discussion and information exchange about the risks of the captive's parent organisation.

While carriers will generally have more experience in a particular line of coverage, the parent company will likely have a more detailed understanding of its own specific risk, which can be beneficial when determining the appropriate rates.

Ultimately, when determining the appropriate rates of a specific insurance programme, it is important to consider the risks being insured, the cost of any reinsurance, including the profit provisions of the carrier as well as other factors, such as claims handling. ■

Mike Meehan
Principal
Milliman

CaptiveGPT

The use of AI platforms such as ChatGPT is exponentially on the rise and there is potential for the captive industry to use the platform. However, the risks shouldn't be taken lightly

Frances Jones reports

Amid public concern about the rapid development of artificial intelligence (AI) platforms, many industries have been left wondering whether AI platform ChatGPT could benefit them.

Insurtech within captive insurance is no exception. In this competitive landscape, it is essential for captive insurers to embrace new tools and methods to increase the efficiency of their business operations.

However, the industry has witnessed a general trend of insurance companies slow to expand their technological capabilities.

OpenAI's ChatGPT is a chatbot that uses a generated pre-trained transformer (GPT) to absorb massive amounts of data. It then processes natural language to provide users with a human-like response. It has more than 100 million users, according to Reuters (as of January 2023).

Captive insurers can harness new technologies and help organisations innovate, but these efforts must be aligned with the goals of the parent company.

Alex Gedge, senior captive consultant at Hylant, comments: "I've not seen much adoption of ChatGPT in the industry as yet, though there has certainly been discussion. Brokers and consulting teams are researching and exploring ways to adapt and adopt new technologies. This research is ongoing, particularly in captives where there is a focus on emerging risks and creating insurance solutions for markets that do not have them yet. For example, where a client has a very specific risk which is not industry wide."

Going straight to the subject source itself, this writer asked ChatGPT: 'How can ChatGPT help captive insurers?' It generated a comprehensive answer in 15 seconds.

ChatGPT gives five examples: risk management, underwriting support, claims processing, customer service and data analysis as areas in which it can help captive insurers. For risk management, ChatGPT writes that it "can assist captive insurers in assessing and managing risks. It can provide insights on risk identification, quantification and mitigation strategies. By analysing historical data and industry trends, ChatGPT can help captive insurers make informed decisions regarding risk exposure and insurance coverage."

For claims processing, it "can support captive insurers in claims processing by providing 'quick and accurate' responses to common inquiries and automating routine tasks."

"ChatGPT can assist in the underwriting process by providing guidance on policy terms, conditions, and pricing. It can analyse information provided by applicants, assess risk factors and offer recommendations to underwriters. It can also serve as a 'virtual assistant', addressing customer enquiries about policies, premiums and coverage options."

For data analysis, "ChatGPT can analyse vast amounts of data to enable captive insurers to make data-driven decisions."

The chatbot's answer is synonymous with that of Bård Myrstad, CEO of Simplifai, as he describes how insurers can utilise his company's recently launched platform, InsuranceGPT.

"We've been able to automate the first line of case reduction in the claim settlement process for new claims received. The platform is then able to look through and classify them accordingly through looking at the attachments and information submitted. It can then validate the claims against decision criteria.

> "There are also regulatory concerns, with the captive industry being reliant on different regulatory requirements for domiciles which ChatGPT may not consider. Captive insurers must ensure compliance with applicable laws"
>
> Randy Sadler, CIC Services

InsuranceGPT is an AI GPT tool launched by Norwegian tech company Simplifai, designed specifically for insurers.

It claims to be the first of its kind, offering ChatGPT-like enhanced decision-making for automated claims management while maintaining a higher degree of privacy and data security than a general AI platform.

Randy Sadler, principal at CIC Services, considers platform adoption at his company. "We use ChatGPT at CIC Services, and other firms are also using it," he says.

"We're currently using it for outreach-related content, but we're largely only using it in places where errors wouldn't have severe consequences."

He adds: "For captives, AI may prove particularly useful when drafting unique insurance policy forms with very specific conditions for coverage and exclusions. In the future, we expect to be able to create much better client interfaces — for example, interfacing with a chatbot that answers questions about a client's captive and can even price, adding new policies on the spot."

A wider outlook

When answering what problem he is trying to solve within the industry, Simplfai's Myrstad takes a wider societal approach: "If you look at the underlying trends in society, it's demography. We're getting older, we're living longer. Some people consider people in their 20s to be children and most of us will live beyond 75; the ratio of workers to retired people is changing significantly.

"This means that to sustain living standards, each worker needs to produce more value. That's even before we start having to free up capacity to tackle all the new engineering challenges we will have to manage climate change and poverty, something that will affect all industries.

"There will be less people, and less people to do what needs to be done. It will be more and more expensive. What we offer organisations is a way to create more value from human employees. It's akin to every employee having a super-efficient assistant in a permanent home office. Except you never have to engage this 'assistant'. You receive information from [Simplifai's AI platform InsuranceGPT] and will be able to offload a lot of your routine tasks."

Bottom of the calculus class?

With AI-development still in its early stages, there has been widespread criticism around errors and data accuracy. For example, a factual error from Google's chatbot Bard, rival to OpenAI's ChatGPT, cost the technology company approximately US $100 billion.

In a promotional clip shared by Google back in February, Bard is asked: "What new discoveries from the James Webb Space Telescope (JWST) can I tell my nine-year-old about?" Bard answers with several bullet points, one of which reads: "JWST took the very first pictures of a planet outside of our own solar system." Astrologists online were quick to point out that this was an error. Subsequently, shares for Google's parent company Alphabet fell by 7.7 per cent.

When considering the barriers to insurers adopting InsuranceGPT and how his product addresses problems, Myrstad explains: "First of all, new technology makes a lot of people nervous. The main issue is data compliance. What is becoming more apparent with these large platforms is that with endless innovations and mass amounts of generative data processing, the reliability of the information on individual topics is reduced. One thing we are vigilant on is data privacy. We are partnering with insurers to make our product industry-specific, which allows the platform to be much more accurate and reliable than a generic model. By working with insurance industry partners, we've been able to develop this product with the real needs of the industry in mind and have been able to pinpoint where we can create the most value, weighted against risks."

Giving a captive-specific take, Sadler adds: "Generative AI, like ChatGPT, is still a very recent technology. The biggest barrier is captive insurers not understanding it or seeing how it can help. The second biggest barrier is mistakes. Implementing [generative AI] involves training, new hardware and software and input from technology consultants, especially since it may not be compatible with existing systems.

> "What we offer organisations is a way to create more value from human employees"
>
> Bård Myrstad, CEO of Simplifai

"There are also regulatory concerns, with the captive industry being reliant on different regulatory requirements for domiciles which ChatGPT may not consider. Captive insurers must ensure compliance with applicable laws," Sadler affirms.

Gedge concurs: "With any new technology, the first port of call is always education: making sure people are comfortable enough with it to use it. The second concern is security. Whilst at the moment Chat-GPT is open source, there will be security concerns with tracing and potential breaches, as with any cybertechnology.

"For captives, another issue is that so much captive knowledge is not publically available, so there will be some limited use to machine learning sources that access public data. This means there will be limits, and potential misunderstandings, due to niche industry-speak and with tweaks in phrasing."

"Captives run off analytics, and we are increasingly seeing sophisticated use and adoption of new technologies and software. Deriving benefits, and where they will come from, will be dependent on the reliance of the data users input in"

Alex Gedge, Hylant

Finding the right balance

Sadler notes: "There are risks associated with utilising ChatGPT and it's reasonable for captive insurers to be hesitant to use this technology. For captive insurers, it's important to understand that ChatGPT responses are based on the data it's trained on, which only includes data up until September 2021. If there are developments in the captive insurance industry since then, ChatGPT may not be aware of it."

Data analysis by AI platforms is only as reliable as data inputted by users, specifically captive insurers. In this highly-regulated industry, it almost goes without saying that industry insurers should avoid using ChatGPT for tasks subject to regulatory requirements. Some captive insurers may need further education and training to use AI models for higher risk functions.

