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IRS bows to pressure over Notice 2016-66 deadline

The Internal Revenue Service (IRS) has granted a 90-day extension to the deadline for 831(b) captives that need to comply with controversial Notice 2016-66.

The IRS revealed, in Notice 2017-08, that the new deadline for compliance is 1 May 2017.

Notice 2016-66 requires reporting by any taxpayer involved in micro captive transactions over a number of past years to which the open statute of limitations applies.

Abusive micro-captive transactions previously appeared on the IRS's 'Dirty Dozen' list in 2015.

The Self-Insurance Institute of America (SIIA) has commented that, while it applauds the necessary deadline extension, there is a "continued belief that the requirements under the notice are duplicative and unnecessary at a time when the PATH Act provisions have not yet fully taken effect".

SIIA suggested it will continue to lead advocacy activities aimed at reviewing and further modifying the notice.

Rachel Partain, member of Caplin & Drysdale, said in November that an extension was necessary to give captives and their service providers sufficient time to coordinate and respond. The original deadline, set for 30 January, would have made this impossible.

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IRS bows to industry pressure over Notice 2016-66 deadline

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Partain said: “An extension of the 30 January 2017 due date would allow captive managers and the certified public accountants for the insureds and business owners sufficient time to coordinate a consistent response and ensure that the necessary disclosures are filed properly and timely, especially given that managers may be focusing on policy renewals and restructuring ownership structures in order to qualify under section 831(b) beginning in 2017.”

Guernsey updates rules for ILS

The Guernsey Financial Services Commission (GFSC) has released a new set of rules to clarify the regulatory treatment of collaterised reinsurance, including insurance-linked securities (ILS) transactions.

The Insurance Business (Special Purpose Insurer) Rules 2016, published on 1 January, mean an applicant for licensing of a new special purpose insurer (SPI) may be granted single consent for the formation of further SPIs without going through another application process.

The Insurance Business (Solvency) Rules 2015 were also updated to include a new class of insurer. As part of the amended rules, SPIs are no longer required to maintain minimum or prescribed capital requirements.

Dominic Wheatley, CEO of Guernsey Finance, said the “positive changes” are a codification of the way the GFSC already applies its discretionary powers.

“They provide a new level of operational certainty and efficiency for the insurance sector,” he said.

“This sort of development highlights Guernsey’s ability to find sensible, proportional regulatory responses to the necessary but growing compliance burden on financial services organisations, which we are confident will appeal to others considering ILS structures in particular.”

According to the GFSC, SPIs must be fully collateralised to the extent of their liabilities and, in addition to ILS, may include collateralised reinsurance, catastrophe bonds, side cars and life-based securitisations.

Mark Helyar, of counsel at Bedell Cristin, commented on the change, saying: “Collaboration between industry and the regulator meant that we could deliver this new legislation rapidly.”

“These rules will provide a significantly enhanced transparency to the manner in which Guernsey’s regulator approaches the supervision of collateralised reinsurance structures and demonstrates Guernsey’s equivalence of approach to Bermuda as an alternative jurisdiction for ILS within the European timezone.”

Oklahoma approves Atlas Insurance as captive manager

The Oklahoma Department of Insurance has approved Atlas Insurance Management to act as a manager for captive insurance business in the state.

The approval makes Atlas the first North Carolina-based captive manager to be accepted in Oklahoma.

Martin Eveleigh, chairman of Atlas Insurance Management, said: “We are pleased to have received approval to do business in Oklahoma.”

“The state is a growing domicile, and we are looking forward to working with Oklahoma’s captive insurance division. Atlas already has two captives that we will be managing in this new domicile.”

In addition to Oklahoma, Atlas Insurance Management recently received approval to act as a captive insurance manager in South Carolina.

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R&Q completes novation of Coca-Cola captive

Randall & Quilter (R&Q) Investment Holdings has completed the novation of Georgia Atlantic Insurance, a wholly owned, Bermuda-based captive of the Coca-Cola Bottlers' Association (CCBA).

The novation included the workers' compensation, general liability, auto liability and auto property damage reinsurance policies issued by Georgia Atlantic Insurance between 2002 and 2016.

The policies were novated to an R&Q-owned cell in its Bermuda-based segregated account company, R&Q Quest Insurance.

