captive insurance times
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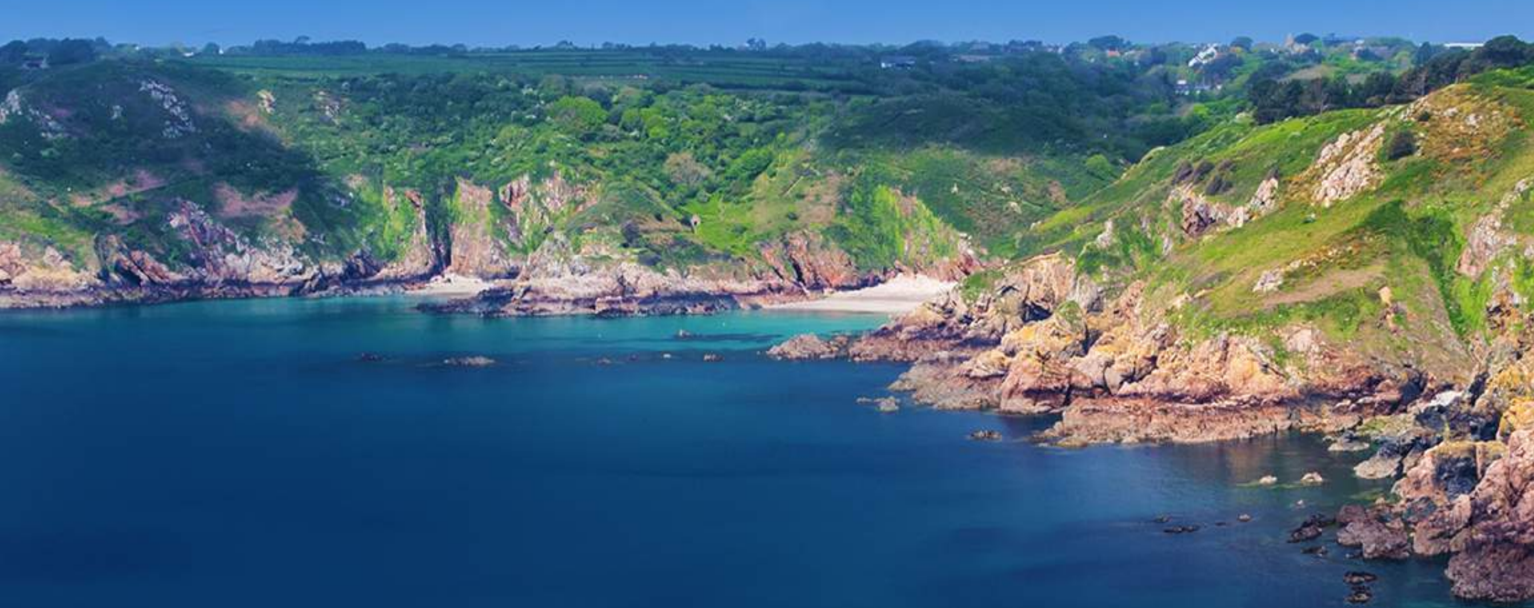

Pension deal duo settle in Guernsey

Two separate longevity risk transfer transactions, one involving the British Airways (BA) Airways Pensions Scheme (APS) and one involving Marsh & McLennan Companies (MMC) UK Pension Fund Trustee Limited, have been completed in Guernsey.

The BA APS scheme used a captive to insure £1.6 billion of pension liabilities against longevity risk. The captive is owned by the trustees, but will be operated and managed independently.

Under this new setup, the trustees have transferred the longevity risk to the captive company, which has agreed reinsurance contracts with Partner Re and Canada Life taking on the risk.

Previously, the scheme took a similar approach when it insured $2.6 billion of liabilities.

A BA pension fund newsletter explained: “Favourable pricing has allowed us to insure another £1.6 billion of the scheme’s pension liabilities against longevity risk.”

It stated: “Protecting some of the scheme’s liabilities in this way does not change how your APS pension is calculated, paid or increased. BA Pensions will remain your point of contact for any help you may need and will continue to pay and administer pensions in the way that it always has.”

In the MMC UK deal, a longevity hedge has been completed, covering around £3.4 billion of liabilities for around 7,500 pension members of the MMC UK Pension Fund.

The longevity risk was transferred using a captive approach to the reinsurance market, through Guernsey-incorporated cells with Canada Life Reinsurance and The Prudential Insurance Company America (PICA) reinsuring an equal share of the risk.

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Pension deal duo settle in Guernsey

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The captive insurer cells will be managed by Marsh Captive Solutions Guernsey.

Trustees of the fund established a wholly-owned insurance company through the Marsh captive platform, with its own independent board of directors.

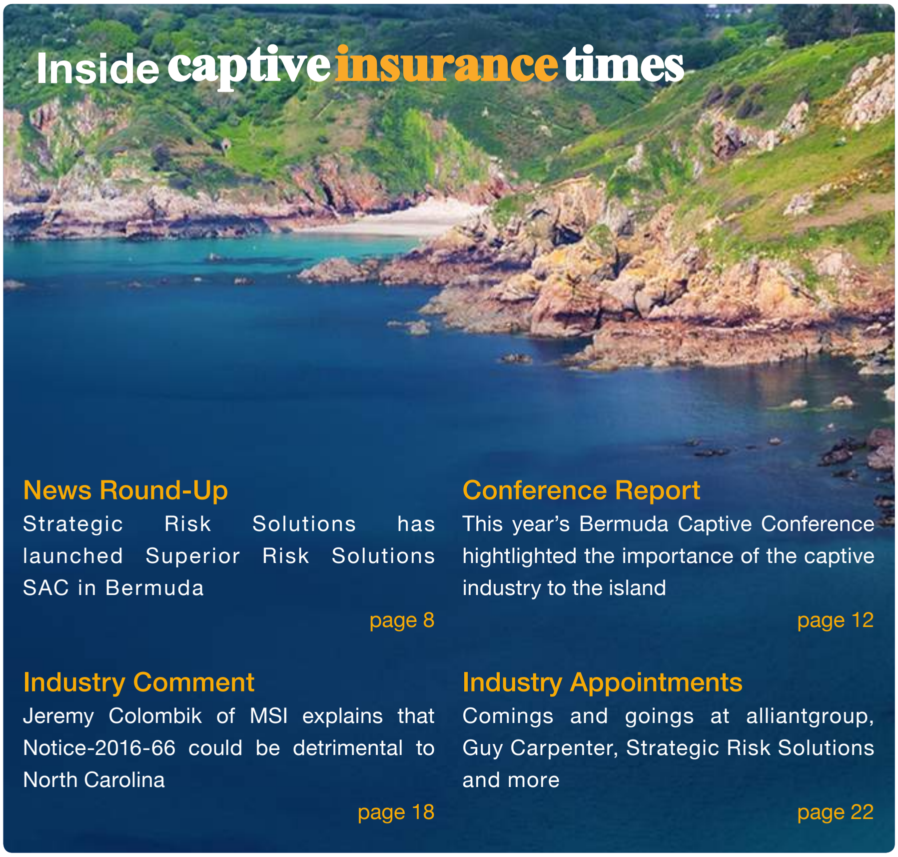
The transaction is set to the second largest using a captive insurance structure.

It has similar characteristics of the BT Pension Scheme transaction in 2014, when BT agreed a £16 billion deal to protect itself from the risk of its members living longer than expected. That deal marked the largest ever longevity risk transfer in the UK.

Suthan Rajagopalan, lead transaction adviser for the trustee and head of longevity reinsurance at Mercer, commented: "Longevity risk is a key risk for defined benefit schemes and is more significant than ever in the historically low-yield environment."

"As part of this transaction, we have advised on and managed a broad and highly competitive process to remove this long-term risk and have been able to facilitate the transfer of risk to the reinsurance market cost-effectively through the 'Mercer Marsh' longevity captive solution."

The agreement was written by the Barbados branch of Canada Life.



Inside captive insurance times

Tom O'Sullivan, general manager of the Barbados branch of Canada Life, said: "I am pleased to announce this major reinsurance agreement, which reflects our ability to collaborate effectively with the MMC UK Pension Fund to create a solution to efficiently hedge their longevity risk."

Jeff Poulin, global head of Canada Life Reinsurance, added: "This transaction highlights our expertise in underwriting large, complex and innovative risk transfer initiatives together with the value of our financial strength."

Recent disasters put spotlight on the role of captive insurance

The recent spate of natural disasters has focused a spotlight on catastrophic losses and the way in which captive insurance can play an "important role" in helping organisations "defray" some of the related financial losses, according to JLT's Insurance Management's (JLTIM), Anne Marie Towle.

Towle, executive vice president and consulting practice leader at JLTIM, explained that companies using their captives to insure a portion of quake and wind losses in California, and wind and flood losses in coastal regions, are becoming more common.

She commented: "I've seen some companies with high-wind deductibles of up to 10 percent and others that have to pay $1 million to $5 million ... before commercial insurance kicks in. Captive insurance is often an appropriate way for large organisations to fund these first-dollar losses."

Towle suggested companies could buy catastrophic reinsurance for excess losses. She added: "Cat losses give companies an opportunity to use a captive to its fullest potential, providing them balance sheet stability."

"A captive-centric strategy for cat losses eases the immediate impact to operations and provides the ability to smooth potential losses over time."