According to the 2021 KPMG CEO Outlook survey, 68 per cent of insurance CEOs say they will focus on customer-centric technologies such as chatbots — evidence that high-level insurance industry participants recognise the vast potential for use in the industry.

Beyond its potential for data analysis, a UK broker working with captive insurers is using ChatGPT's natural language capabilities to streamline their client emails.

Perhaps, for some, it's already performing its role as a 'virtual assistant', freeing up brokers for more time to perform 'higher-value' tasks.

The bot itself, ChatGPT, warns: "It's important to note that while ChatGPT can be a valuable tool for captive insurers, it should not replace human expertise and judgement. It should be used as a supportive tool to enhance efficiency and decision-making processes."

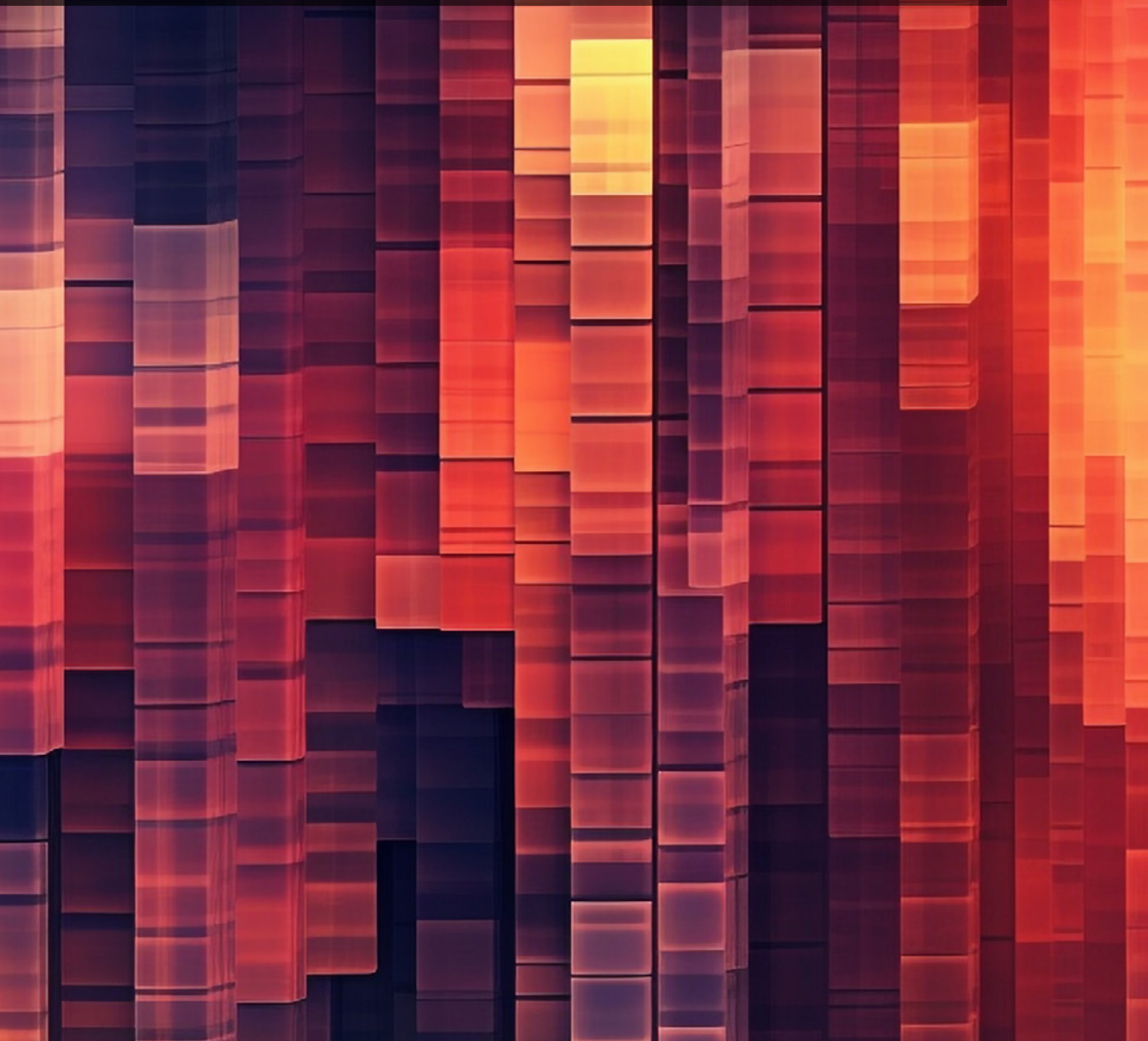
When discussing the potential of ChatGPT to disrupt the industry, Gedge affirms: "Captives run off analytics, and we are increasingly seeing sophisticated use and adoption of new technologies and software. Deriving benefits, and where they will come from, will be dependent on the reliance of the data users input in."

As Sadler warns: "Due to cybersecurity risks, captive insurers must take measures to secure data and mitigate the risk of human error when inputting data. ChatGPT often delivers the wrong answers and sometimes makes up answers if it doesn't know them. So, it definitely needs human oversight — for now."

Sadler reassures his responses were not written by ChatGPT. Neither was this article. ■

Parametric view

Parametric insurance is predicted to generate nearly US$30bn per year by 2031. Ned Holmes looks at the impact it may have on the captive insurance industry, and why huge growth is expected



Parametric insurance has become an established part of the captive lexicon in recent years – a regular talking point at captive conferences and, increasingly, in board rooms. While traditional insurance functions by indemnifying the actual losses sustained by a policyholder during an event, parametric insurance is linked to predetermined index-based triggers that lead to pre-agreed payouts.

If the index threshold is reached (a certain wind speed for hurricane cover or a length of downtime in cyber cover, for example) then the policyholder receives the payout – whether or not the actual losses are sustained.

A hot topic

The captive industry may have been late adopters, indeed the structures have been utilised elsewhere since the 1990s, but there is now a growing acceptance of the three-fold advantages these solutions can offer. This includes certainty, (as the pay out triggers are predetermined and index based), speed, (as it removes the need for a lengthy loss adjustment process), and cost efficiency, (as there is no requirement to employ technical specialists like claims managers and attorneys to assess actual losses).

Marcus Schmalbach, CEO of RYSKEX, believes that parametric solutions are "a great thing for a captive manager to have in their toolkit" and predicts we will see them used much more frequently in the industry in the next decade.

"Parametrics is not adopted by everyone, but I see that the big brokers are working hard on adopting these solutions. The new thing always becomes popular as soon as the clients need it, and we have the clients' need because the markets have a lack of capacity. We needed to change our strategy and our indemnity coverages into parametrics. In five years time, we won't be talking about it as something new, but as an established solution."

"The principle of systemically looking for parameters on which the client depends can also be applied to non-natural catastrophe risks"

Jan Bachmann, Swiss Re

"This is an area that is growing," notes Jan Bachmann, head of innovative risk solutions EMEA, director at Swiss Re Corporate Solutions. "In a couple of years, buying parametric for a captive will be a normal business, but there is still a way to go."

Parametric boom

It's not just in the captive market where a parametric boom is expected. Swiss Re has predicted that the parametric insurance industry could generate nearly US$30 billion p/a by 2031 – up from $11.7 billion in 2021.

As Swiss Re's Bachmann says: "The numbers are expected to be significant. Why? Because it's more than just what has been covered in the past by traditional insurance. You can insure more on a parametric basis due to the flexibility of the covers. It all started with natural catastrophes 30 years ago, when Swiss Re sold the first parametric covers for earthquakes and wind perils. Initially, it was only about natural perils but this principle of systemically looking for parameters on which the client depends, can also be applied to non-natural catastrophe risks."

He adds: "It's a useful tool for non-physical risks. As an example, a terror attack may cause loss of attraction in certain areas – people stop going there because it has become dangerous. There is no physical loss per se, but it could impact the revenue stream of the client because people will stop coming. There are plenty of ways to track it – such as airport data, lack of footfall or attraction, mobile data, credit card usage – and a difference from the average could expose the client to a loss-making situation."