Ken Randall, chairman and CEO of R&Q, said: "We are delighted to complete this good sized novation with the CCBA and to offer them a clean break from their legacy insurance liabilities."

"This transaction continues to demonstrate our market leading position in captive legacy solutions across North America and Europe and is further proof of our rapidly growing success in the North American run-off market generally. We are pleased to be able to assist CCBA in the restructuring of this programme."

Skanska sells Luxembourg captive

Construction company Skanska has sold 100 percent of its share capital in its Luxembourg captive, Scem Reinsurance, to ArcelorMittal, a steel and mining company.

The captive, sold for €54 million (SEK 510 million), will be listed in the company's Q4 2016 figures.

Skanska sold the captive after a strategic review of its European insurance activities.

The review resulted in Skanska consolidating all its European insurance business to its captive located in Sweden.

The transfer of the shares has been approved by the Luxembourg regulator Commissariat aux Assurances.

LMA clarifies cat model uncertainties in new guide

The Lloyd's Market Association (LMA) has launched a new catastrophe modelling guide designed to educate the industry on the complexities and uncertainties these models involve.

The guide, Understanding Uncertainty in Catastrophe Modelling for Non-Catastrophe Modellers, is aimed at anyone who relies on cat models but does not have an understanding of the uncertainty they involve.

In the guide, LMA discusses five main reasons for uncertainty within a cat model.

These include non-modelled losses, which, according to the guide, can result from regions or perils not included in the modelling assessment, risks that are not considered by a model, or missing exposures.

Another uncertainty is exposure data, as the accuracy of the catastrophe model is reliant on the quality of its input data.

Event frequency is also included in the guide. It explains that, because historical data on catastrophe is limited, it is not always a reliable guide to events that could happen in the future.

The guide also suggests that catastrophe risks might have several different characteristics, such as wind damage and flood, and insured risks, and might have different vulnerabilities to these hazards.

Finally, the guide covers the financial calculations around translating risk and frequency into possible claims value and volume.

Ken Curtis, director of finance and risk at the LMA, said: "As our reliance on, and the sophistication of, catastrophe models grows, so does the level of uncertainty inherent in the models."

"Few outside the cat modelling industry are fully equipped to recognise this, and the consequences it has on assessing and pricing risk. This guide provides an invaluable tool to LMA members and the insurance market generally in understanding this uncertainty."

Moody's: Clarified captive exposures raise concerns

Disclosure of captive exposures to certain long-term and universal life insurance policies has improved among life insurers, but it has also revealed additional problems, according to Moody's Investors Service.

Although it is helpful to have more information on assets held to support XXX/AXXX reserves, as they are known, there is too little information on the underlying financial arrangements, making risk assessments challenging.

The better disclosure, mandated by the National Association of Insurance Commissioners (NAIC), has revealed sizable industry and company exposures, which are credit negative, Moody's said.

Laura Bazer, vice president and senior credit officer at Moody's, said: "About 80 percent of total 2015 reinsured XXX/AXXX reserves went to captives, rather than to third-party reinsurers, improving regulatory capital ratios, even though no risk has left the house."

At the end of 2015, XXX/AXXX business in captives was highly concentrated, with 10 US insurance groups accounting for 80 percent of the industry's total reinsurance exposure.

Although regulatory "grandfathering" of all pre-2015 business limits recapture risk, stress event-driven recapture could still put pressure on regulatory capital ratios.

In 2015, 50 percent of 'grandfathered' captive XXX/AXXX reserves in the life insurance industry were also economic.

This means the other 50 percent were excess or redundant. According to Moody's, these redundant reserves were financed with soft assets such as letters of credit.

Bazer said: "Economic reserves are those that life insurers deem necessary to cover expected benefit claims under their XXX/AXXX policies."

According to Moody's, if economic reserves are set too low, insurers can be exposed to reserve charges, if interest rates, or policyholder behaviour, turn out to be different

Acuity Investment eyes up Pro Global company

Private equity firm Acuity Investment has released a proposal to acquire a Pro Global Insurance Services company, subject to shareholder and regulatory approval.

The company, Pro, provides consulting and operational outsourcing in the insurance and reinsurance markets. As part of the proposed acquisition, there are no planned changes to the Pro management team.