Hurricane Irma to potentially change use of alternative capital instruments

A potential impact of Hurricane Irma on Florida's property casualty market is the change in behaviour of traditional reinsurers and the use of alternative capital instruments such as cat bonds, collateralised reinsurance programmes, sidecar vehicles and insurance-linked securities, according to an A.M. Best report.

In the 'Best's Briefing', A.M. Best explained that the current catastrophe bond market exists primarily to provide reinsurance for catastrophic events like Hurricane Irma.

Outstanding bonds amounted to approximately $24.7 billion as of 30 June, of which approximately $12.5 billion covers US-named storm or wind peril as a covered peril that could impact Florida.

A.M. Best suggested that national insurance writers with significant Florida property exposures and Florida-domiciled property insurers could suffer "significant losses", depending on the severity of the losses caused by Hurricane Irma.

Outstanding cat bonds sponsored by these entities could trigger after retentions and other traditional reinsurance covers have eroded.

According to A.M. Best, insured losses exceeding $75 billion would alter the pricing dynamics in the Florida property catastrophe reinsurance market; however, working out the total amount of losses on outstanding catastrophe could "take some time".

Vermont captive total hits the 1,100 mark

Vermont Governor Phil Scott has revealed that the state's Department of Financial Regulation has welcomed its 1,100th captive with the licensing of AssureCap Indemnity, a sponsored captive insurance company.

The captive was formed by Assurance Agency, an insurance brokerage in Illinois.

Governor Scott commented: "We are proud to celebrate this significant accomplishment. As we focus on growing Vermont's economy we continue to value the role the captive industry has in those efforts, so we are not resting on our laurels."

Assurance Agency's president Daniel Klaras said: "We know how important it is to be in an environment that has an established track record with proven experience, so when we compared experience, governmental support and the state's long-standing tradition of quality regulation, we knew Vermont was the place to be."

Run-off specialists gearing up for increased flows, says GC Securities

Transaction volumes in the run-off market will continue to grow because of an influx of capital and increased amounts of buyers and sellers of legacy reserves, according to Andrew Beecroft, head of M&A advisory of GC Securities.

Beecroft suggested that the specialist legacy market is "gearing up in anticipation of more run-off deals".

He said: "We have seen several new entrants into the space, such as the Arch-backed run-off vehicle Premia Re and the establishment of a run-off platform by Fosun."

He noted that this year there have been some "notable transactions".

In July, Amtrust Financial Services bought $400 million adverse development coverage from Premia, while at the start of 2017, AIG struck a deal with Berkshire Hathaway in which Berkshire agreed to take on up to $20 billion in long-tail liabilities written prior to 2015.

However, Beecroft suggested that the current flow of legacy run-off business may not be meeting demand, and competition over deals is strong.

He suggested that run-off specialists are positioning themselves in anticipation of increased flows in the enduring competitive market.

He said: "As the current competitive market continues, run-off entities expect more companies to discontinue unprofitable lines of business, and if the claims environment heats up, or even normalises, this might put more businesses under stress."

Increased sophistication around proactive capital management is also driving increased use of legacy solutions.

"The nature of capital modelling and assessment has developed significantly over the last decade. The markets are driving towards a better assessment of risk capital requirements, largely propelled by rating agencies and regulation, in particular Solvency II," Beecroft explained.

"Within the dynamic of strong competition amongst legacy capital to provide solutions, the once daunting economics of discharging past liabilities has become an analysis of cost of capital and operational arbitrage between the live market and the legacy market.This is set to continue and will create a broader set of transaction outcomes."

Beecroft predicted that the weight of appetite for legacy risk, combined with insurers seeking active capital solutions in a challenging market, will propel strong market activity.

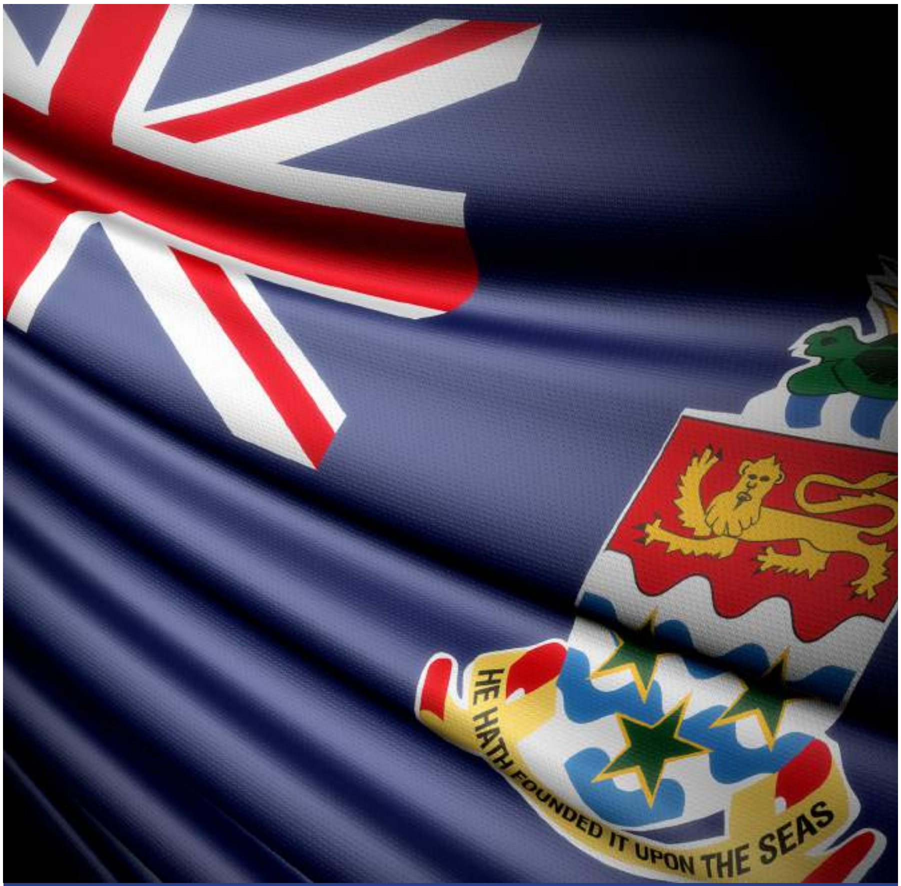
He explained: "The broad expectation of a strong run-off market going forward contrasts with rumours that a number of owners of run-off operators have an appetite to exit the market and others are diversifying into live markets."

"This may suggest some of the traditional run-off market players are less optimistic than the broader market sentiment."

Charles Taylor acquires Metro Risk

Charles Taylor has agreed to acquire Metro Risk Management LLC (MRM), a Southern California third-party claims administrator, from Nautilus International Holding Corporation.

The acquisition will allow Charles Taylor to extend its workers' compensation claims capabilities, with the benefit of MRM's experience in managing claims for insurers, self-insurers and captives. It will also add 13



Cayman captives gain strength from teamwork, says IMAC panels

The Cayman Islands' strength in captive insurance comes from "its team approach to captives", according to a panel of experts.

In the recorded panel discussion, organised by Insurance Managers Association of Cayman (IMAC), and the first of its kind in the region, members of the local captive industry suggested that the industry in the island has continued to develop and innovate throughout its 40-year captives history.

Julie Robertson, partner and chair at Honigman Miller Schwartz and Cohn, suggested that this is partly because of the experience of the providers in the domicile.

She said: "When you have people who know what they're doing, it makes a big difference. Cayman brings so much more to the table in this regard."

She added: "Stability also becomes the driving force. We're always very comfortable recommending Cayman because of the advantages that come with its stability."

Kieran O'Mahony, senior vice president and client services leader at Marsh Management Services commented: "In other domiciles, the one-size-fits-all regulatory regimes may not be as appropriate for businesses. Here, we differentiate and discriminate by the amount of risk that an entity has."

The recorded panel discussions are set to become a quarterly event in the Cayman Islands.

workers' compensation claims specialists to the Charles Taylor team.

The transaction was due to complete on 5 September.

Christopher Schaffer, CEO of Charles Taylor Insurance Support Services in the US, said: "We are excited to join forces with MRM, given the company's history of providing quality services and proven expertise to long-term, deeply satisfied clients. MRM broadens our claim services on the US West Coast, providing a valuable addition to our core federal workers' compensation, ports and terminals, marine, casualty and cyber third-party administrator business."

James Callahan, chairman, president and CEO of Nautilus, added: "We have worked closely with Charles Taylor for many years, and know first-hand the insurance expertise and professionalism of the team."

"Charles Taylor provides MRM with the resources and expertise to expand its services to a wider range of clients. More importantly, the acquisition provides our experienced and quality staff with greater opportunities for career development and advancement."

London's insurance-linked securities success depends on UK regulator

London's new insurance-linked securities (ILS) framework can make the city the global hub for innovative ILS solutions, but only if the UK regulator adopts a proportionate and responsive approach appropriate to the nature, scale and complexity of the risks assumed, according to Des Potter, head of GC Securities for Europe, the Middle East and Africa at Guy Carpenter.

Potter, who also sits on the London ILS Task Force board, suggested that the UK's success has to be based on innovation.

He explained: "The goal is not to stem the flow of business going to Bermuda or to grow London's market share of cat bonds, but to take ILS to its next stage of evolution using the unique skillset we have in London."

The London Market Group's London Matters report highlighted that, although reinsurance is the largest class of business underwritten in London, it continues to lose global market share, falling from 15 percent in 2010 to 12.3 percent last year.