The hard market

A key factor in the predicted growth of parametrics is the current market condition.

"It's because it's a hard market that we need to get capacity and parametric is the only way the capital market understands to assist," adds RYSKEX's Schmalbach. "With insurance-linked funds, for example, we need a lot of capacity but they do not understand or do not like indemnity, so parametrics are also an opportunity to find capacity in the capital market.

"There's momentum. It's a new way of underwriting lines to help address systemic risks, such as hurricanes and floods. A lot of insurtechs are coming into the market that don't offer any indemnity solutions and are just focusing on parametrics as a way to help out companies with climate change or pandemic risk. It's the new boys in town that offer it. There is need and then you create a market. This is happening right now because of the hard market."

Nils Ossenbrink, managing partner, head of distribution and products at Twelve Capital, offers a capital market perspective. He says parametric insurance could be a way of consolidating the mismatch of investors' demands and the demand for reinsurance capital as it offers more clarity in terms of expected pay-outs. After an event, the size of the loss is known which can be beneficial from a structure perspective.

The captive insurance industry is ever-changing and so is the financial and regulatory compliance requirements. Our team stays ahead of the curve to keep you in the know for current and upcoming changes to accounting and taxation rules that could affect you.

Our services:

- GAAP and SSAP Financial Statement audits
- Tax compliance and planning
- Startup and organizational consulting
- Projected financial statements
- Outsourced CFO services
- Internal control review

Strickland Hardee PLLC
Certified Public Accountants
INTEGRITY MEETS TRUST

www.shcpa.cpa
(336) 843-4409
info@shcpa.cpa

Ossenbrink notes that the industry is currently confronted with very high rates. The insurance industry is calling it a 'hard market' offering interesting opportunities to investors. Elevated rates are an indication of a lack of capital, which is also a result of the growing number of medium-sized, partly climate change-induced natural catastrophe disasters.

"We have clearly seen what climate change means costwise in recent years, and even this is going to increase" he explains.

"Institutional insurance-linked securities (ILS) investors had to face issues, for example: trapped collateral, side pockets, intransparency — all clearly below return expectations. These underlying issues cannot be solved by parametric solutions, but if the risks are structured in the proper manner, parametric solutions can support closing the global protection gap."

Ossenbrink also believes that the growth in the catastrophe bond market hints that the predictions for the parametric industry may be on the money.

He says: "The cat bond market has grown to around $38 billion, up from $5/6 billion in 2002, and from $11/12 billion between 2008 and 2012 — so it more than tripled in the last 10 years. From our point of view, it would be realistic to project that the parametric industry could grow to $30 billion if the relevant structures are available."

New solutions for new risks

Natural catastrophe-related perils are the number one risk covered by parametric insurance and will continue to be so for some time.

However, there is a growing confidence that the structures can be used elsewhere as well. In some places that is already the case.

"There are interesting solutions by start-ups and incumbents from the reinsurance and traditional insurance space where they use parametric for cyber and pandemic coverage," says RYSKEX's Schmalbach on the topic of emerging coverages.

"Wherever you need new solutions when new underwriting comes in, or new perils come to the market, you see a lot of companies that want to seek new ways and adapt new solutions for those new perils. Intangible assets is a currently underdeveloped market where I see parametric as a good fit. It's a very important part of a company's balance sheet. There aren't too many coverage lines that already exist, but I think it could fit perfectly with parametric as it could be linked to stock price. It's something interesting for captives to consider: to get new lines of underwriting within the captive. It's an important market for the reinsurers themselves as well."

Twelve Capital's Ossenbrink highlights business interruption, cyber or casualty as other ILS areas of interest beyond natural catastrophe.

"We will likely see developments in business interruption. We may also see cyber risk connected with business interruption as well as an increasing demand from insurance companies to transfer casualty risks to financial markets," he suggests.

"Wherever you need new solutions when new underwriting comes in, or new perils come to the market, you see a lot of companies that want to seek new ways and adapt new solutions for those new perils"

Marcus Schmalbach, RYSKEX

Collateral Trust Services

Our advantage

Truist Corporate Trust & Escrow Services has a long history of trust, escrow, and risk management excellence with both domestic and international coverage.

If you're choosing a cost-effective and convenient collateral trust as part of your captive and reinsurance solution, we have a broad range of specialties that can help mitigate risk in your insurance business:

- Collateralized Reinsurance
- Regulation 114 Trusts
- Captives
- Surety Bonds
- Insurance-Linked Securities
- Deductible Trusts

Our experience is only one aspect of what differentiates our reinsurance trust business from other firms. Additionally, we excel because of:

- Single point of contact
- Comprehensive servicing
- Rapid response times
- Team of reinsurance specialists
- Extensive carrier relationships

To learn more about how Truist can efficiently and comprehensively support your escrow transaction, please contact:

Donny Tong
Senior Vice President
212-590-0976
donny.tong@truist.com

Joseph Monaco
Vice President
212-303-1746
joseph.monaco@truist.com

Barbara Aubry
Senior Vice President
212-303-4164
barbara.aubry@truist.com

Truist.com

TRUIST

"The capital market is still not fully comfortable with cyber risks yet. This means that in terms of perils covered by parametric, the focus is still likely to be natural catastrophe-related issues"

Nils Ossenbrink, Twelve Capital

"However, the capital market is still not fully comfortable with cyber risks yet. This means that in terms of perils covered by parametric, the focus is still likely to be natural catastrophe-related issues, which are generally well-modelled and known."

Swiss Re's Bachmann also emphasises the opportunity for other parametric solutions but warns that many of the new risks that the policies might cover in the future are not known yet.

"They're usually the black swans – we may not know them today, but they might have a big impact tomorrow. In an emerging risk landscape, parametric can facilitate the response to a loss situation and speed up the claim payment. There are some good examples where parametric is still in its early stages, such as cyber or liability risks, but there is also some promising potential in these fields."

Industry 4.0 and AI

Looking ahead to the future of captive insurance, artificial intelligence (AI) and the digitisation of the industry are two topics that are impossible to ignore.

"AI is going to affect many industries including the insurance industry," says Twelve Capital's Ossenbrink.

"The way of modelling risks will change in the coming years, whereas speed will increase. The value chain, if you take parametric solutions as an example, can be more easily digitised than an indemnity structure.

"New business models, RYSKEX for example, might boost the industry by disrupting or breaking up the traditional industry. The predicted growth of the parametric market to $30billion by 2031 is not necessarily based on replacing other structures.

"It will likely replace existing structures while also allowing new models to provide insurance protection — where you have a straight-through process from the insured to the capital market."

RYSKEX's Schmalbach says the growth in parametrics will be boosted by the digitisation of the captive industry and the introduction of AI.

"ChatGPT has meant there is now lots of attention on how AI works," he says.

"If we're talking about the digitalisation of the captive industry, I would say parametric is a wonderful fit. With AI, you can make wonderful predictions on potential risks and claim events, as we know, parametric is based on triggers.

He concludes: "The more the captive and insurance industry develops the willingness to digitise and optimise their process to make 'industry 4.0' happen, the more parametric solutions will be used. Parametric will grow even further when we start to digitise our industry." ■

Up and Up it rises

Hiked up inflation has affected all industries, but how is it affecting the employee benefits world? Generali's Damian Ross interviews MMB Multinational's Barry Perkins and Willis Towers Watson's Mark Cook to find out more

Damian Ross: "How is inflation affecting the employee benefits world?"

Mark Cook: Before we talk specifically about employee benefits (EB), let's start with wider inflation. Inflation affects the organisations we work with, the employers, and the employees.

On top of this, there's the macroeconomic aspects to consider. On the macroeconomic side, there's a number of pushes: the interest rate impact, the state of economies, the currency aspect and the actual value of the currency. For us in our day jobs it's more about how all these pushes impact the employer and the employee.

For employers, costs are obviously going up, in terms of supply chain, inputs and raw materials; all costs associated with what organisations produce and service are increasing. Subsequently, this cascades down to "the person on the street"; affecting the cost of what people buy – because of the inflation price.

