CIT CaptiveInsuranceTimes
The primary source of global captive insurance news and analysis

ISSUE108
12.10.2016 WEDNESDAY
captiveinsurancetimes.com

HARDER, BETTER, FASTER, FERMA

Malta's PCC legislation gives the island the edge

The structure of things
High premiums mean high complexity

Risk managers rising in corporate ranks, finds FERMA

European risk managers are taking a more strategic role in their companies with increasing access to top management levels and the board, a Federation of European Risk Management Associations (FERMA) survey has found.

More than half the 634 respondents to the survey, which took place between April and June and represents a sample of approximately 14 percent, play a part in implementing risk culture across their organisation (68 percent) and develop risk management as a part of business strategy (62 percent).

Two thirds report to the board or top management level, according to the survey.

FERMA president Jo Willaert said: “From this survey, we see that risk managers are moving into a position where they are helping embed risk management into the business model and culture of their organisations.”

“They are taking an enterprise-wide vision of risks, including the wider business environment, and the majority report to a chief officer or the board.”

The survey also showed rising concern among risk managers about economic conditions and business continuity disruption since the previous FERMA survey in 2014.

Economic conditions, political risks, and country instability were considered the top three risks to business, and digital risks also emerged as more important in 2016 than they have been previously.

“There is work to be done here in strengthening our resilience to these constantly evolving risks. FERMA has always emphasised that they are enterprise risks, and the survey shows that we need closer relationships between the risk management and IT functions,” Willaert said.

“We are also looking for a partnership with our advisers, brokers and insurers to strengthen our resilience and management of incidents.”

PORCs to go the distance

Producer-owned reinsurance companies (PORCs) have the potential to drive growth in the captive insurance market as intermediaries and brokers establish vehicles to aggregate the risks of their individual customers, heard attendees of the Guernsey Insurance Forum.

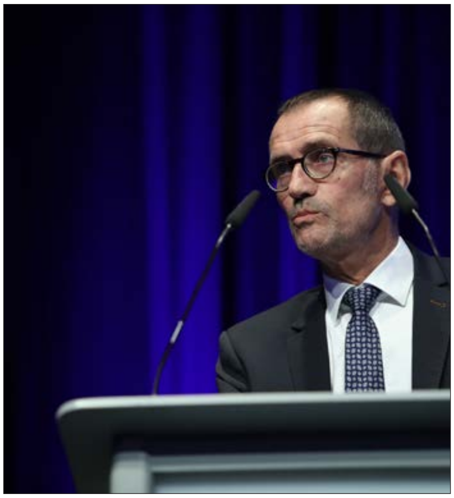
Oliver Schofield, executive director at RKH Reinsurance Broking, and a panellist at the recent Guernsey Insurance Forum held in London, said PORCs represent a means for entities to access the benefits of the captive and reinsurance markets that would otherwise be too small to go down the captive or protected cell company route in their own right.

“It allows smaller organisations to access those underwriting profits, rather than seeing those profits perhaps just disappearing into the insurance and reinsurance world,” Schofield explained.

“It also allows those producers, those brokers, to drive alternative solutions into their client base, rather than perhaps some of the more esoteric alternative solutions being the domain of the larger buyer.”

“They suddenly become much more available to the small and very small organisations that are buying their insurance now. It also allows those brokers to drive risk management into the core of each of those individual customers.”

Small and medium-sized entities (SMEs) are most likely to drive innovation in the PORC sector, Schofield said. Corporate entities, affinity groups, associations and trade bodies that traditionally utilise captives will continue to do so.



Contents

Mark Helyar of Bedell Cristin, a Guernsey-based law firm specialising in insurance, reinsurance and insurance-linked securities, agreed.

He said: "PORCs are the major area of growth in the captive sector at the moment."

"All of the Coca Colas of this world, the BPs and the Shells and everybody, have got their captives already, so if you want to get into another sector, then it needs to be in SMEs."

Bermuda power captive boasts surplus

The Bermuda-domiciled captive of the largest power generation and multi-utility company in Colombia has achieved high financial strength and long-term issuer credit ratings.