Potter warned the industry: "London's ILS framework will be vital in enhancing the city's standing in the global reinsurance market."

"The big challenge is whether the UK regulator can provide the speed and certainty required to enable the UK to compete effectively with other ILS jurisdictions. The UK has a strong global reputation, but as the ILS market evolves, the regulator will need to be far more responsive than it is today."

He suggested that, after the next major property catastrophe loss event, reinsurers will almost certainly turn to the ILS market for recapitalisation, however, right now, London's infrastructure is not efficient enough to allow capital to be deployed quickly or cost effectively.

Legislation for the ILS framework is currently awaiting approval in the UK Parliament and is expected to come into force by late October.

The regulations allow the setup of insurance special purpose vehicles and protected cell companies with exemption from corporation tax on insurance risk transformation profits, and a complete withholding tax exemption for non-UK investors.

Potter said: "These enhancements are going to put London in a better position. I do believe London's ILS market will gain traction. The regulator will face a learning curve initially, but over a five-year horizon I really believe that, with its access to both insurance talent and financial markets capital, London can offer a market-leading alternative for risk transfer to the capital markets."

SRS forms Bermuda SAC

Strategic Risk Solutions (SRS) has launched Superior Risk Solutions SAC, a class 3 segregated accounts company in Bermuda.

The company, licensed this month, is being formed to provide a Bermuda cell facility alternative to clients and trading partners of SRS.

Brady Young, president and CEO of SRS, commented: "We have been increasingly asked if we can provide an independent

North Carolina addresses possible repeal of 831(b) election

The possible repeal of the 831(b) tax election could be "detrimental" to North Carolina's captive industry, according to a new memo from the state's captive association and department of insurance, which have pre-emptively addressed the issue.

With the possibility of US Congress repealing the 831(b) tax election, as a means of raising revenue to help fund a tax cut, North Carolina's captive programme could take a hit, with an estimated 85 percent of its captives making the 831(b) election.

A memo from the both the North Carolina Captive Insurance Association and the state's Department of Insurance, suggested that if a repeal was to happen, "it is expected that the majority of small captive insurers (including those domiciled in North Carolina) will terminate their operations, resulting in a loss of premium tax revenue, captive insurance service provider revenue, and hospitality and recreational facility revenue".

It also highlighted the benefits that the captive insurance industry has brought to the state.

Since its inception, the North Carolina captive programme has created an economic impact of $41 million. Of that figure $23 million came from last year alone.

The memo stated that the 85 percent accounts for approximately $35 million of the economic development contributed by the industry to North Carolina over the last three years.

It suggested that the repeal could cause the loss of a risk management tool for small and mid-sized North Carolina businesses; reduce premium tax revenue paid to the State of North Carolina; reduce business revenues generated by captive insurance service providers; and affect hospitality providers and recreational facilities, while jobs that have already been created will no longer be needed.

and open access Bermuda cell captive option that allows clients to fully unbundle, while taking advantage of the established infrastructure and strength of the Bermuda regulatory environment."

According to SRS, the new SAC will be useful for entities that want to move from a carrier or broker-sponsored cell facility, or as an incubator for standalone captive programmes.

David Sykes, managing director of SRS Bermuda, added: "We have clients who left programme facilities to set up their own captive programmes in other SRS managed facilities. Superior Risk Solutions will give clients the option to stay in the domicile they are comfortable with and retain their existing service team."

SRS currently manages three affiliated cell facilities and more than 20 limited access cell facilities in various domiciles.

Insurers concerned about 'silent cyber' exposure, according to Willis Re poll

Insurers are increasingly concerned about "silent cyber" exposure, a Willis Re poll has revealed.

The poll, which asked industry paticipants to assess the extent to which the cyber aspect of exposure would increase the likelihood of a covered loss over the next 12 months, found that approximately half of respondents saw silent cyber exposure as a "growing concern".

It also revealed that over half of the respondents felt that the risk of a silent cyber loss from property or other liability was greater than 1 in 100, while close to a quarter considered the risk to be greater than 1 in 10, citing a pattern of uncertainty in the industry.

Examples of silent cyber exposure could include anything from a cyber-attack on an industrial plant's control system, to malware causing an elevator to fail.

Anthony Dagostino, head of global cyber risk at Willis Towers Watson, said: "Buyers of insurance have to consider the exposure that they have in relation to the rising prominence of cyber-related incidents."

"The results of the survey have reinforced the need for a holistic cyber risk insurance strategy and tailored insurance policies to address the risk adequately."

Mark Synnott, global cyber practice leader at Willis Re, added: "The degree of concern over silent cyber exposure has confirmed the importance of the existing support we are giving to clients to help them better manage their known and unknown cyber exposures."

He added: "Over the last two years, our PRISM-Re-modelling tool has allowed us to help underwriters and reinsurance buyers manage their entire cyber portfolio more effectively by identifying contagion risks, monitoring shifts in risk profiles and tracking their risk-adjusted pricing."

"The results of our survey will help us calibrate PRISM-Re to accommodate silent as well as known cyber exposures."

Bermuda and Cayman captives sustain strong operating results

Captive insurers domiciled in Bermuda and the Cayman Islands experienced improved premium leverage ratios, as capital grew by a healthy 8 percent, buoyed by strong operating earnings last year, according to an A.M. Best report.

The results suggested that the levels of growth were profitable and in line with historical averages, marking the fifth year of above-par operating results.

The 2016 results measured a return on revenue of 23 percent, down from 24 percent the previous year.

However, underwriting results declined somewhat, to a combined ratio of 85.3 in 2016 from 80.0 in 2015.

In addition, the Bermuda and Cayman five-year average, between 2012 and 2016, combined ratio of 82.5 far exceeded the US commercial casualty segment, by more than 16 points.

The report also found that Bermuda and Cayman captives saw their net premiums earned decrease for the first time in five years, to 4.7 percent, compared to the average 7 percent for the previous four years.

Despite difficult market conditions and challenges, Bermuda and Cayman have also reported strong double-digit return on equities, with a five-year compound average growth rate of 13 percent for operating return on equities.

A.M Best said of the results: "Overall prognosis for captive insurers is a healthy one. This view is based on the success of the captive business model, the efficiencies gained from the use of alternative risk transfer and the benefits of increased risk awareness and loss control, as well as the ability to integrate sound risk management practices throughout the organisation, all of which lead to operating results that outperform the commercial market."

SGS captive ratings affirmed 'excellent'

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and the long-term issuer credit rating of "a" of Transmonde Services Insurance Company, the single-parent captive of SGS.

Transmonde provides professional, general and pollution liability coverages to members of the International Association of Superintendents, a subsidiary of SGS, a Swiss company.

The captive has maintained "very conservative" underwriting leverage ratios, as surplus has remained strong to support its business volumes, according to A.M. Best.

Partially offsetting these ratings factors are Transmonde's relatively high retentions and concentration in liability lines with significant loss severity potential, and its limited market profile as a single-parent captive.

A.M. Best noted that, while the ratings are stable, factors that could lead to positive rating actions include continued maintenance of Transmonde's "excellent" risk-adjusted capitalisation and "consistent favourable" operating results at SGS.

GC Securities and Marsh Captive Solutions launch Bermuda SAC

GC Securities and Marsh Captive Solutions have established Cerulean Re SAC, a private syndicated collateralised reinsurance platform, Bermuda-registered segregated account company (SAC) and licensed special-purpose insurer.

The joint venture provides a cost-effective placement process for collateralised reinsurance and private catastrophe bond deals.

The solution allows insurers to access the capital needed to enter new markets, while initiating relationships with capital market investors.

Cory Anger, global head of insurance-linked securities (ILS) origination and structuring for GC Securities, said: "Insurers, reinsurers, corporations and governments accessing long-term capital markets-based protection can now receive unparalleled support and expertise that brings the right capital to their risks."

Anger added: "This collaboration offers an expansion of collateralised reinsurance opportunities, matching a more diverse range of capital sources seeking non-correlating investments to the unique risk profile of clients, thereby creating more efficient solutions."

The SAC mechanism allows development to focus on better risk solutions, rather than on delivery platforms, and the client base within Marsh Captive Solutions provides an opportunity to introduce elements of primary corporate risk to ILS transactions, according to GC Securities.

David Priebe, vice chairman of Guy Carpenter, commented: "ILS is an established part of the reinsurance and capital markets, and its participation is not wholly dependant on the reinsurance and insurance cycle."

"Cerulean leverages this capacity to support uninsured and underinsured risks, including emerging risks such as cyber and the 'internet of things', and we are excited about its ability to help our clients bring opportunity to risk to grow profitability."

A.M. Bests affirms Rembrandt captive as 'excellent'

A.M Best has affirmed the financial strength rating of "A (excellent)" and the long-term issuer credit rating of "a" of Rembrandt insurance company, a holding firm of a group mainly focused in trading petroleum-related products and commodities.

Rembrandt is a captive insurer and reinsurer of Vitol Holding, a holding company of a group engaged principally in trading petroleum-related products.

The ratings reflect the captive's financial performance, risk-adjusted capitalisation and its role as a risk management tool to the Vitol group.

According to A.M Best, the positive ratings are partially offset by the captive's concentrated asset base and a loan facility, which is provided to the Vitol group by Rembrandt. This represents 59 percent of the total assets at the end of 2016 and 75 percent at the end of 2015.