So, in our world, you'll see the use of artificial intelligence (AI) automation increasing and being used to supplement business processes. This will put a huge squeeze on people and jobs.

If we look at the employee side, on top of job insecurity mentioned above, net pay is going down while the cost of essentials such as food and utilities is going up.

Barry Perkins: For EB managers there's been a lot of concern and uncertainty about how this is going to impact them, including how that will flow through to employees.

Many of these EB managers have probably never experienced the high levels of inflation we're currently experiencing. It's a new challenge for a lot of people.

However, employers are still very keen to protect employees, particularly vulnerable groups of employees such as lower paid workers.

In addition to this, especially with regards to access to healthcare, we're seeing employers doing what they can to ensure those vulnerable groups can continue to afford healthcare and have access to it. But they obviously need to balance that with the economics of their business and keep benefits sustainable.

Cook: We've noticed that lots of clients, particularly those headquartered in the US, have paid an allowance, or one-off payment to employees in the last pay cycle, particularly to lower paid workers. It's become a bit of a theme for this year.

Ross: From what I've seen, the rate of inflation is expected to drop down to around 2.5 per cent globally by 2025. Is it a 'wait and see' type of situation? Would temporary measures, such as one-off pay allowances, as opposed to making changes to benefits, suggest so?

Cook: Companies are doing things that they think will help their people and they want people to see that they are — it's become a brand communication push. For multinational companies it's important to be doing something, but it's equally important to be seen to be doing something.

Companies also need to be more agile in their responses because talent retention is a big problem for organisations currently. So, one-off pay allowances are an example of companies responding quickly to something that is happening macro-economic wise.

Perkins: Yes, no one wants to make knee-jerk reactions. During the height of the pandemic we saw a lot of companies expanding medical coverage to lower paid employees.

They don't want to renege on those commitments now. However, most of the companies we work with are commercial enterprises, so they need to work to short-term targets.

This means they'll look at different levers they can pull to manage costs.

Concerning medical benefits, you've got the design of benefits, the delivery of benefits and financing. Nobody really wants to play around with the design of benefits because that's the aspect that would impact employees the most. It feels like companies are trying to ring-fence and protect that piece.

That leaves you with financing and that's where captives come in, as well as delivery mechanisms. We're still seeing employers focusing on how they can deliver the same level of benefits, but increase efficiency of networks, claims management and condition management. I think that's where you're going to see companies doing something to mitigate costs in the short term, without rolling back on benefit promises too much.

Cook: I agree that companies are primarily looking at delivery and financing. I also see pressure on the design though. Even with a preferred provider model and captives, I do still see stresses on local businesses with regard to budgets and an associated need to tinker with designs; especially on medical, because of medical inflation. Medical aspects limits on different treatments, overall plan limits, eligibility and co-sharing costs.

Perkins: Is it fair to say that employers want to protect their benefits more than we've seen in previous economic crises? Post-pandemic, benefits are higher up the agenda for both leaders and employees. Employees want and expect better benefits. Due in part to talent shortages, there may be more reluctance to mess around with benefits than there was in the past.

Ross: Considering the stress that inflation is having on employees – the fear of redundancy and not being able to pay the bills – what can employers do to assist?

Cook: Five years ago, wellbeing really wasn't visible in the marketplace. But there's been lots of investment since particularly in workplace mental health. The difficulty faced by multinational companies is having

AGILE PREMIUM FINANCE
Captive Specialists

CAPTIVE FUNDING SOLUTIONS

AGILE PREMIUM FINANCE

Create Liquidity

Our focus is to help captive insurance companies meet their funding requirements while maximizing cash flow and preserving working assets. By providing creative finance options, we are able to meet the unique needs of our partners and their clients.

Our finance tools

Collateral Financing

Tailored specifically to entities that are entering the captive space.

Premium Financing

Generate cash flow by financing up to 100% of the annual premium.

Structured Loan Backs

Avoid potential pitfalls associated with traditional loan backs.

Reasons why we should partner up

Flexible Terms

Customized payment options that meet your clients' specific requirements while ensuring that they receive the best financing option available.

Innovative Solutions

We work closely with our clients to develop creative solutions that meet their unique needs.

Hands-on Approach

Old fashioned hands-on financing process allows us to be available to answer questions, provide support and address any concerns.

Unlock Your Captive's Potential

Contact us today to explore our lending solutions and find the best fit for your captive insurance company.

Dan Duncan
dan@financepremium.com
(619) 391-1857

Mike Vincent
mike@financepremium.com
(619) 391-1857

a global programme for this. I see local and regional vendors, but not global vendors to monitor and record everything. As you are already aware, a lot of it is app-based.

Perkins: We need more commitment from employers to move to a minimum living wage, fair pay, and equitable pay. Start with the basics. That's what's going to really move the dial for employees.In some markets, where premium levels for medical are going up due to inflation, and you have cost sharing with employees, there's a significant impact where benefits are concerned.

When employees are paying 50 per cent of the premium and the premium is going up by 50 per cent, that's going to have a direct impact. It could possibly result in people not enrolling in healthcare plans and no longer having access to such benefits.

So, again, more focus is needed on lower paid groups and perhaps insulating them from those cost share increases — the employer takes more of the burden, putting money back in the employee's pocket.

Cook: We've recently had a number of clients changing their pricing philosophy on their captive, for the reasons Barry has just mentioned. They're trying to use some of the retained earnings in the captive over the longer term to quell the increases that the employees are getting on their premiums, in particular medical in some countries. They're looking at more portfolio pricing rather than individual line pricing.

The EB captive model is stepping in to help the business at a time of need, like it did in the pandemic. This is a financing piece to smooth out premiums for employees. A number of captives have done this.

Perkins: Captives have a role to play, especially if there's a surplus there and a willingness to keep premiums at a lower level, at least for the short term. You're essentially playing around with the margin that would otherwise be in the premium if you were to use an insurance company.

"The EB captive model is stepping in to help the business at a time of need, like it did in the pandemic. This is a financing piece to smooth out premiums for employees"

Mark Cook, WTW

Using a captive doesn't allow employers to avoid the impact of inflation; most of the elements of inflation are just structural. So, unless captives start playing around with the end delivery of healthcare – negotiations with doctors and hospitals and other similar activities, which generally doesn't happen outside of the US – then you can't avoid inflation. But there are ways to mitigate the impact of it, which is partly what Mark addressed when discussing profit margins.

There's going to be more focus on fronting providers and making sure you've got the best fronting partner in markets to help you mitigate cost impact. Going back to the point around network management or the delivery mechanism of healthcare, it's about making sure you have a partner who's very capable at negotiating deals with hospitals and doctors. Providers that have a larger scale will have advantages in that area. It's also about focusing on the balance between the cost of healthcare and the quality of healthcare — potentially stripping out high-cost hospitals and other vendors that maybe don't deliver better quality. This is a way to create efficiencies in healthcare programmes and, in turn, mitigate some of the inflationary pressures. None of this is unique to captives. Employers will do that anyway, but it's a key topic for clients that use a captive.

Ross: Inflation is clearly affecting the medical side, but not to the extent that we initially thought. A lot of companies will have two- to three-year deals already built in. Therefore, there's likely to be a delayed reaction on medical, which will be interesting to see.

Ross: The impact it may have on the captive insurance industry. Do you think the current environment we're in could represent a wake-up call for captives that have access to the data but aren't really digging in to it?

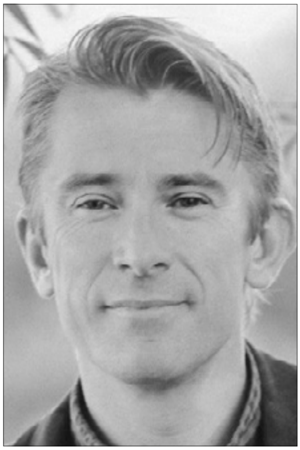
Cook: This has been a topic for a number of years, but I've only seen increased interest fuelled by the pandemic. The infrastructure isn't there to do anything in an efficient, automated way. Collecting data from local insurers and looking at utilisation remains difficult. However, there has been an increased interest from the industry, underpinned by what's happening in the economy around us. Don't just look at utilisation numbers on medical and disability and categorise that, look at other pieces as well: employee assistance benefits, absence data, occupational health and disability cases, as well as other data sources. This will provide a more balanced and holistic view of a person's absence or health risk, putting the employee in the middle. That's what companies and people should be doing, but these practices are not far-reaching at the moment.