According to Pro, the acquisition will provide "long-term financial stability and [it] eliminates long-term debt". It is also intended to provide a simpler corporate structure, allowing for more effective governance and better responsiveness.

Once the transaction has closed, Pro Global Insurance Services will retain its investment in Asta Capital, and will be renamed.

Artur Niemczewski, CEO of Pro, said: "Our priority in 2017 is the continued implementation of Pro's 'client first' strategy with a single-minded commitment to client service. The acquisition by Acuity will provide Pro with the investment necessary to pursue this objective.

"The Pro team is very excited about the prospects, long term stability and financial strength this acquisition will bring to us."

Adam Barron, founding partner and managing partner at Acuity, said: "Acuity aims to invest in strong businesses, like Pro, with outstanding management and good market positions in well-established areas of financial services."

from what was originally assumed. On top of this, soft assets are typically less available to support claims in stress scenarios.

From 2017, implementation of the NAIC's principles-based reserving rules for XXX/AXXX captive financing, plus the implementation of new principles-based reserving methodology, could reduce reserve redundancies.

Moody's suggested this means the need for captives could potentially diminish.

SARRG's ratings downgraded

A.M. Best has downgraded the financial strength rating of Security America Risk Retention Group (SARRG), based in Burlington, Vermont, from "B++ (Good)" to "B+ (Good)".

The ratings agency also downgraded SARRG's long-term issuer credit rating to "bbb-" from "bbb".

The downgrades come after a "sizeable surplus decrease" of approximately 27 percent as of Q3 2016, A.M. Best said.

The company's ratings were also affected by a "sizeable claim" that was not reimbursable by the risk retention group's reinsurance programme.

The net underwriting loss reflects the increased loss and loss adjustment expense related to the claim, which contributed to an unfavourable combined ratio of more than 200 percent for the first nine months of this year.

SARRG was formed by the Electronic Security Association and incorporated as a risk retention group to offer general and professional liability coverage.

Compre buys business in run-off

Compre has agreed to acquire the UK branch of AG Insurance SA, an insurance and reinsurance business in run-off, for an undisclosed figure.

The purchase is structured as a loss portfolio transfer, to be followed by an insurance business transfer, and is subject to approvals in Belgium, Finland and the UK.

Nick Steer, CEO of Compre, said: "I am extremely pleased to announce our first acquisition of the year and our first involving a Belgian counterparty.

This further enhances our reputation as a provider of legacy solutions across the European market and I look forward to further deal flow during the next year."

NORCAL seals deal for PPM Services

NORCAL Mutual Insurance Company has completed the acquisition of PPM Services, the holding company for Preferred Physicians Medical Risk Retention Group (PPM).

As part of the transaction, PPM Services, located in Overland Park, Kansas, will partner with NORCAL, expanding its presence in the Midwest.

PPM Services has now become a wholly owned subsidiary of NORCAL Mutual.

PPM has also converted from a stock company to a mutual company.

Steven Sanford, president and CEO of PPM, said: "The opportunity to join such a well-respected company as NORCAL and begin to leverage their resources for the benefit of our policyholders represents an exciting new chapter in our specialty focused company."

Scott Diener, president and CEO of NORCAL, added: "This is a great partnership for both companies"

He described the deal as an opportunity for NORCAL to continue its national expansion and establish a strong Midwest presence.

Cell culture

After a successful 2016 and the licensing of its first securitisation cell company, Malta insurance industry professionals are looking ahead to 2017

Last year saw Malta become the first full EU member state to introduce a securitisation cell company (SCC), making it a particularly innovative time for the domicile.

Malta extended its protected cell company (PCC) legislation to securitisation vehicles and reinsurance special purpose vehicles (RSPVs), thereby adapting the cell structure for insurance-linked securities (ILS) transactions.

In August 2016, Exchange Re became the first SCC to be set up for cell-based ILS and collateralised reinsurance transactions. The SCC was authorised as a RSPV under Malta's RSPV regulations, and is fully compliant with the EU Solvency II regime.

Speaking at the 2016 Federation of European Risk Management Associations Risk Management seminar in Malta in October, Malta Prime Minister Joseph Muscat suggested that the country had gained a "significant brand" in captive insurance in Europe since the implementation of the new PCC legislation.

Karl DeGiovanni, managing director of Aon's Malta office, also said there has been increased interest in protected cells, not only from countries with parents mainly in Europe, but also from further afield.