The positive ratings are in line with the company's consistent operating results, which are demonstrated by a five-year average return on capital of 14 percent between 2012 and 2016, and an average five-year combined ratio of 11 percent from 2012 to 2016.

DARAG teams up with Guy Carpenter to complete Ikano Group captive deal

DARAG has completed an Israeli reinsurance transaction and received regulatory approval for the acquisition of Ikano Försäkring, the Stockholm-based Swedish captive owned by Ikano Group.

DARAG, in partnership with Guy Carpenter and Resolutions Reinsurance Broker, has completed the transaction in Israel with an undisclosed insurer, in what is believed to be the first transaction of its kind in Israel.

The Swedish regulator, SFSA, has approved the acquisition, which was originally announced on 6 April 2017.

Stuart Davies, executive chairman of DARAG, said: "Both these transactions are important steps for DARAG as we both continue to steadily grow the business in our core markets and approach new geographies in DARAG's true pioneering spirit."

He continued: "The acquisition of Ikano Försäkring is a key transaction for DARAG and demonstrates how we can add value to our clients and partners, while our Israeli transaction will provide a model for similar deals in the future."

He added: "With a series of further deals in the pipeline, we are pleased our innovative approach delivers effective solutions and helps our partners achieve their business objectives while continuing our growth and expansion."

Ikano Group, which was originally a part of IKEA, became an independent group of companies in 1988 and now focuses on areas such as finance, insurance, real estate and retail in Asia, with a head office in Luxembourg.

Coverys to merge with GIMC

Coverys and Global Insurance Management Company (GIMC), both in the medical professional liability sector, have entered into a merger agreement whereby Coverys's ProMutual Group will acquire GIMC.

The acquisition will expand Coverys's portfolio of professional liability insurance and risk services for medical practitioners and healthcare systems, and is due to be complete in Q4 this year.

GIMC and its insurance subsidiary, Healthcare Underwriters Group, were founded in 2003 to bring long-term availability, predictability and stability to the marketplace in Florida, Ohio and Kentucky.

Since then it has also expanded into Texas, Indiana and Nevada.

The combination of the two companies will strengthen GIMC's ability to offer "superior products and services" to a core group of hospital and physician policyholders, the firms said.

Commenting on the merger, Gregg Hanson, CEO and president of Coverys, said: "GIMC brings knowledge and experience in the marketplace, providing Coverys the opportunity to further expand our footprint into Florida and Kentucky as well as increase our market share in Ohio."

"Coverys policyholders benefit from the group's A rating with A.M. Best and, through this acquisition, we will seek to offer Healthcare Underwriters Group policyholders the same strength and protection."

Joshua Salman, CEO and president of GIMC, added: "GIMC policyholders will benefit from this acquisition by being a part of a larger healthcare professional liability group with a greater level of financial stability and greater access to enhanced products and services, and the ability to issue policies in all 50 states. GIMC shareholders will receive significant value for the business we have built since 2003."

Sherman & Company LLC served as financial advisor and Skadden, Arps, Slate, Meagher & Flom LLP served as legal advisor to Coverys, while Sandler O'Neill + Partners, L.P. acted as exclusive financial advisor and Thompson Hine LLP served as legal advisor to GIMC.

ILS figures reach record highs

A record $11.3 billion of catastrophe bonds were issued across 32 transactions over 12 months from June last year, surpassing the previous record issuance by 20 percent, Aon Securities has revealed.

In a new report, Alternative Capital Breaks New Boundaries, Aon found that the amount of alternative capital in the reinsurance and insurance sector stood at $88.8 billion, while catastrophe bond limit on-risk reached $25.8 billion, both hitting record highs.

Over the 12 months under review, the Aon All Bond Index and BB-rated Bond Index achieved returns of 5.58 percent and 4.05 percent, respectively, while the US Hurricane Bond and US Earthquake Bond indices returned 6.42 percent and 3.87 percent, respectively.

The report also found that US exposures continued to dominate the catastrophe bond market, with 28 of the 32 transactions covering US property risk in some way.

European sponsors returned to the market, covering property and auto liability, and two returning sponsors sought coverage for Japanese risks through catastrophe bonds.

According to the report, six separate public sector entities came to the market during Q2 2017, issuing $2.2 billion of catastrophe bonds across a range of regions and covered perils.

Paul Schultz, CEO of Aon Securities, said: "The annual period saw a resurgence in alternative capital, particularly in the first and second quarters of 2017."

"The uplift was partly due to the renewing of capacity across maturing catastrophe bonds, but was also a result of new sponsors coming to market, strong investor demand and the consequent upsizing of many of the ILS transactions."

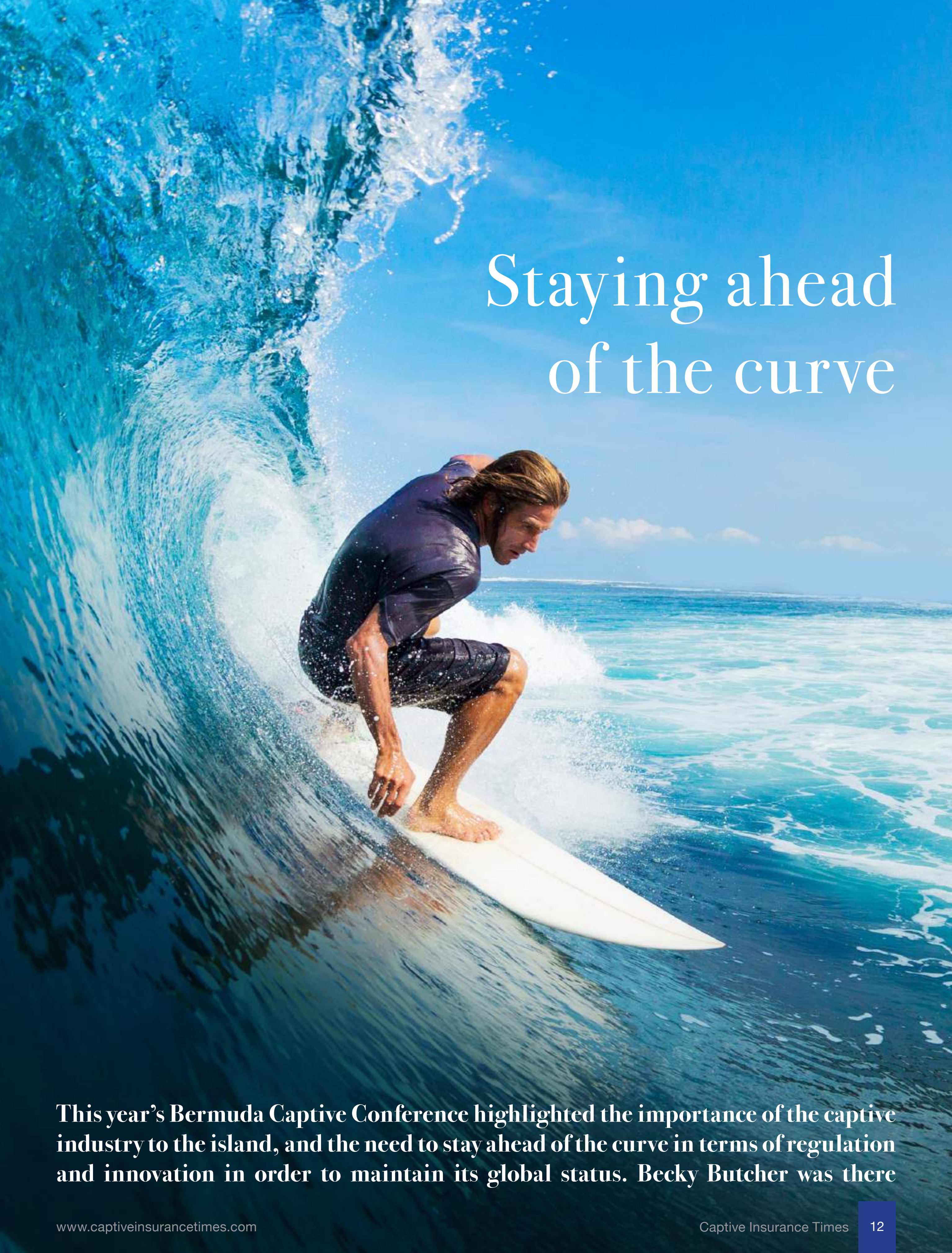
He added: "Aside from insurers and reinsurers, we saw notable interest in catastrophe bonds from public entities seeking to transfer risk."

Atlas approved in Georgia

Atlas Insurance Management has received approval from the Georgia Insurance Department to act as a captive manager for captive insurance companies domiciled in the state. Georgia started approving captive managers in 2015, and with the addition of Atlas now has 15 companies operating in the domicile.