Perkins: All companies want to find out what's driving the medical claims and how to avoid some of those medical conditions. All this should be data-driven. Circling back to understanding inefficiencies in the way healthcare is delivered, has got to be data-driven and it comes from the claims experience as well.

Companies looking at utilisation of some of the health and wellbeing add-ons are realising they are being well received by employees, and they will continue to invest in these. However, some of them are not being used and employees don't always care about them, opportunities must be taken to trim things out of insurance coverage. ■

Damian Ross
Regional manager UK, Ireland and Nordics
Generali Employee Benefits Network

Barry Perkins
Financing and global mobility solutions leader
MMB Multinational



Mark Cook
Senior director
Willis Towers Watson

Joseph McDonald
Director of captives
SCDOI

Exemplary examination

Efficiency and effectiveness: conducting captive examinations in South Carolina

Joseph McDonald talks to John Savage about the examination requirements for captives in South Carolina, the full process surrounding the inspection, and what captives can expect during an examination

This topic delves into the frequency of captive examinations required by the South Carolina Department of Insurance.

It distinguishes the examination schedules for different types of captives, emphasising the timeline for examination within three years of licensure and subsequent examinations as needed.

It highlights the specific examination schedule for risk retention groups.

What are the examination requirements for captives in South Carolina?

Examination requirements for captives in South Carolina are, intentionally, quite straightforward. As captive regulators, we take a nuanced approach to regulation in general, as we believe regulation should be based on the nature, scale and complexity of the risk in any captive programme.

Examinations are an essential part of regulation on both the captive and traditional sides, but with unique differences. All captive insurance companies are required to be examined, though the frequency varies based on the type. This flexibility affords us the discretion needed to appropriately examine captive programmes without employing a 'one-size-fits-all' mindset.

How frequently are captives subject to examination by the South Carolina Department of Insurance (SCDOI)?

The frequency of examinations in South Carolina depends on the type of captive. We follow the National Association of Insurance Commissioners' (NAIC) guidance on exams for risk retention groups (RRGs), which requires that these entities be examined at least once every five years. Due to the nature of the risk written in RRG's, and the fact that RRG's specifically impact our NAIC accreditation, it is imperative that we keep a close eye on these companies, but without being burdensome when unnecessary.

As for non-RRG's, our statute requires examinations once within the first three years of licensure. After that, exams are at the discretion of the director. In the past, the foresight of the captive industry in South Carolina, including the SCDOI and the South Carolina Legislature, laid the groundwork for us; they were fair and flexible, but also firm when needed. Over the years, this balanced approach to regulation, based on the risks in a given captive, has proven beneficial to all stakeholders involved, from owners to service providers, and to us as regulators.

Another type of captive with distinct examination requirements detailed in statute are Special Purpose Financial Captives (SPFCs). These entities are not as prevalent in South Carolina as they once were due to changes in the marketplace and other domiciles taking similar statutory approaches with these entities. However, we do still have several in our portfolio of captive companies.

Per statute, SPFC's are required to be examined at least once every five years, and whenever the director determines it prudent.

Could you explain the examination schedule for captives in South Carolina within the first three years of licensure?

We usually schedule non-RRG exams based on the date we issue the licence, taking into account the availability of our team members who are assigned to the examination.

We have several captive analysts on staff who have their Certified Financial Examiner designations. This allows individuals who are not only qualified to conduct examinations but who are also intimately familiar with our portfolio of captive companies to complete the examinations.

What is the rationale behind conducting examinations within this timeframe?

It establishes a specific timeframe, so that companies are aware of them and can be prepared for examinations. It allows our captive team to assess a company in a reasonable timeframe from its inception. Additionally, it allows us to check the pulse of the company relatively early on to make sure it is following through on its business plan and complying with all statutory and licensing requirements.

This initial 'check-up' is a good practice to ensure the captive has started off and is operating in a healthy way which supports both the financial health and wellbeing of the captive and the overall industry.

Examinations ultimately help to identify issues; such as adverse loss development or poor governance and oversight of risk management procedures. These issues could all lead to insolvency. Examinations also highlight the good aspects of well-run captives so that owners and board members can feel confident in the way their captive is operating.

After the initial examination within the first three years, how often are captives examined by the SCDOI?

This applies to non-RRG's, which make up most of our captive portfolio. After the initial examination within the first three years, companies are examined at the discretion of the director. It's said that discretion is the greatest virtue.

The discretion given to the director to conduct additional examinations is helpful to owners, service providers and regulators. It gives the director the ability to focus on companies that need additional oversight and scrutiny without applying the same rigour to companies that are operating smoothly. It is noteworthy that the director only requires additional examinations for those companies that are proving problematic, which happens, of course, but is very rare in South Carolina.

How are captive examinations conducted in South Carolina? Can you explain the process and what captives can expect during an examination?

For RRGs, examinations are conducted in collaboration between the captive and the examination team, which is made up of the company's assigned analyst and supervisor who are both directly familiar with the captive and an examiner. These exams, as you may anticipate, are conducted in accordance with the NAIC's Examiner Handbook.

For non-RRGs, the process is similar but follows an internal process that is less stringent, but still risk-focused.

We do not accept the stereotypical caricature of government employees. We strive to be good partners and service providers. We do not consider examinations as ways to 'mousetrap' a company, we use them to help companies, stay on course, and remain successful.

How does the SCDOI ensure that captive examinations are conducted efficiently and effectively while minimising disruptions to the captive's operations?

We work with the captive manager as much as possible, and when necessary make inquiries, or hold meetings with specific representatives of the captive who can shed light on any questions we have.

Efficient and effective examinations that avoid unnecessary disruptions to the captive's operations are always based on good communication and common goals — these are simultaneously, the health of the captive and the industry, and the reputation of the domicile. ■

A regulator's perspective

The NCDOI has spent the past few months working closely with captive managers to determine the coverages that would be best placed in a captive. The department's Lori Gorman and Joseph Rosenberger explain more

The North Carolina Department of Insurance (NCDOI) has developed a user-friendly and interactive online filing system for use by the Captive Insurance Companies Division and approved captive managers.

This secure tool walks the user through the information and various documents required for a complete application. Once an application is submitted online, it is assigned to a captive analyst within the Captive Insurance Companies Division.

Important factors

North Carolina's Captive Insurance Act, passed in 2013, allows for both a modern and flexible approach to captive regulation and formations.

Our analysts review each application filing to make sure it complies with applicable North Carolina law, depending on the type of captive being formed. We review important factors; including the nexus between the insured and the captive owner, the experience of the captive insurance company's officers and directors and the proposed initial capitalisation.

Our staff of credentialed actuaries assist in the review of feasibility studies together with business plans and financial projections to help determine an appropriate level of capitalisation for the entity being formed.

Factors such as coverages and coverage limits, claims management processes, rating and pricing guidelines as well as the captive's reinsurance programme are important considerations.

North Carolina has grown as a respected captive domicile since our captive law passed in 2013. While maintaining the commitment to low-cost formation of captive insurers in our state, we have seen continuous developments in our policies. We've also made refinements to our multi-step application review procedures to address the evolving needs of the captive industry.

Our internal processes for approval include collaboration to ensure thoughtful regulatory oversight is applied consistently to North Carolina-domiciled captives. This approach also allows us to pivot as necessary when considering emerging trends in the industry.

The application process usually takes about two to three weeks, varying on how thoroughly the application is filled in. This timing can vary based on the quality and completeness of information provided in the application and responsiveness to any NCDOI's inquiries for further information.

The NCDOI works closely with the service providers who operate in North Carolina to review and approve applications in a timely manner.

Our promise

NCDOI is committed to providing excellent customer service in an open and accessible regulatory environment throughout the application process.