In Malta, there are now 12 licensed PCCs with a total of 32 cells. According to Joanna Aquilina, CEO of DARAG, a run-off insurance company based in Malta, there are also new PCCs and cells currently being considered by the Malta Financial Services Authority.

Aquilina says: "Leveraging its PCC legislation, Malta places itself in a unique position as an EU domicile offering a range of insurance structures that can apply to different stakeholders and diverse needs." The recent trend in formations has been for more cell formations than standalone captives or insurers, irrespective of the parent's size.

Ian Stafrace, chief risk officer at Atlas Insurance, suggests that this is mostly due to capital, cost and governance efficiencies, especially under Solvency II, with some companies even considering conversion from a standalone company to a cell.

For example, one recent new cell was a conversion from the Swiss captive of a multinational.

Stafrace explains that as a full EU member state, “Malta enjoys the freedom to provide services in the countries forming part of the European economic area (EEA)”.

Stafrace says: “This has enabled organisations to establish cells as captive risk financing vehicles underwriting risks directly without a fronting insurer.”

“Captives and insurers outside the EU have also set up cells in Malta as pure fronting facilities to reduce their fronting costs.”

Since, and in the run-up to, the implementation of Solvency II in January 2016, captives have had to examine in detail how they operate. According to DeGiovanni, inevitably, a number of entities have found that the costs of Solvency II far outweigh the benefits for standalone vehicles and so they are looking at innovative and cost-effective means of retaining risk, including protected cells.

He says: “This is why we are seeing an increased interest in protected cells within White Rock, Aon’s protected cell vehicle.”

Since Solvency II went live, it has acted both as filter and catalyst for captives.

Stafrace says: “The companies that remain, and new ones being set up, are of a higher quality and are more central to their organisations’ strategies in managing their risks or diversifying these with third party business.”

“While adding value, this in turn will help prove to tax authorities the genuine substance and importance of such subsidiaries.”

Malta continues to attract a number of captives in the market, according to Aquilina, with new applicants suggesting an increased interest in the domicile.

She says: “Even from an industry perspective, we continue to attract seasoned people to support the growth of the insurance market in Malta, giving the required added value.”

Now that Malta has the legislation in place, does the country have the potential to become a European ILS hub?

Over the last five years, the ILS market has expanded at a rapid pace. Aquilina suggests that Malta has the necessary infrastructure and legislative framework in place to be able to take on ILS structures.

DeGiovanni agrees that Malta has the potential.

He suggests that the regulation is in place, the necessary marketing is being carried out and the regulator has enacted a Solvency II-compliant, cost-effective process, which puts the country in “good stead”.

He also points out that being a full member of the EU makes the jurisdiction more attractive.

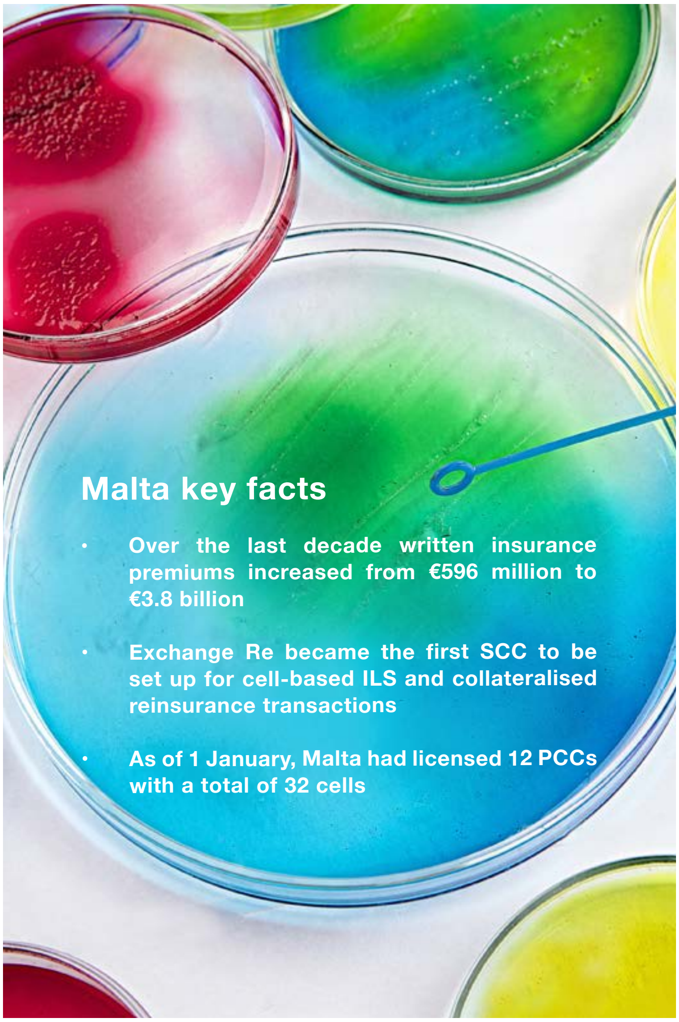
Stafrace notes that, with Malta’s securitisation cell facilities and legislation compatible with all EU directives, the domicile “can truly become the go-to destination for onshore ILS vehicles as local expertise and experience in the sector grows”.