A.M. Best assigned a financial strength rating of "A- (Excellent)" to Maxseguros EPM, as well as a long-term issuer credit rating of "a-".

The ratings reflect the captive's strong risk-adjusted capitalisation, supported by a comprehensive and adequate reinsurance programme, history of consistently strong operating performance, sound risk management capabilities, and conservative balance sheet strategies.

The ratings also recognise the support of its parent, Empresas Publicas de Medellin.

Maxseguros EPM enjoys a growing surplus, which has increased from $5 million to $41.2 million over the past five years.

This is among several factors that mitigate the captive's limited business and market scope, according to A.M. Best.

Advantage cements position in Puerto Rico

Advantage Insurance has launched a new subsidiary in Puerto Rico.

Advantage Business Insurance Company (AIBC) will provide risk management services including captive insurance solutions to businesses throughout the Americas.

ABIC is Advantage's third licensed insurance carrier in Puerto Rico, joining Advantage Life Puerto Rico, which commenced underwriting in 2011, and Advantage Life Assurance, opened in 2015.

The company also recently completed the relocation of its corporate headquarters to Puerto Rico, due to "strong growth prospects for businesses there", according to a statement.

Walter Keenan, CEO of Advantage, said: "Puerto Rico has proven to be an excellent complement to our other locations in the US and Cayman Islands."

"Having ABIC open for business gives our clients additional flexibility in choosing the best domicile to meet their individual risk management needs."

Les Boughner, chairman of Advantage's business insurance division, commented: "We look forward to introducing our new capabilities to the marketplace, with a particular focus on small and medium-sized businesses in the Caribbean and Latin America. Business owners in the region are familiar with Puerto Rico and appreciate the unique benefits afforded by its status as a territory of the US."

Aon launches new cyber solution

Aon Risk Solutions has introduced a new cyber product, the Aon Cyber Enterprise Solution, offering enterprise-wide coverage against cyber risk.

According to Aon, the risk characteristics of the organisation are evolving to include new risks such as system failures, third-party attacks and internal mistakes.

Stephanie Snyder, cyber practice sales leader at Aon Risk Solutions, said: "The impact of cyber risk has fundamentally changed. Aon Cyber Enterprise Solution helps our clients think about cyber risk differently to address each organisation's holistic cyber exposures under one policy."

Christian Hoffman, cyber practice leader at Aon Risk Solutions, added: "While cyber policies cover personally identifiable information exposures, such as those faced by retailers, hospitality, financial institutions and health care, we are excited to broaden the scope of coverage to help clients across all industries develop a more comprehensive approach to cyber risk, including physical property damage, products liability, business interruption or supply chain disruption."

R&Q continues shopping spree

Randall & Quilter Investment Malta (RQIM) has agreed a portfolio transfer agreement of a run-off business from Aviabel.

Aviabel is a Belgian company specialising in aviation insurance and reinsurance.

Ken Randall, chair and CEO of RQIM, said: "We are delighted to have received the necessary regulatory approvals to the business transfer and R&Q has now removed these liabilities completely from Aviabel."

"This demonstrates the ability of R&Q to provide exit solutions from legacy insurance liabilities to companies throughout Europe. This is one of a number of current transactions we have been assessing and we remain excited about our legacy acquisition pipeline."

The acquisition comes days after Randall & Quilter announced an agreement with SIMIA, a mutual insurance company, to provide loss portfolio reinsurance coverage for all its underwritten insurance contracts.

Subject to regulatory approval, the SIMIA business will transfer to R&Q Malta in 2017.

Randall said: "We are delighted to write this reinsurance and, subject to regulatory approval, we now plan to remove the liabilities completely from SIMIA by way of a Part VII transfer."

Revised ratings for Toyota captive

A.M. Best has revised the long-term issuer credit rating outlook to positive from stable and affirmed the financial strength rating of "A (Excellent)" of Toyota Motor Insurance Company (TMIC), in Iowa.

According to A.M. Best, the credit ratings reflect TMIC's "excellent" risk adjusted capitalisation and "strong" profitability driven by favourable underwriting returns supplementing net investment income.

TMIC also benefits from support provided by its ultimate parent, Toyota Motor Corporation.