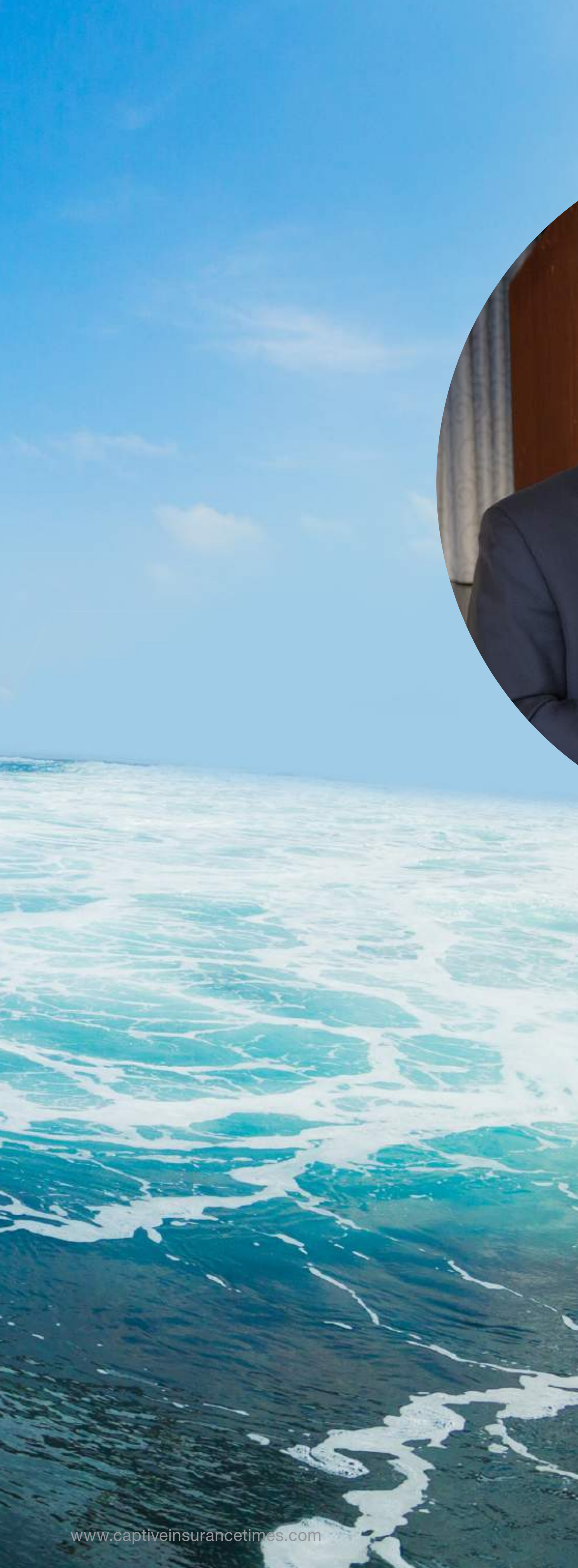
Martin Eveleigh, chairman of Atlas Insurance Management, said: "Georgia is a very competitive and attractive captive domicile."

"We look forward to being part of Georgia's captive management landscape and joining one of the most business-friendly states in the country."



Staying ahead of the curve

This year's Bermuda Captive Conference highlighted the importance of the captive industry to the island, and the need to stay ahead of the curve in terms of regulation and innovation in order to maintain its global status. Becky Butcher was there



Credit: Keimon Lawrence

Opening the 13th annual Bermuda Captive Conference, which attracted more than 750 attendees, David Gibbons, chair of the conference and partner and captive insurance leader at PwC Bermuda, suggested that Bermuda is so successful because it “creates the changes that others adapt to”.

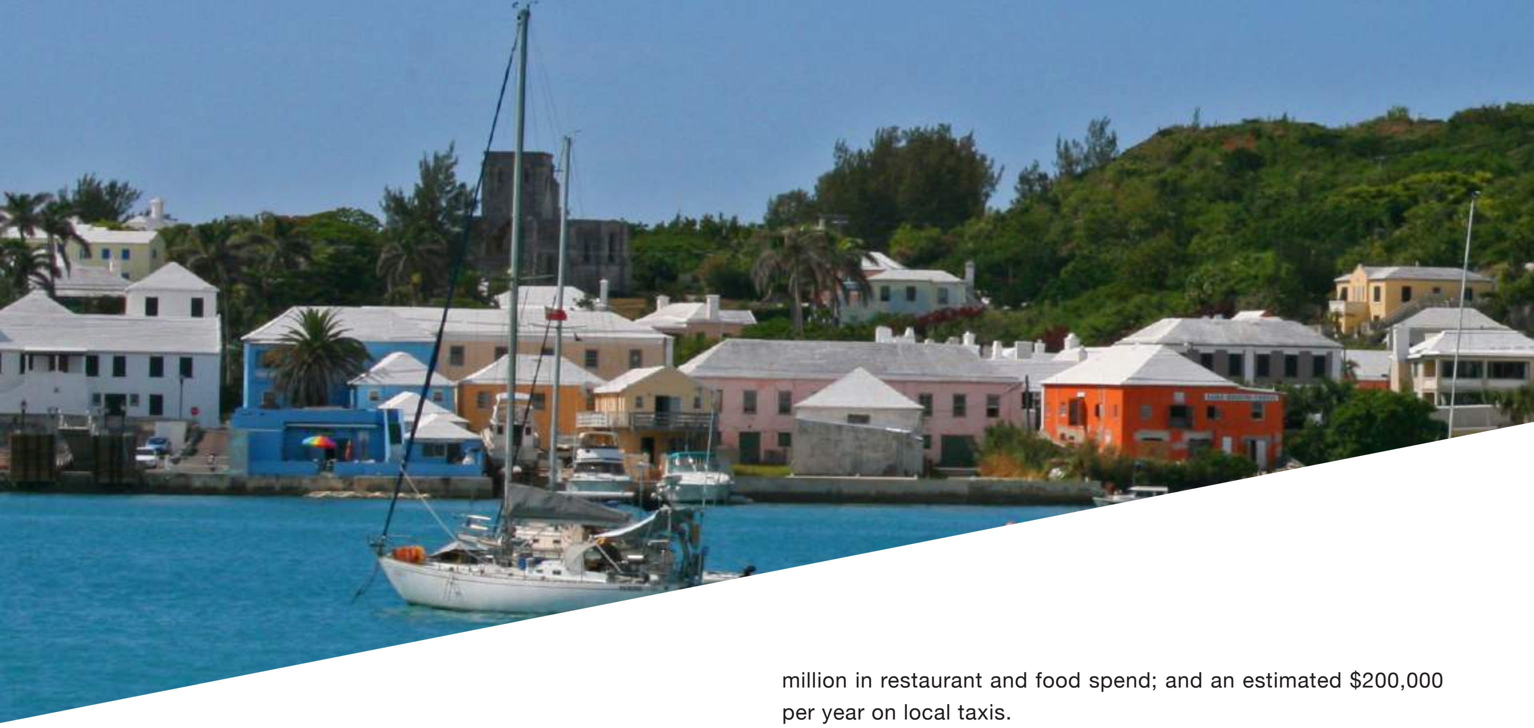
The island, which classes itself as the number one global captive domicile, believes that its ‘work together and innovate together’ attitude also contributes to its success.

Bermuda’s Premier David Burt was welcomed on stage to discuss the island’s captive insurance industry.

Premier Burt said: “Bermuda is home to nearly 800 captive insurance companies, supporting primarily fortune 500 corporations in the US and generating $55 billion in annual gross written premiums.”

“It is a market that has long been a symbol of global excellence to corporations around the world and which has provided captive services for half a century.”

The premier added: “Bermuda is a mature insurance market, not just the leading domicile for captive insurance, but also home to



a vibrant commercial insurance industry and a world capital for global reinsurance. You cannot find that focus of industry talent in any other captive domicile."

A study conducted by PwC for the Bermuda Insurance Management Association (BIMA), released in time for the annual conference, revealed that the Bermuda captive insurance industry contributes an estimated $174 million every year to the island's economy.

The study found that the sector directly employs at least 557 people in Bermuda and generates a minimum fee income of $139 million each year.

In addition, $35 million is contributed annually by captives to the Bermuda government, regulators, local suppliers and commercial property owners, as well as hotels and other business hospitality vendors.

The study revealed that Bermuda was home to 776 active licensed captive insurers in 2016, generating $55.3 billion in annual gross written premiums.

According to the research, 2016 showed stability compared to 2015, with registration levels consistent with the overall captive market. New registrants came mainly from the traditional US market, but also included setups from Latin America, a key emerging market.

Service generated by captive companies totalled $139 million, in the form of management, legal and corporate secretarial, actuarial, audit, investment management and banking fees.

A further $35 million included $16.4 million in payroll tax and social insurance contribution; $315,000 in work-permit fee income; $5.3 million in annual business fees to the Bermuda Monetary Authority; $6.74 million in commercial rent; $3 million in hotel revenue; $1.8 million in restaurant and food spend; and an estimated $200,000 per year on local taxis.

Gibbons said: "The survey [shows] the continued importance of the time the private sector and Bermuda Business Development Agency (BDA) have invested in protecting and growing the industry, both in traditional markets (US and Europe) as well as Latin America and Canada."

In a separate session, focusing on the Latin American market, it was revealed that the region continues to show steady growth in captive creation.