Looking ahead, from an insurance industry perspective, DeGiovanni predicts that innovation will play a key role in being one step ahead.

He says: “As a jurisdiction, we need to continue to think globally.”

“Globalisation has brought about increased opportunities in the form of international partnership, technological innovation and business growth for companies around the world.”

“Bridging the geographical gaps of countries and companies through globalisation provides unprecedented opportunity for growth.”



Malta key facts

- Over the last decade written insurance premiums increased from €596 million to €3.8 billion
- Exchange Re became the first SCC to be set up for cell-based ILS and collateralised reinsurance transactions
- As of 1 January, Malta had licensed 12 PCCs with a total of 32 cells

Aquilina suggests that Malta will see new insurance licences for new carriers writing across the EEA via passporting rights, resulting in more captives and more cells.

However, she concedes that 2017 could be a year of many anticipated changes, driven by the UK’s vote to leave the EU, and by the new geopolitical and economic conditions.

Stafrace also highlights the Brexit vote, noting that the uncertainty could bring an opportunity for Malta to provide support and solutions. In fact, he reveals that enquiries have already “increased significantly” following the vote in June, and suggests that the number of applications in the pipeline is on the up once again. **CIT**

Industry Events

World Captive Forum 2017

29-31 January 2017
Boca Raton
http://conferences.businessinsurance.com

Celebrating its 26th year, the 2017 World Captive Forum will address new and emerging risks facing companies and organizations worldwide, demonstrating how captives can offer solutions that may not be available in the traditional insurance marketplace.

CICA 2017 International Conference

12-14 March 2017
San Diego, CA
http://www.cicaworld.com/EventsEducation/EventsIntConf.aspx

This year's CICA International Conference offers a deeper understanding of the causes of disruptions and strategies for harnessing these changes to optimize your captive's performance.

Comings and goings at Capstone, Greenlight Re and the NAIC

Capstone Associated Services has appointed Steven Lonergan as director of business development for the Midwest US.

Lonergan, who will be based in the greater Minneapolis area, will expand the company's offering into the midwestern markets.

He will be responsible for creating new business relationships and connecting directly with mid-market business owners and their advisers.

Previously, he has served as managing director of General Motor's captive, General International in Bermuda. He brings 30 years of captive insurance and reinsurance market experience to Capstone.

Stewart Feldman, CEO of Capstone, commented: "We're excited to have Steven Lonergan on board to assist clients on captive insurance and alternative risk planning opportunities."

Barton Hedges, CEO of Greenlight Re, will step down from the role after 11 years of service, effective 31 March.

Hedges will also step down from his role on the company's board of directors.

Leonard Goldberg, Greenlight's former CEO and current member of the board, will become interim CEO once Hedges leaves.

Greenlight Re said it intends to "undertake a fulsome succession process, including conducting a search process of internal and external candidates, to find a permanent successor to Hedges".

David Einhorn, chairman of the board, commented: "On behalf of the board, I want to thank Barton Hedges for his contributions to Greenlight Re over the last 11 years. We would like to thank him for his efforts in implementing [the company's] strategy and developing a talented, experienced team. We wish him all the best in his future endeavours."

Members of the National Association of Insurance Commissioners (NAIC) have elected the association's officers for 2017.