A.M. Best said: "Offsetting these positive rating factors are TMIC's limited business profile as a single-parent captive and its reliance on new and used automobile sales at Toyota dealerships to generate premium."

The ratings company suggested that negative rating actions could occur if the TMIC's underwriting performance shows a decline or demonstrates volatility.

However, positive ratings actions could occur with "sustainable robust overall earnings while maintaining its strong level of risk-adjusted capitalisation", said A.M. Best.

Zurich: Cyber concerns on the rise

Cyber risks and reputational damage are an increasing concern for small and medium-sized enterprises (SMEs), according to Zurich Insurance Group's third annual SME survey.

The survey, which polled 2,600 C-suite executives and managers at SMEs across 13 countries in Europe, the Americas and Asia Pacific, revealed that the number of respondents worried about cyber crime has increased by 7 percentage points since the survey began in 2013.

It also found that the number of respondents worried about reputational damage has increased by 6 percentage points compared to three years ago.

Cayman seeking Latin American business

Latin America is an "important market" for Cayman captives, according to JS de Jager, board member of the Insurance Managers Association of Cayman (IMAC).

Representatives of the Cayman captive insurance industry are set to attend the RIMS Risk Forum Latin America 2016, held in Bogota, Columbia, on 3 and 4 October to promote Cayman as a captive domicile.

De Jager said: "With various tax information exchange agreements with Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, to name a few), the strength of our legislative and regulatory infrastructure and the extensive experience and expertise of our local service providers, Cayman is able to offer Latin American companies a product that is well-tested and efficient."

"We have a number of Latin American captives domiciled here in Cayman already and we are optimistic about the opportunities to spread the word to motivate more Latin American businesses to follow their example."

Early start for Butler University captive

The Butler University College of Business has moved the launch date of its student-run insurance company forward to 1 May 2017.

The original start-up date was the start of the 2019-2020 academic year.

Zach Finn, clinical professor and director of the Davey Risk Management and Insurance Programme, explained that the opening of the captive insurance company is more than two years ahead of schedule.

Finn suggested this is down to the hiring of Kevin Thompson to teach in the programme and a $250,000 gift from MJ Insurance and its CEO, Michael Bill. The money will cover the minimum amount of capital that's needed to fund the captive, and the college of business will also be soliciting gifts to fund operating costs.

Previously, Thompson served as counsel to Plews Shadley Racher & Braun and president of Insurance and Risk Management Services.

The Butler captive will insure certain programmes, including the live mascot, Butler Blue III, and any physical damage to university vehicles.

The captive aims to give students hands-on experience to prepare them for an industry that expects to require tens of thousands of new employees over the next seven years.

Sooner, the better

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and the long-term issuer credit rating "a" of Sooner Insurance Company, located in Vermont.

The ratings reflect Sooner's "excellent" risk-adjusted capitalisation and "strong" profitability driven by "favourable underwriting results". They are partially offset by the company's limited diversification of business written, which is expected with a single-parent captive, A.M. Best said.

I've got cells, they're multiplying

FERMA conference attendees heard how the implementation of protected cell company legislation has helped with innovation in Malta

Malta is making its mark on the European captive insurance industry, playing host to this year's Federation of European Risk Management Associations (FERMA) Risk Management seminar, where Prime Minister Joseph Muscat boasted the island has gained a "significant brand" in the industry.

Speaking during the conference opening ceremony, Muscat said the most significant innovation for Malta has been the introduction of the protected cell company (PCC) legislation for insurers, noting that Malta is the only EU member state to have this legislation.

In a later session, Ian-Edward Stafrace, chief risk officer at Atlas, also discussed the PCC legislation. Stafrace suggested that the rule has meant a number of cells are being set up in Malta, and are tapping into consumer business.

He used an example of a captive model, wherein a supermarket that owns a large fleet of vehicles has created a cell to insure its motor fleet directly, without the need of a fronting insurer.

Stafrace explained that a PCC is a single legal entity with a non-cellular core. Although it is licensed like any normal insurance company, there is one difference, whereby owners outside of the company can set up cells within that company.