Careful review during the initial application process permits analysts to address concerns before significant ongoing issues can arise.

Effective communication throughout the formation and lifecycle of a captive empowers us as regulators to partner with captive owners so that they fully realise the benefits of a captive insurance company. ■

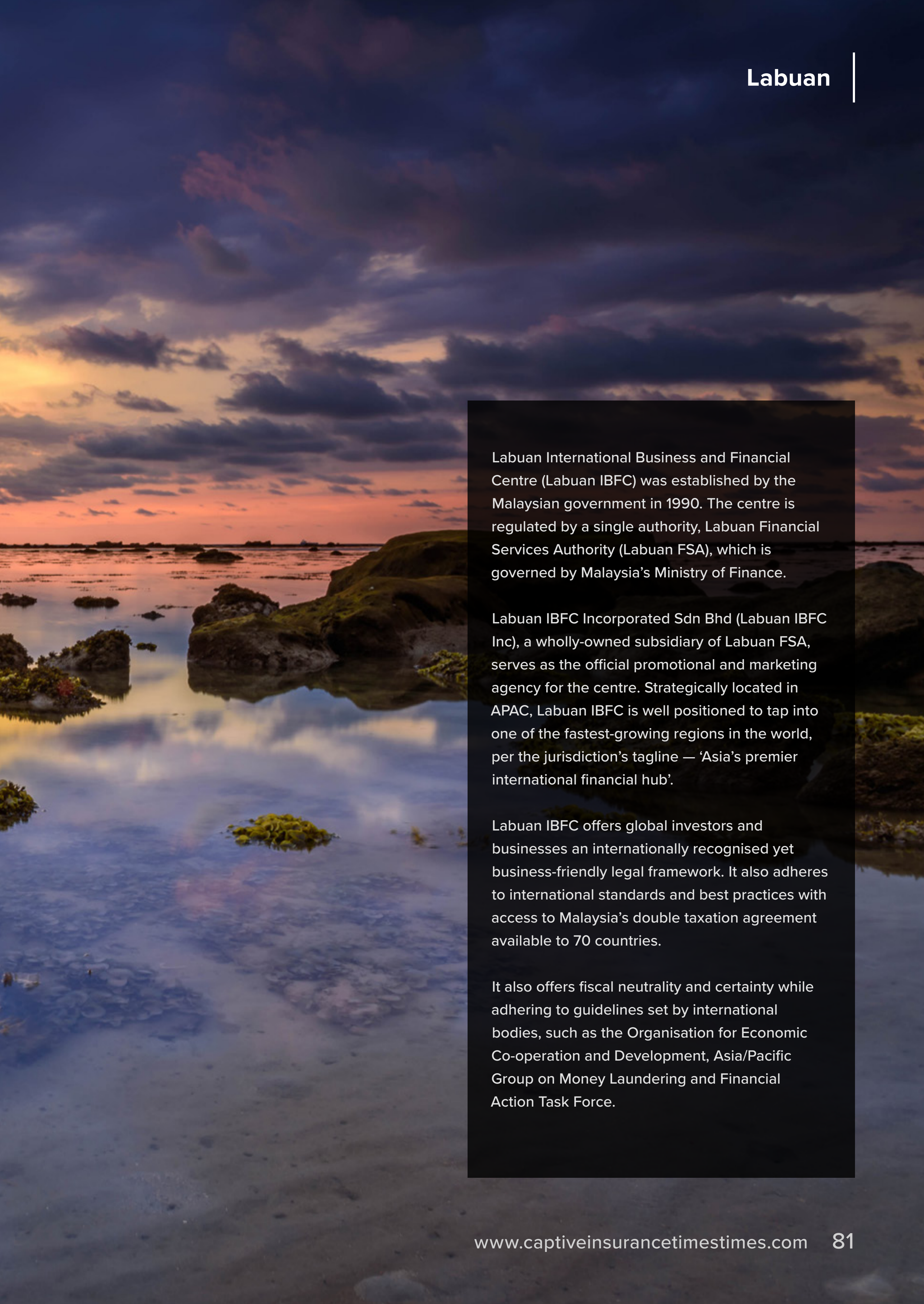
Joseph Rosenberger
Senior financial analyst - captive insurance division
North Carolina Department of Insurance

Lori Gorman
Deputy commissioner
North Carolina Department of Insurance

Labuan captive:

A preferred solution in managing risks

The Labuan International Business and Financial Centre is home to a captive-centric ecosystem that provides end-to-end support and management. Datuk Iskandar Mohd Nuli, executive chairman cum CEO explains more



Labuan International Business and Financial Centre (Labuan IBFC) was established by the Malaysian government in 1990. The centre is regulated by a single authority, Labuan Financial Services Authority (Labuan FSA), which is governed by Malaysia's Ministry of Finance.

Labuan IBFC Incorporated Sdn Bhd (Labuan IBFC Inc), a wholly-owned subsidiary of Labuan FSA, serves as the official promotional and marketing agency for the centre. Strategically located in APAC, Labuan IBFC is well positioned to tap into one of the fastest-growing regions in the world, per the jurisdiction's tagline — 'Asia's premier international financial hub'.

Labuan IBFC offers global investors and businesses an internationally recognised yet business-friendly legal framework. It also adheres to international standards and best practices with access to Malaysia's double taxation agreement available to 70 countries.

It also offers fiscal neutrality and certainty while adhering to guidelines set by international bodies, such as the Organisation for Economic Co-operation and Development, Asia/Pacific Group on Money Laundering and Financial Action Task Force.

Labuan IBFC also ensures that regulatory requirements are continuously reviewed and met, with International Association of Insurance Supervisors core principles and captive guidance duly observed. Additionally, it adheres to global standards to preserve a business-friendly market environment in an effort to transform into a risk-discerning market.

Captive structures

The wide variety of captive structures serve to underline the centre's position as a captive hub. A captive insurance entity in Labuan IBFC may include, but is not limited to, the following forms:

- *pure/single captive*
- *group/association captive*
- *multi-owner captive*
- *master rent-a-captive*
- *subsidiary rent-a-captive*
- *captive using protected cell company (PCC)*

This broad range of solutions enables businesses that establish their operations in the centre maximum flexibility. This has resulted in the formation of Labuan-based cell captives for global businesses, including several European- and Australian-headquartered organisations. The jurisdiction is also home to the world's first Shariah-compliant captive. Given that it is still a hard market with increased premiums, the centre's ability to provide a cost-efficient operating base is another reason why users choose to set up captive(s) in the Labuan jurisdiction. In addition, captives can also be used as risk vehicles in underserved risk categories such as cyber and agriculture.

The Labuan IBFC Strategic Roadmap 2022-2026

The Labuan IBFC Strategic Roadmap 2022-2026 aims to grow the Labuan insurance sector by underwriting specialised risks and developing an industry-wide retention policy as well as rationalising the existing captive framework, diversifying the available PCC structures, and upscaling the role and professionalism of insurance intermediation.

By 2026, Labuan IBFC expects to see increased presence of top brands and for captive premiums to expand beyond their current market share.

The hub has also introduced wide-ranging captive legislation to accelerate expansion of this key segment. Initiatives include formulating omnibus captive policies to ensure comprehensive business offerings, intensifying market growth of Labuan captives through targeted initiatives, and fostering collaboration with other international insurance markets. These ongoing initiatives and a holistic captive ecosystem have contributed to the centre's captive growth, whereby 67 captives with total gross premiums of US $571 million were registered with the centre as of year-end 2022.

More than 62 per cent of the premiums were generated from the international insurance business, according to Labuan IBFC's 2022 Market Report.

Looking ahead

Labuan IBFC, in collaboration with Labuan International Insurance Association, will be organising the sixth Asian Captive Conference (ACC). The conference will be held on 7 September 2023 at the Sime Darby Convention Centre, Malaysia.

Themed 'The Connected Risk Journey in Self-Insurance', the one-day and in-person conference is expected to host captive sector movers and shakers comprising regulators, service providers and users. The conference will feature captive industry highlights, challenges and leading trends including International Financial Reporting Standards (IFRS) 17 and its related impact on self-insurance.