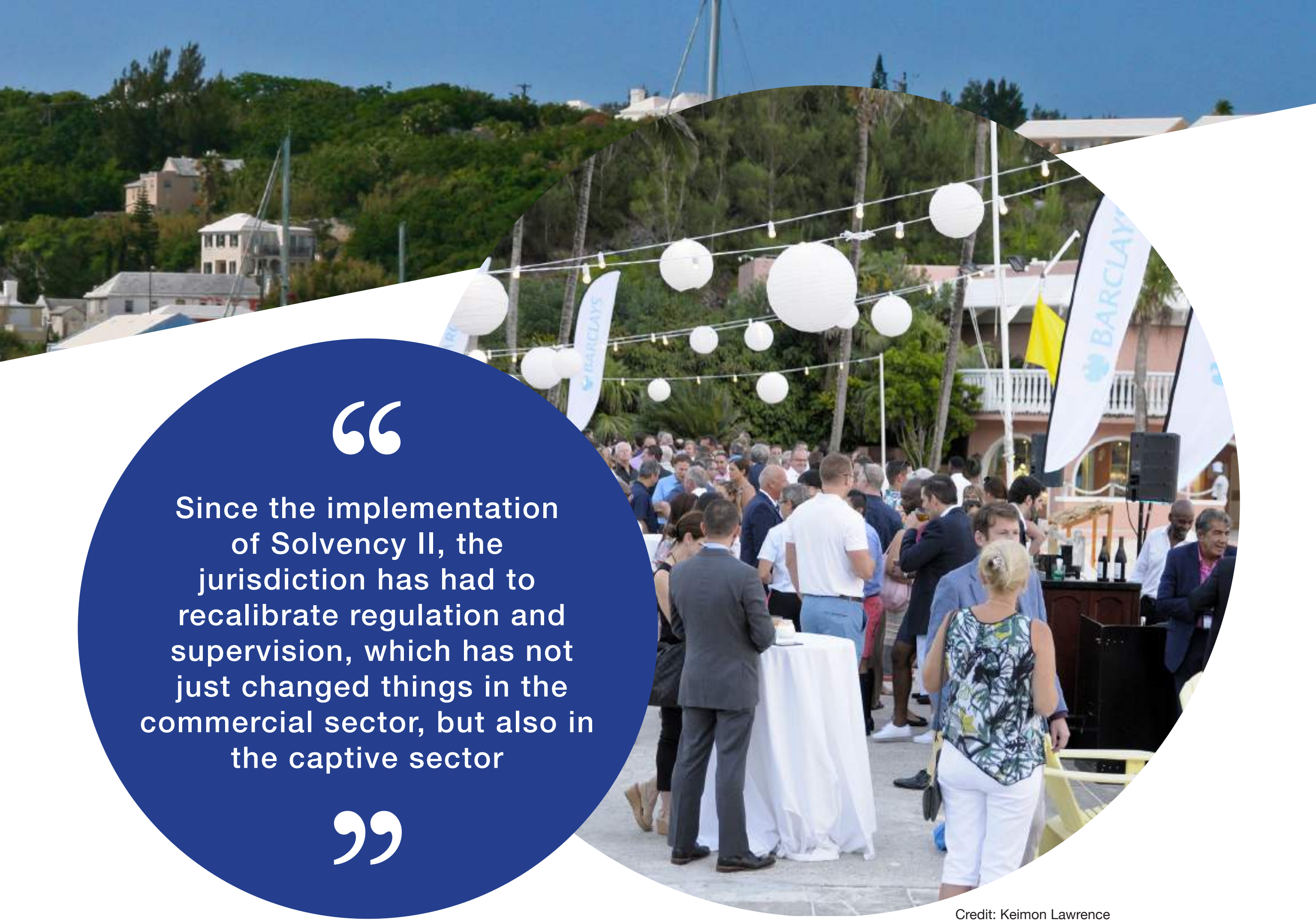
Panellists Alejandro Santos, leader of analytics and captives at Marsh Global Analytics and Captive Solutions, Giuliana Solari, senior manager at PwC, Javier Namihira, senior associate at Baker & McKenzie, Esperanza Mead, principal at Actuarial Factor and Luis Portillo, underwriter of JLT Insurance Management, revealed that over the last three years, the Latin America region has seen an average of 10 to 12 percent growth.

The leading industries creating business in the captive market for the Latin America region include manufacturing, energy, financial institutions, and food and beverages.

The panel explained that drivers for captive insurance in the Latin America market include sophistication of risk management, growth of multinationals, more efficient access to reinsurance, new sources of revenue, and writing unrelated risk as an additional line of business.

The main countries doing captive business in Latin America are Columbia, accounting for 40 percent of the business, Mexico with 30 percent, and Chile and Peru, accounting for 10 percent apiece. The other 10 percent of business is conducted in countries such as Guatemala, Argentina and Ecuador.

The panel also revealed that Bermuda remains the top domicile for Latin American captives, although other domiciles such as Barbados and the Cayman Islands are also used.



> “Since the implementation of Solvency II, the jurisdiction has had to recalibrate regulation and supervision, which has not just changed things in the commercial sector, but also in the captive sector”

Credit: Keimon Lawrence

The reason Bermuda is a popular choice is down to its tax information exchange agreements, which allow for more transparency and improve the reputation of the domicile, according to the panel.

Although Latin America has seen growth, the region still faces challenges in the market such as fronting fees, local currency devaluation and including the lack of education on the captive concept.

During another panel, titled Industry, Government and Regulatory Leaders Round-Table Discussion, Jeremy Cox, CEO of the Bermuda Monetary Authority (BMA) confirmed that the implementation of Bermuda’s Solvency II bifurcation was “definitely a success”.

Cox suggested that, since the implementation of Solvency II, the jurisdiction has had to recalibrate regulation and supervision, which has not just changed things in the commercial sector, but also in the captive sector.

He said: “We have done the best possible job of standing up and defending the number one pillar of our brand, by ensuring we have a credible regulatory and supervisory framework.”

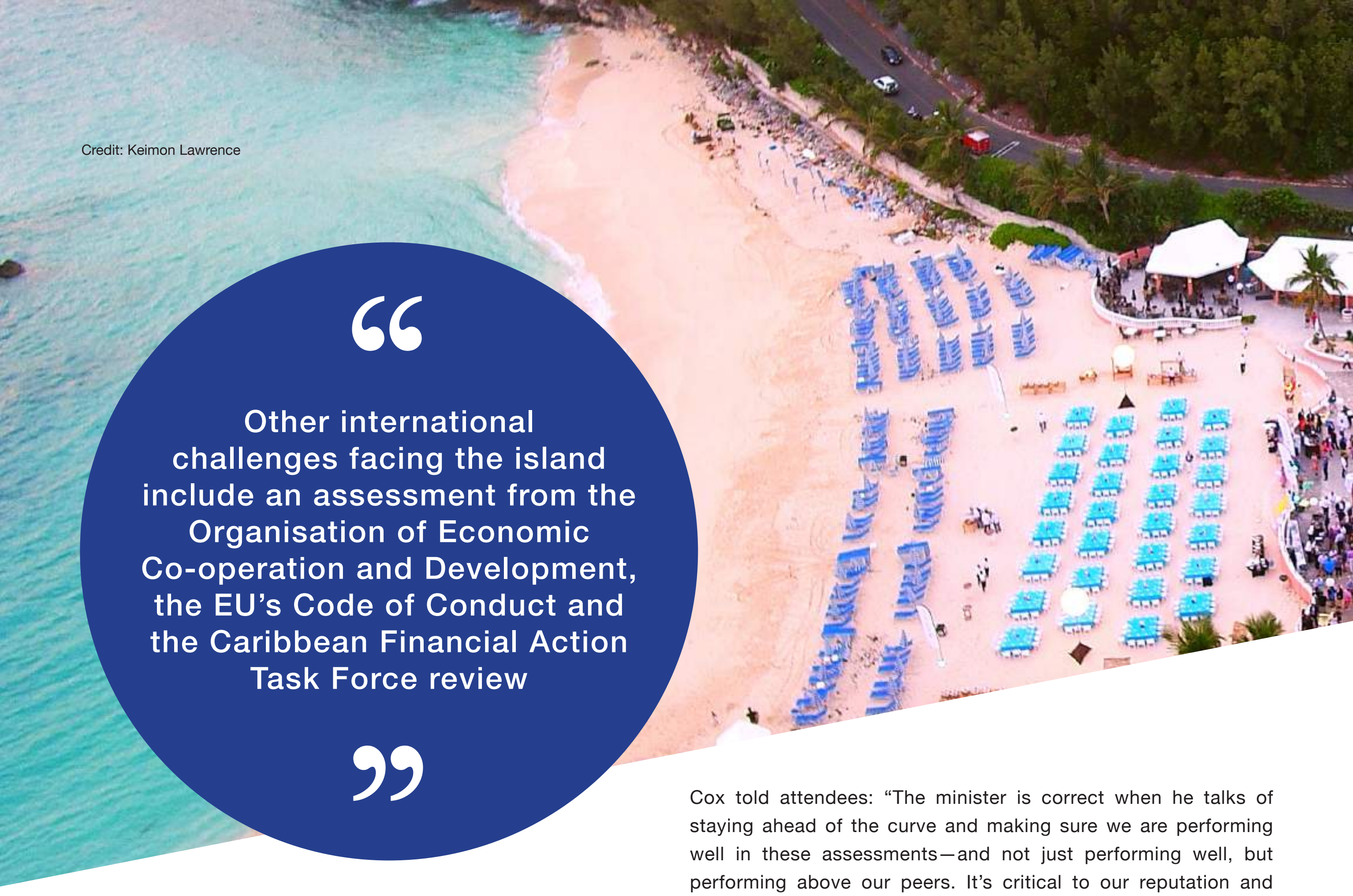
Grainne Richmond, vice president of Dyna Management services and BIMA president, who moderated the panel, noted that after the implementation the island saw an uptick in business coming into the captive space, whether that was because of Solvency II or not, it “reinforced” the captive industry, she said.