Aside from PCCs, Muscat also noted that Malta has recently extended legislation to securitisation vehicles and reinsurance special purpose vehicles (RSPV), making it the first EU member state to adapt the cell structure for insurance-linked securities (ILS) transactions.

The first securitisation cell company (SCC) set up in Matla was Exchange Re. In a recent interview, John Tortell, general manager of Exchange Re, suggested that the segregated cells will be constituted to enter into securitisation transactions.

He said: "Authorised as a RSPV under the Maltese RSPVs regulations and fully compliant with the EU Solvency II regime, the platform offers lower costs and a quicker set-up time for individual transactions."

"The most significant innovation for Malta has been the introduction of the protected cell company (PCC) legislation for insurers. Malta is the only EU member state to have this legislation"

Joseph Muscat
Prime Minister of Malta

“Exchange Re invites all managers to populate and manage cells on the platform. This is an independent structure that will allow other managers to manage cells in the structure. The purpose of this is to relieve the managers from the requirement of owning a platform together with the issues of conflict of interest that these may generate.”

He explained that, together with the Malta Financial Services Authority (MFSA), Exchange Re went through a process to ensure the application was initiated over a period of time, and a seamless transition to the market was made.

In his conference opening speech, Muscat revealed that this innovation has served the country well, citing written insurance premiums, which have risen from €596 million to €3.8 billion.

He suggested that Malta is benefitting from the current economic climate, consumer confidence and higher levels of tourism.

With the introduction of Solvency II at the beginning of this year, Muscat said that insurance companies have decided to be a part of the Maltese economy rather than sitting back. He said: “The economy is vibrating with success.”

He noted: “The message is to keep oiling the machine so that Malta can become a powerhouse of the economy.”

“We have continued to build the insurance industry. Malta has advanced significantly.”

However, the prime minister also suggested Malta can do better, and that the best is yet to come.

He explained that there is no success in being hit with risk; there are still cyber risks, economic risks, climate change and financial stability risks that Malta will have to face.

“A PCC is a single legal entity with a non-cellular core. Although it is licenced like any normal insurance company, there is one difference, whereby owners outside of the company can set up cells within that company”

Ian-Edward Stafrace
Chief risk officer
Atlas

> The bar for captives is much higher to pass than it was in the past because they're in a more complex environment, whether that be because of the compliance or governance

According to Muscat, there are opportunities for new structures in years to come and, in Malta, regulators will work with the industry to become part of the solution, not part of the problem.

During the conference, FERMA also revealed the results of its 2016 European Risk and Insurance Report. The results showed that the number of companies using captives in Europe has fallen from 39 percent in 2014 to 34 percent in 2016.

The eighth edition of the report, which is released every two years and reports the views of over 600 risk and insurance professionals from over 21 countries, found that the use of captives remains more prevalent in financial services, banking and mature insurance markets, compared to any other industries. Company size is also a key driver for take-up of captives.

FERMA said in the report: "This result is consistent with our concern about the significant increase in the operational cost of captives following the implementation of Solvency II and the higher scrutiny on captives by governments when implementing the Organisation for Economic Co-operation and Development's recommendations on base erosion and profit sharing."

"In addition, FERMA believes it is crucial that tax authorities take into account the positive contribution to enterprise risk management that captives represent for multinational organisations in protecting their assets."

According to a seminar panellist, Philippe Gouraud, global head of strategic client and broker management at XL Catlin, captives are here to stay. However, he noted that, because captives are complex, there are a number of consequences.

Philippe Gouraud
Global head of strategic client and broker management
XL Catlin

Jo Willaert

President

Federation of European Risk Management Associations

Gouraud said: “The bar for captives is much higher to pass than it was in the past because they’re in a more complex environment, whether that be because of the compliance or governance.”

However, he revealed that the captives that have been used are being used “more intensively” than before. He said: “The captive has a strategic role to play around innovation.”

The results of the report also show that the implementation or further use of captive facilities has decreased by 6 percentage points since the last survey in 2014.

It was also revealed that European risk managers are taking a more strategic role in their companies with increasing access to top management levels and the board.

More than half of respondents play a part in implementing risk culture across their organisation (68 percent) and develop risk management as a part of business strategy (62 percent). Two thirds report to the board or top management level, according to the survey.