It will also explore key considerations and strategies related to various self-insurance models. Additionally, there will be discussions about how captives can be used to serve the ESG agenda.

Looking at 2024 and beyond, Labuan IBFC's digital services and offerings have resulted in an influx of digital financial services providers.

Among these are insurtech providers, which have revolutionised the conventional forms of financial offerings in the centre, including the possibility of setting up purely digital captives.

The centre is poised to further strengthen its position as a leading captive hub. ■

"At the Asian Captive Conference, there will be discussions about key considerations and strategies related to various self-insurance models, as well as talks on how captives can be used to serve the ESG agenda"

Datuk Iskandar Mohd Nuli
Executive Chairman cum CEO
Labuan IBFC Incorporated Sdn Bhd

Missouri mention

Sam Komo, captive insurance manager at the Missouri Department of Commerce & Insurance, outlines the state's strengths

Speaking to Captive Insurance Times in March, Sam Komo, captive insurance manager at the Missouri Department of Commerce & Insurance, predicted 2023 would be the year that the department would accelerate its communication with stakeholders and would look for ways to amplify its support for a global industry. It also promised to continue providing innovative ideas that encourage ongoing growth, while also protecting success.

On approaching the fall, Komo told us: "Encouraging captive insurance growth is one aspect of our philosophy, but an equally important element in this environment is protecting the success and strength of our current captive insurance companies.

"This is accomplished by providing necessary oversight that does not stagnate growth, but rather protects these companies from outside scrutiny. Missouri will stand strong on this commitment, as we work together to find solutions in this ever-changing captive world."

He adds: "The captive insurance community we serve goes well beyond the Missouri border and encompasses multiple industries, but the key concept that unites everyone is the need for oversight that protects success.

"With ongoing federal requirements, companies want to know if they are on solid ground. Our Missouri team understands this, and works hard to provide the necessary oversight and services to ensure the captive insurance community is protected."

While providing these protections is a vital aspect of operations, encouraging growth is equally as important, Komo highlights. "That's why we believe in regulation, but not over-regulation.

"This is accomplished through a dedicated team with experience in maintaining this balance — a team that conducts everything from applications to examinations in-house, and an administration that supports the overall business community, which includes the ability to utilise captive insurance as an option in managing potential risk."

This commitment is evident in the department's support of 54 active captive companies — with US $3.5 billion in gross written premiums.

To this, Komo says: "Their ability to grow and be successful confirms our strength as a domicile. Regardless of future challenges, we are here to help. 'Encouraging captive growth while protecting success' isn't just our Missouri motto, it has been our vision for more than 16 years." ■

"The captive insurance community we serve goes well beyond the Missouri border and encompasses multiple industries, but the key concept that unites everyone is the need for oversight that protects success"

Sam Komo

Captive insurance manager

Missouri Department of Commerce & Insurance

A bright future

In February 2023, Guernsey was confirmed as Europe's most successful captive domicile. Ned Holmes examines what makes it an industry leader and what comes next

Even by its own high standards, it's been an impressive 12 months for the Guernsey captive insurance industry. The island has long been regarded as one of the world's leading offshore domiciles, however, two recent landmarks have pushed it to new heights. In November 2022, Guernsey celebrated 100 years since its first captive formation, while in February 2023, it was crowned as the largest European domicile – overtaking Luxembourg. 12 new licences and three surrenders in 2022 took Guernsey's total tally to 201.

William Lewis, UK insurance representative for We Are Guernsey, says this latest landmark was not a specific target for the domicile, but was recognition of the hard work put in by the industry and affirmation that Guernsey "ticks all the right boxes".

"The focus has been on our products, our services, and ensuring that Guernsey remains a leading jurisdiction that provides cutting-edge solutions and first-class servicing," explains Christina Bell, head of captive and ILS insurance underwriting at Aon in Guernsey, and chair of the Guernsey International Insurance Association (GIIA)'s Captive Working Group.

Depth of talent

The island's ongoing success is built on its experienced insurance community, which comprises nearly 1000 professionals from both global names and notable independents.

"The landmark is evidence of the depth of talent that Guernsey has to offer across the whole captive ecosystem," says We Are Guernsey's Lewis. "It's not just the captive managers, it's the lawyers, the accountants and everyone else."

Aon's Bell adds: "The experience and knowledge that we have on the island enables us to create bespoke solutions to individual problems. There is always going to be something that is specific to a client. Guernsey comes to the table and is able to

images by eloko67/stock.adobe.com

provide answers. I don't think this has ever been more obvious than in the current environment. There just isn't the ability or the capacity in the commercial market. The focus is to build on alternative solutions such as insurance-linked securities or pension longevity. The ability and the capability for that is here in Guernsey."

Innovation

The Guernsey captive industry's willingness and capacity to offer solutions to emerging problems is reflective of what Justin Upson, describes as the domicile's "history of innovation". Upson is a director at Robus Guernsey and part of the GIIA's Captive Working Group. In 1997, Guernsey pioneered the introduction of protected cell companies (PCC).

Nine years later it introduced incorporated cell companies (ICC). More recently, a Memorandum of Understanding between Guernsey and China has started to yield results. China has also seen great success with the establishment of its own ILS and pension-longevity structures. In 2020, Guernsey flexed its muscles as an innovator once again with the introduction of a pre-authorisation pilot scheme for insurance cells.

As Robus Guernsey's Upson explains: "With hardening markets that came through in 2020, the Guernsey Financial Services Commission introduced the Pilot Fast Track Scheme, which provided the pre-authorisation of insurance cells that were subject to meet certain criteria. The Pilot Fast Track Scheme allows a cell to be authorised within 48 hours, subject to customer due diligence into the Commission within a two-week period. This has proved hugely successful for the domicile. From what we saw, it provided a solution for clients who were faced with a lack of capacity and increased premium spend – particularly around the professional indemnity market in 2020 when rates were going through the roof. During this time, there was a lack of willingness from the market to go down to lower levels."

Regulation

Guernsey benefits greatly from its close proximity to the UK and mainland Europe, yet it is not an EU member. Therefore, it is not subject to Solvency II — an advantage from a regulatory perspective.

"I've been in this industry for more than 35 years. I see the strength of the regulator in Guernsey," says Aon's Bell. "It's got robust yet proportionate regulation. It's clear that the regulator and the domicile's captive industry are aligned in their goals to see Guernsey flourish."

Robus Guernsey's Upson highlights the importance of the "very strong relationship" between the regulator and the industry.

"The proportionality, in terms of regulation, is so critical," he notes.

"We've got the industry body, GIIA, and we've got a large pool of seasoned professionals and our independent non-executive directors, who bring a lot of value. Ultimately, it's all about being knowledgeable and commercially-orientated. Having an open mind to regulation is always going to help. We Are Guernsey's Lewis, who has been interacting with Guernsey's regulators for more than 20 years, also believes it's a helpful environment for new clients.

He says: "Being able to approach Guernsey regulators to raise concerns is helpful."

Good timing

The growth in demand for alternative risk management structures is showing no signs of slowing down. Guernsey's new place as Europe's biggest captive domicile puts it in a fantastic position to attract prospective clients – particularly those that might be turning their attention to captives for the first time.

Atlas Insurance PCC

People you can trust

Discover the advantages of our protected cell facilities

Why Atlas?

- A leading Maltese insurer since the 1920s. In 2006 was the first EU insurer to convert to a PCC.
- **Recognised independent EU PCC experts** having assessed and implemented a variety of direct third-party, reinsurance and captive cells, including hosting cells for clients of global management companies and consultancies.
- **Active non-cellular core** - Allows greater flexibility including cells writing third party or compulsory classes.

Why Malta?

- Only full EU member state with PCC legislation.
- Avoid fronting cost through **EU Passporting.**

We offer benefits under Solvency II

- **Less costs** thanks to shared governance, risk management and reporting.
- **Less capital required** as Atlas core capital surplus over SII requirements provides significant support.

Contact us to find out what we can do for your company

t: +356 2343 5411 e: cells@atlaspcc.eu **www.atlaspcc.eu**

Atlas Insurance PCC Limited is a cell company authorised by the Malta Financial Services Authority to carry on general insurance business.