Cox explained: “We have to look out and see what is going on in the rest of the world, there are so many things, if we were to ignore the new initiatives and just continue what we always did, I think Bermuda would put itself in a position where it is uncompetitive.”

“I think there are some jurisdictions that have chosen to do that and ... in my view, five years from now I highly doubt that they will have the same types of markets that they have today.”

European domiciles have also commented on the success of Bermuda’s Solvency II bifurcation.

In early September Cox attended a meeting in Brussels with European regulators and industry representatives. He said at the conference: “At the end of discussions, two or three people came up to me and said they wanted to meet me, because what Bermuda achieved in terms of Solvency II equivalence was phenomenal.”



Credit: Keimon Lawrence

> “Other international challenges facing the island include an assessment from the Organisation of Economic Co-operation and Development, the EU’s Code of Conduct and the Caribbean Financial Action Task Force review”

Cox also suggested that Bermuda is working to address further regulatory requirements and assessments that are in the pipeline.

He said: “It was a team effort to make this happen, and what is important about this process is that we do one thing very well when it comes to this industry, and that is keeping politics mostly out of it, which is a part of how we are able to get this done.”

Jamahl Simmons, minister of economic development and tourism, also revealed that Parliament was sitting earlier than normal to get some “important legislation” approved to ensure assessment requirements are addressed.

He commented: “The beneficial ownership bill will go to parliament in two or three weeks. There’s also the anti-money laundering bill. There are a number of things we have in the pipeline.”

“We are aware of the need to get this done. We have established a cabinet sub-committee that is biweekly, and that is updating on where everybody is and what we need to do to stay ahead of the curve.”

Other international challenges facing the island include an assessment from the Organisation of Economic Co-operation and Development (OECD), the EU’s Code of Conduct and the Caribbean Financial Action Task Force review.

Cox told attendees: “The minister is correct when he talks of staying ahead of the curve and making sure we are performing well in these assessments—and not just performing well, but performing above our peers. It’s critical to our reputation and relationships with the regulatory community.”

The recent spate of hurricanes in the Atlantic was also a discussion point.

Richmond commented: “The commercial and excess carriers may be covering in the high numbers, but captives will be covering their fair share, as well, whether it’s hardware-store owners, or hospitals that may have part of their property or business interruption covered via their Bermuda captive.”

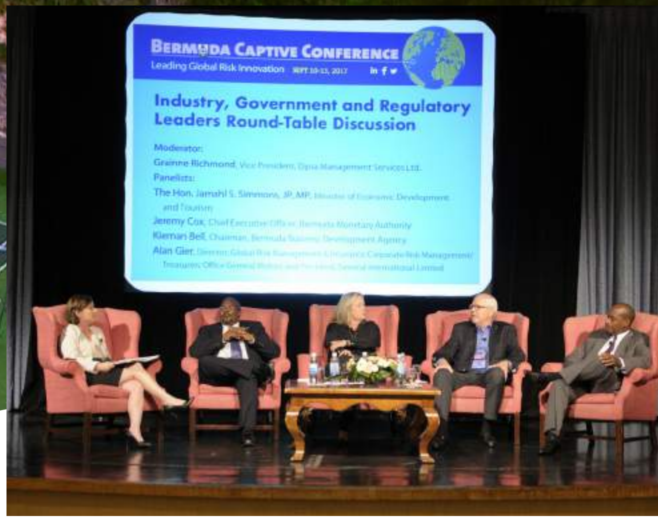
She added: “While exact numbers are not yet known, it is agreed by all that the support the captive industry provides will be substantial.”

The conference also welcomed Butler University College of Business student Derek DeKoning, who has played a role in the set up of the first student-run captive.

The captive insurance company, which officially launched on 1 August, is domiciled in Bermuda and managed by Aon.

The aim of the captive is to give students hands-on experience and prepare them for an industry that is anticipated to need tens of thousands of new employees over the next seven years.

A panel, which included DeKoning, George Leite, head of business development at Aon Insurance Managers Bermuda and Sophia



Credit: Keimon Lawrence

Greaves, director of Conyers, Dill & Pearman, addressed the insurance industry's talent crisis.

Leite suggested that the industry needs to fill 400,000 jobs by 2020 because of imminent retirements in the industry and that's why the Butler University student-run captive programme is so important.

According to DeKoning, the talent crisis is partly down to the lack of education about the captive insurance industry to millennials.

DeKoning said: "The biggest issue is a lack of knowledge of what the captive industry does and how it functions, some have no knowledge on the coverages that exist."

"The average student could summarise the basics, but they have no insight into what the insurance industry does."

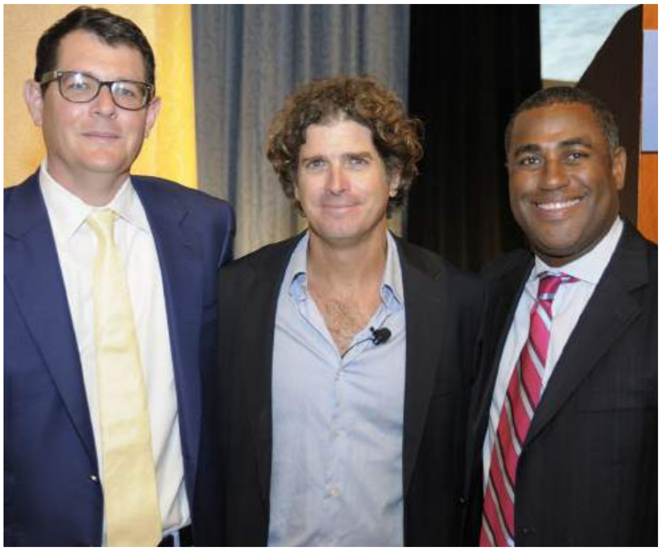
He added: "I think Zach Finn, the clinical professor and director of the Davey Risk Management and Insurance Programme at Butler University, does this well.

He educates students to explain the huge depth in the industry and explains really fascinating pieces of what you can do. The Butler captive is a really good example of that."

There needs to be more focus on risk management programmes at universities to help students receive the experience and education needed, DeKoning explained.

The Davey Risk programme has a 100 percent job placement record, which is positive for the insurance industry.

DeKoning said: "Dedicated staff, such as professor Zach Finn, who are willing to take of these types of projects and risks are what make them so successful." CIT



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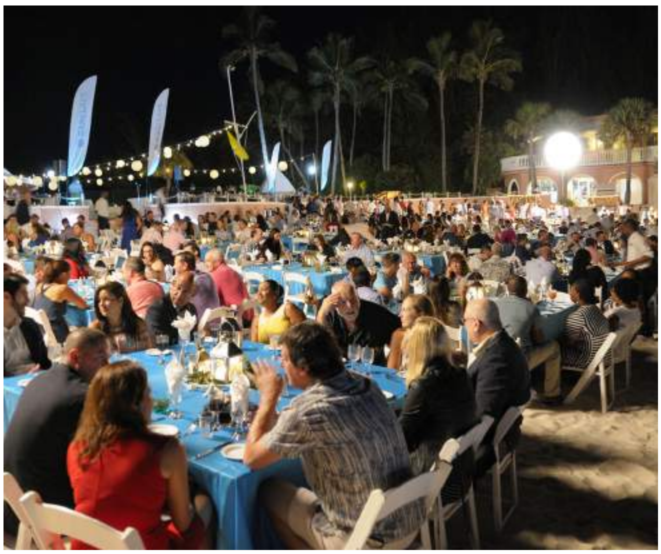

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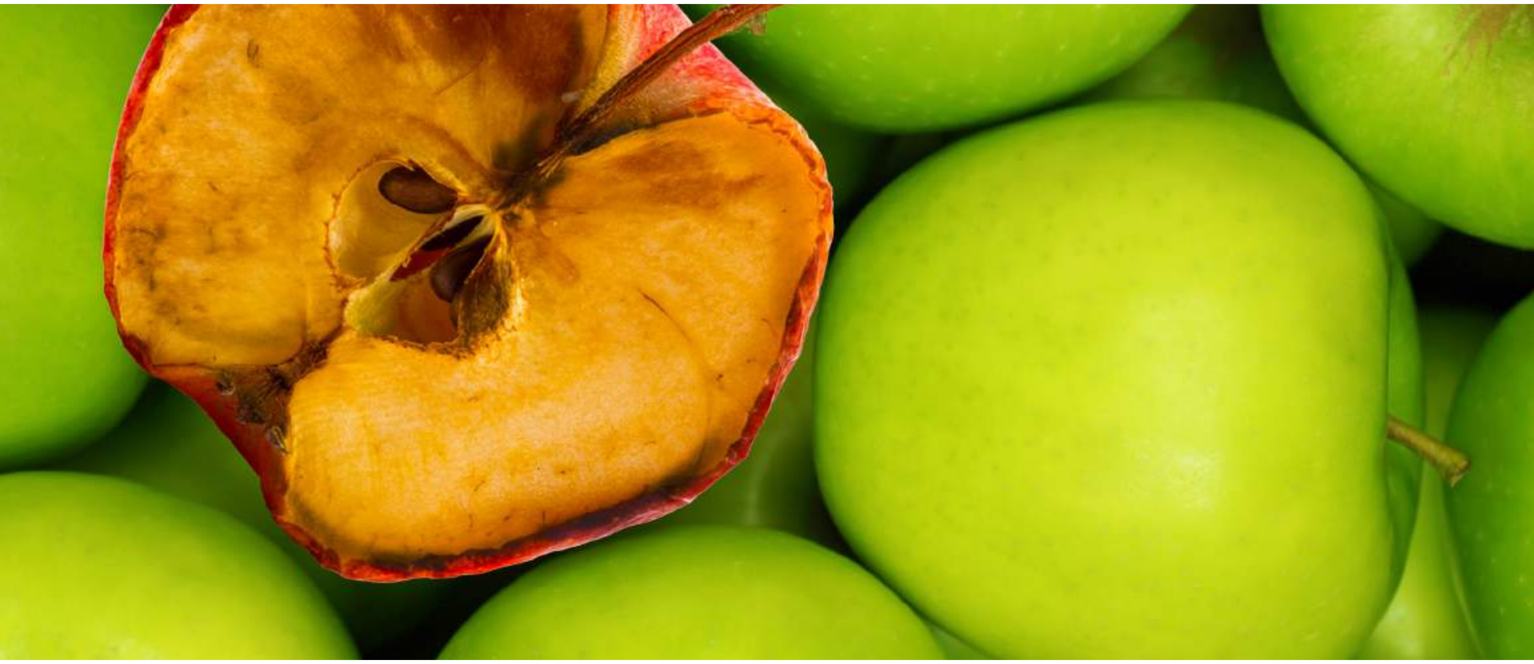