FERMA president Jo Willaert commented: “From this survey, we see that risk managers are moving into a position where they are helping embed risk management into the business model and culture of their organisations.”

“They are taking an enterprise-wide vision of risks, including the wider business environment, and the majority report to a chief officer or the board.”

The survey also showed rising concern among risk managers about economic conditions and business continuity disruption since the previous FERMA survey in 2014.

This, political risk and country instability emerged as the three top risks to businesses. Digital risks—that is, risk of cyber attack, data privacy, and risk to IT systems and data centres—also increased in importance in 2016.

Digital and cyber risks are, not surprisingly, according to FERMA, a rising concern, and risk managers are looking for a greater partnership with insurers on loss prevention and incident management.

The purchase of standalone cyber risk coverage has grown since 2014, but two thirds of companies still do not buy such protection.

“There is work to be done here in strengthening our resilience to these constantly evolving risks. FERMA has always emphasised that they are enterprise risks, and the survey shows that we need closer relationships between the risk management and IT functions,” Willaert said.

“We are also looking for a partnership with our advisers, brokers and insurers to strengthen our resilience and management of incidents.”

In the closing ceremony, Willaert reflected on this year’s conference but also invited attendees to the FERMA Risk Management Seminar 2017, which will be held in Monte Carlo between 15 and 18 October next year. **CIT**


RISK IS EVERYWHERE.
IT TAKES VISION
In today's world, complacency has a cost. Unforeseen risks can even bring down a company. To go beyond oversight and bring insight, rely on one of the global leaders in actuarial and risk consulting. Because the status quo really isn't an option. To learn more, visit milliman.com/captives.
Milliman

Six and two threes

An increasing regulatory burden means corporates are weighing up the gross premiums of their captives against the ease of managing them. José Ramón Morales of XL Catlin considers the options

Many captives for large corporates were formed in the late 1980s or early 1990s. Over that time we have learned a lot about the various administrative and structural issues that must be addressed for a captive to be successful.

Two particularly relevant issues today are: ensuring a compliant solution for multinational risks and the pros and cons of a net line versus a gross line structure.

Operating globally, acting locally

The fact is that there are no common global commercial standards, regulations or legal frameworks governing a company's operations. This is especially the case when it comes to insurance.

Each country has its own legal and regulatory frameworks governing such things as what coverages are compulsory, and where and from whom insurance can be purchased. Each country also has its own tax requirements and, in many cases, specific levies for national insurance pools.

As a result, risk managers using a captive to efficiently manage multinational risk are increasingly challenged to achieve the five Cs that multinational programmes aim to deliver: compliance, coverage, capacity, control and cost. In fact, the same applies to global programmes in general, whether or not they are run through a captive.

This is not likely to change. Given the ongoing regulatory changes taking place at a local level, captives using multinational programme structures must accept the fact that staying current with the latest developments in different countries, and adjusting programmes as necessary, will continue to be increasingly challenging and burdensome.

This also highlights the importance of choosing a fronting partner carefully—one that has the systems and resources to stay up-to-date with the latest legal and regulatory requirements, and that can act locally when adjusting claims to minimise delays and uncertainties.

Captive structures: Time to re-assess?

Under Solvency II European captives now need to consider credit risk, diversification, correlation, operational risk and investment risk.

As captive owners start to grapple with these requirements, they are finding that the pros and cons of net line versus gross line structures have evolved somewhat.

Matthew Latham, XL Catlin's head of captive programmes, summarises the two approaches as follows: "With a net line structure, the insurer reinsures to the captive only the risk the captive wishes to retain. The insurer keeps the rest of the risk or reinsures or co-insures directly."

"With a gross line structure, the insurer reinsures all of the policy limits to the captive, and the captive decides how much risk it wishes to retain—typically a primary layer—and reinsures the remainder to a panel of reinsurers, usually led by the original insurer."

Our view is that while both approaches have advantages and disadvantages, Solvency II has tilted the balance toward net line programmes because they are simpler to administer, as well as cheaper and more capital efficient.