Ted Nickel, current Wisconsin insurance commissioner, was elected president, while Julie Mix McPeak, the Tennessee insurance commissioner, became president-elect.

The current Maine insurance superintendent Eric Cioppa was appointed vice president and David Mattax, Texas insurance commissioner, has become secretary-treasurer.

Cioppa and Mattax are new additions to the NAIC's leadership, with Nickel and McPeak having previously served as vice president and secretary-treasurer, respectively.

They assumed their roles on 1 January. CIT

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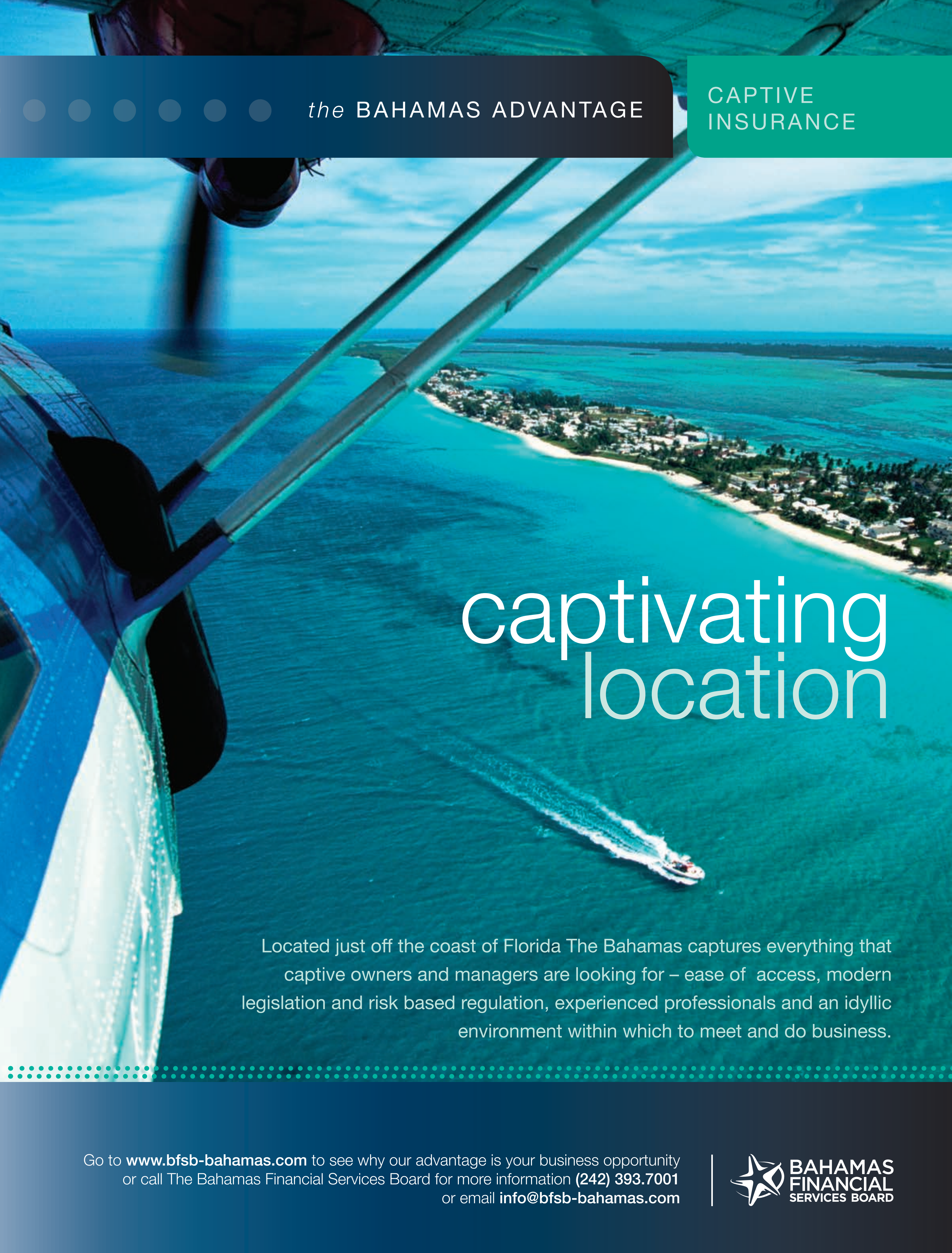
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