"As Oscar Wilde said: 'There is only one thing in the world worse than being talked about, and that is not being talked about'," affirms We Are Guernsey's Lewis.

He adds: "Companies are going to be looking at captives more than they have done for some years, and when they do, most will do a feasibility study. Right now, whether it's because of the location, what it offers, the experience of the staff, or the regulatory environment, it seems Guernsey is ticking all the right boxes."

Despite the domicile's recent accolades, there is a determination to keep pressing forward.

"We won't be resting on our laurels," says Aon's Bell. "It's a case of building upon our proven track record – to ensure that Guernsey is future proofed."

She adds: "Guernsey has continued to evolve and that's not going to change. We are always working on new initiatives, niche solutions and services, and we'll continue to innovate and promote the captive proposition."

A bright future

However, how can continued growth be measured if the domicile in question is already Europe's most successful?

Aon's Bell affirms: "Guernsey is very much at the forefront of sustainable finance. GIIA introduced the world's leading ESG framework with an accreditation kitemark back in 2021. It was created to manage ESG opportunities and risks, and to deliver a positive ESG impact."

"Guernsey's a member of the UN Sustainable Insurance Forum and GIIA is a signatory to the UN Sustainable insurance principles, so the sustainable development goals are very much aligned with our financial products and services.

"Beyond that, we will continue to expand the connectivity between captives and capital. We'll also focus on providing the solutions that are needed in the hard market, such as additional capacity for programmes. Alternative solutions are very much in demand too."

Robus Guernsey's Upson says: "We will continue to provide solutions for gaps in coverage. That's not just limited to what has been quite topical in terms of cyber, director and officer, and professional indemnity, but it's going to include property damage/business interruption and general liability as well."

He adds: "I think there's still a lot of growth that can be achieved — it's a case of continuing to innovate. Now we've reached this landmark, Guernsey will see an increase in business opportunities."

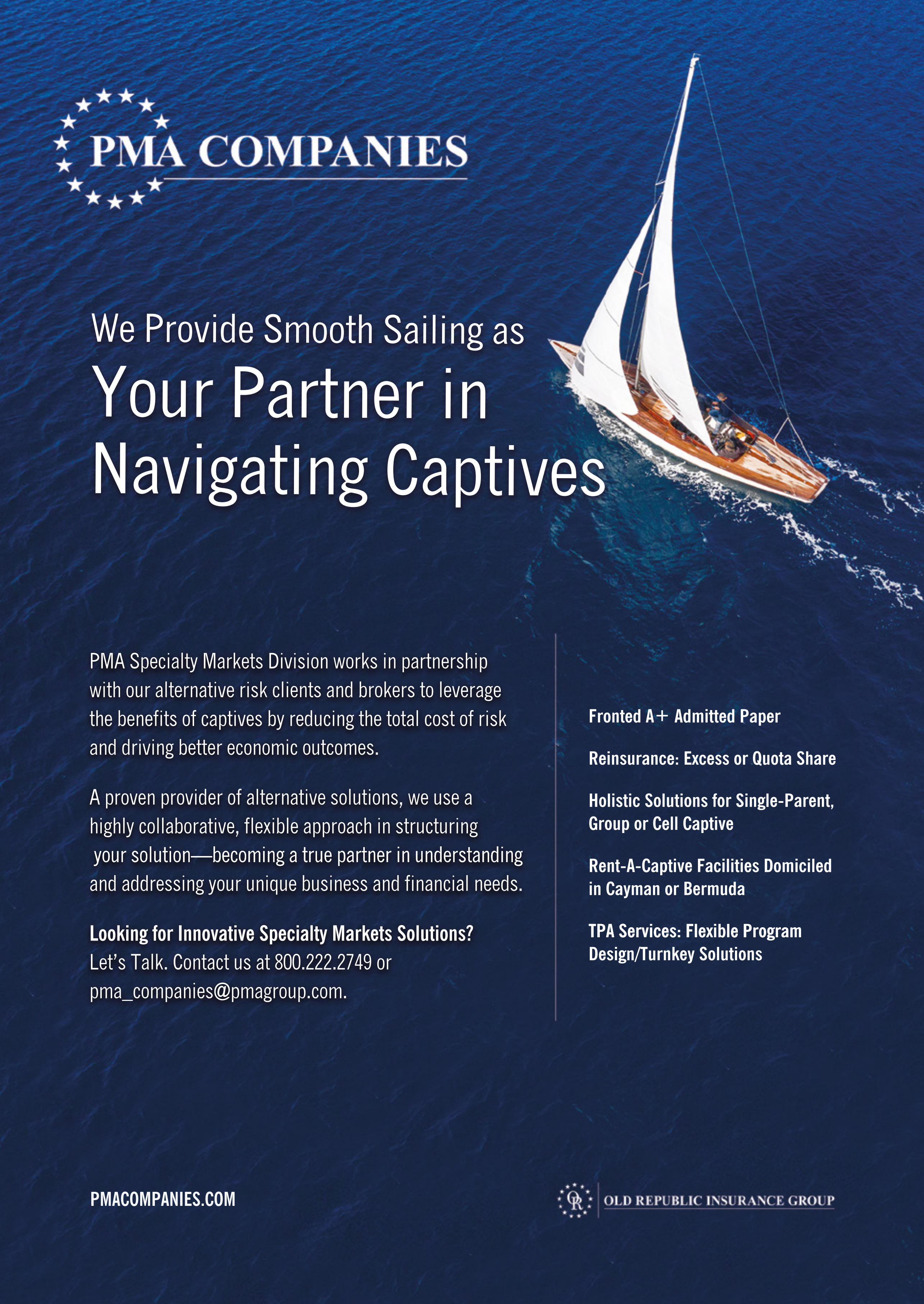
Succession planning

If Guernsey wants to keep its place at the top in Europe, it will need to find a solution to the talent gap — a key challenge facing the global captive industry. To counteract this the domicile is placing an emphasis on succession planning.

"We're making sure that we are bringing new talent up through the ranks," explains Aon's Bell. "Talent development has been a considerable focus — so much so that it's led to the recent launch of the Guernsey Certificate and Diploma in International Insurance Management initiative. We're going to have considerable interest [in this initiative]. It will be something that helps to train individuals before they even reach their employers."

"[The initiative will be] fundamental to the continued success of the industry," says Robus Guernsey's Upson. "I look at it as a need to share knowledge and experience. The captive industry has a need to bring up the next run of talent, and hopefully, it will provide some future proofing for the next generation," he concludes. ■


Welcome
Home
to
Tennessee.
Tennessee is a premier domicile for captive insurance.
See how your captive can benefit from:
• Pro-business environment in a central U.S. location serving all captive license types
• Established and experienced captive professionals and infrastructure
• Award winning regulatory team focused on up-to-date and competitive regulations
If you're ready to find your captive's home, Tennessee wants to welcome you.
To learn more, visit captive.tn.gov or call (615) 741-3805, (855) 809-0069 (toll free) or email us at captive.insurance@tn.gov.
TN
Department of
Commerce &
Insurance
captive.tn.gov
TN


PMA COMPANIES
We Provide Smooth Sailing as
Your Partner in Navigating Captives
PMA Specialty Markets Division works in partnership with our alternative risk clients and brokers to leverage the benefits of captives by reducing the total cost of risk and driving better economic outcomes.
A proven provider of alternative solutions, we use a highly collaborative, flexible approach in structuring your solution—becoming a true partner in understanding and addressing your unique business and financial needs.
Looking for Innovative Specialty Markets Solutions?
Let's Talk. Contact us at 800.222.2749 or pma_companies@pmagroup.com.
Fronted A+ Admitted Paper
Reinsurance: Excess or Quota Share
Holistic Solutions for Single-Parent, Group or Cell Captive
Rent-A-Captive Facilities Domiciled in Cayman or Bermuda
TPA Services: Flexible Program Design/Turnkey Solutions
PMACOMPANIES.COM
OLD REPUBLIC INSURANCE GROUP