Under Solvency II, the fronting insurer is now subject to a capital charge for the credit risk associated with reinsurance recoveries. For a gross line programme where the full limits are reinsured, that means more credit risk, the costs of which are passed on to the captive through higher fronting fees.

While credit risk can be mitigated to some extent with collateral, most companies today are looking to safeguard their collateral for more productive purposes.

In addition, since there are fewer entities to pass premium through, net line programmes require less administration. That should also translate into lower fronting fees.

Gross line programmes do enable captive owners to access ceding commissions on reinsurance placements.

However, according to Latham: "If the programme is looked at from end to end, the overall economics of the transaction should be the same on a net line basis, as reinsurers and insurers should be prepared to accept the premium less whatever ceding commission that the captive would have charged, or even keep that commission unaltered as a fee for the captive."

In other words, while a gross line programme will show greater gross premium, a captive with less premium can still help its parent achieve its strategic goals in a more profitable and capital efficient way, and with less administration. **CIT**

José Ramón Morales,
Country manager, Iberia,
XL Catlin

Changes at JLT, KPMG Bermuda, and more

Richard Lightowler, managing director and head of insurance at KPMG in Bermuda, is retiring at the end of the year.

The firm's current head of head of advisory, Mike Morrison, will take over from Lightowler on 1 October.

Lightowler joined KPMG 1993, became a partner in 1998, and rose to lead the firm's insurance practice in 2003.

During his time at KPMG, Lightowler became a member of Bermuda's insurance advisory committee and played a significant role in assisting the Bermuda Monetary Authority in achieving Solvency II equivalence.

KPMG Bermuda chairman Neil Patterson commented: "Lightowler has been an outstanding leader of our insurance practice during which time he has successfully acted as the lead partner on many of our largest and most complex clients, including SEC registrants and UK-listed entities, as well as providing a wide variety of advisory services across the sector."

JLT Insurance Management (IM) has promoted Dustin Partlow and Thao Nguyen to the positions of director and vice president, respectively.

Partlow, now director, has been with JLT IM since January 2015, as a senior account manager. Previous to this, he was a manager at Johnson Lambert LLP.

He is also a member of the National Risk Retention Association's government affairs committee, and of the American Institute of Certified Public Accountants.

Newly appointed vice president Nguyen has been with JLT IM as a senior account manager since 2010. Previously, she spent five years as an account executive at Aon.

Guy Ragosta, CEO and partner at JLTIM, commented: "Both Dustin Partlow and Thao Nguyen are integral parts of JLT IM's commitment to superior client service."

He added: "Our clients can be confident they are in good hands when [they] are working on their accounts."

Neil Maynard has joined Crowe Horwath Cayman as an audit partner.

In his new role, Maynard will take the lead in building market awareness of the company in the Cayman Islands.

Maynard, who most recently served at EisnerAmper Cayman, has 18 years of experience in assurance and business services in the Cayman Islands and UK.

He specialises in investment funds, trusts, captive insurance companies and other operating entities.

The appointment follows the recent Cayman Islands Monetary Authority authorisation for Crowe Horwath to become an approved auditor for class B insurance licensees in the Cayman Islands. CIT

CIT CaptiveInsuranceTimes

Group Editor: Mark Dugdale
markdugdale@captiveinsurancetimes.com
+44 (0)203 750 6022

Deputy Editor: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Reporter: Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6018

Contributors: Drew Nicol and Barney Dixon

Business Development and Design: John Savage
johnsavage@captiveinsurancetimes.com
+44 (0)203 750 6021

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com
+44 (0)203 750 6019

Designer: Steven Lafferty
design@securitieslendingtimes.com
+44 (0)203 750 6021

Recruitment Manager: Chris Lafferty
chris@assetservicingtimes.com
+44 (0)208 663 9624

Office Manager: Chelsea Bowles
accounts@securitieslendingtimes.com
+44 (0)203 750 6020

Office fax: +44 (0)20 8711 5985

Published by Black Knight Media Ltd

Black Knight Media Ltd
Provident House
6-20 Burrell Row
Beckenham
BR3 1AT, UK

Company reg: 0719464

Stay connected with Captive Insurance Times on Twitter, Facebook and LinkedIn

www.captiveinsurancetimes.com