Bad apples of the industry

Jeremy Colombik of MSI and NCCIA chair explains to Becky Butcher that Notice 2016-66 could be detrimental to not just North Carolina, but other domiciles that are home to smaller captives

What is the NCCIA focusing on in the coming months? What will the key topics for the next 12 months?

The big focus with our The North Carolina Captive Insurance Association, as well as other associations, and the industry as a whole has to be Notice 2016-66. The notice has been the biggest concern, and it will continue to be the biggest concern, in the industry.

We have a few influential politicians that our association has been in communication with on how burdensome and unnecessary this notice is to the state as well as others. We are working together with other associations in our industry to address this issue.

The association's vice president for governmental affairs, Lane Brown, is already focused on this industry issue.

In the industry, there are a lot more small business owners than large and this notice could be a detriment, not just to North Carolina, but also to South Carolina, Tennessee, and Montana, which have a lot of smaller captives.

There are many states in the US that have small insurance companies, with at least 2,000 or 3,000 small micro captives in the industry. However, in every industry there are bad apples and we're just trying to get those bad apples out.

With all of the coverage and scrutiny of small captives, what can their SME owners do to ensure that their arrangements stay out of the firing line?

Companies should make sure their manager is reputable and they're working with reputable firms. If they operate as an insurance company then they will be fine. It doesn't matter if you're big or small.

Since the Avrahami ruling, has there been much worry at the association?

Bruce Wright said at the annual conference that the judge acted fairly and I totally agree with him. Based on the facts, he was acting fairly in the Tax Court hearing.

I don't think as an industry we were surprised by this decision. I believe if the captive was regulated by a state, versus offshore jurisdiction, it could have triggered an audit red flag sooner with so many illiquid investments, loan backs and dividends paid to its owners.

Any properly managed captive must have and retain sufficient cash or liquid assets investments to pay claims. Again, this captive was not acting like an insurance company and should not have received insurance company benefits such as the business tax deduction for premiums paid or the 831(b) exclusion.

From taxation of the premiums paid, the tax court focused on the incompetent actuary who calculated premiums to match the exclusion amount, clearly a warning to captive managers to hire a competent actuary.

Since the implementation of the NC captive programme, the state has experienced year-on-year growth. What has made the programme such a success?

The success comes down to few factors. The first is to do with the state department of insurance's approach of the "big state without the red tape". North Carolina is still regulating, but they're making it easier because they're not over-regulating. That's a real attraction to managers because they know the state is going to want to work with them. There is still going to be due diligence, but they also have enough support because the state is behind them, which is passing their budget and allowing the department to get the necessary staff to have a good back office.

The second avenue is the association and the state's 'hand-in-glove' approach. The people in the association realise that it has a voice. The association can give the department its views on potential changes and/or adjustments with their captive programme.

Further, in North Carolina we have a diverse board in our association, which means lots of different views. We have insurance company owners, lawyers, certified public accountants and managers who provide different opinions and suggestions to the department as to where our association should stand on an issue. Unfortunately, some states don't have what we have in North Carolina, and that's why a lot of states haven't flourished as well as we have. Some states tend to over-regulate, or they don't work closely with their association.

In my role at MSI, we also have a good relationship with the department of insurance. Three years ago we were looking at multiple states, North Carolina being one of them. We are very happy we chose North Carolina as MSI re-domesticated a record-breaking number of captives to the state.

We have been very happy with the department of insurance. I work a lot with Debbie Walker, the deputy commissioner, and I think she has done a very good job in her role.

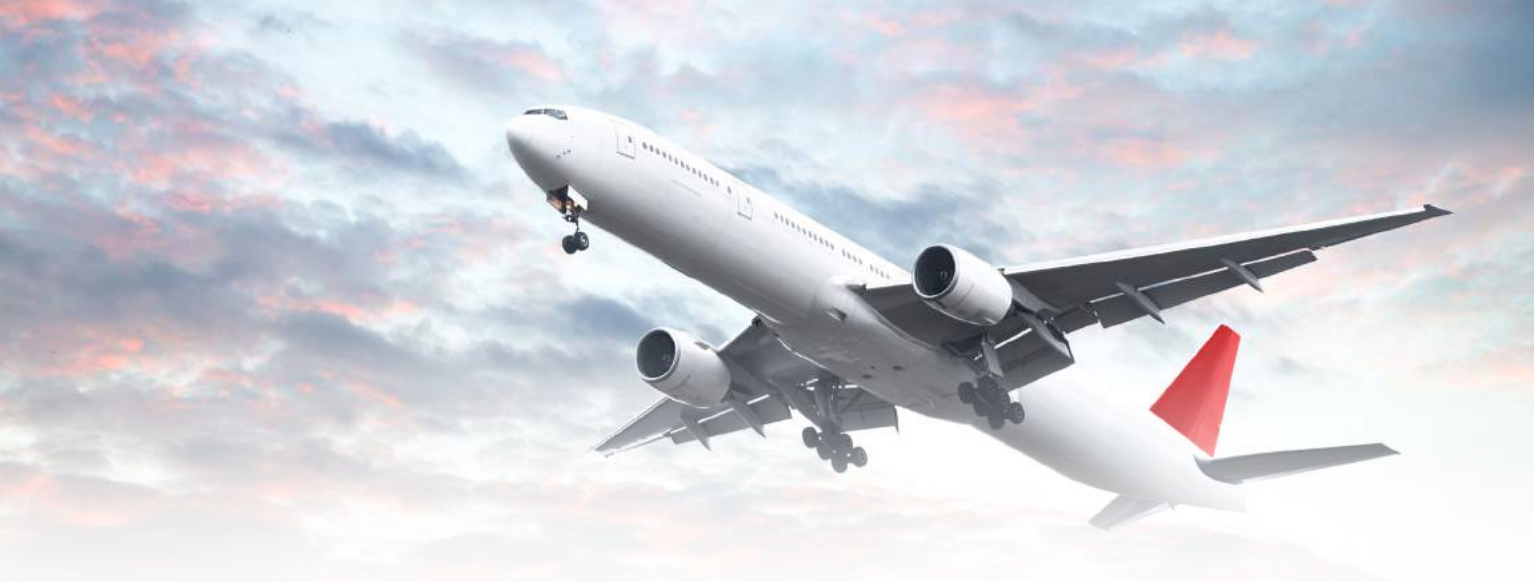
Our current insurance commissioner Mike Causey and previous commissioner Wayne Goodwin have given Walker the support that she needs to keep North Carolina flourishing with the captives and it's a great place to domicile.

Do you think in some ways the Avrahami ruling is a good thing because it will pick out those people who aren't acting as legitimate insurance companies?

I do actually think it's a good thing. These people who are not operating as insurance companies will think twice about it, as this case proves the Internal Revenue Service (IRS) is on the hunt for them. Also, some captive owners may start to ask their captive managers questions based on this case to make sure they are not operating as these captives were in this case.

This means some owners may realise that their captive manager might not be operating as it should. Finally, as I previously have stated, there are bad apples in this industry just like any industry, and what our association, as well as others in the industry, does not like is how the IRS is handling items such as Notice 2016-66. **CIT**

> "There are bad apples in this industry just like any industry, and what our association, as well as others in the industry, does not like is how the IRS is handling items such as Notice 2016-66"
>
> **Jeremy Colombik, President,** MSI



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ACTIVE CAPTIVE MANAGEMENT

Comings and goings at alliantgroup, Guy Carpenter & Company, Strategic Risk Solutions and more

John Dies, alliantgroup's managing director of tax controversy, has been appointed to the American Bar Association's (ABA) Captive Insurance Committee.

Dies brings experience in representing and working with taxpayers on micro-captive insurance compliance.

In his role with ABA, he will be using his knowledge to further educate taxpayers and their advisors on emerging trends in the captive insurance space.

Commenting on his appointment, Dies said: "The captive insurance space, specifically in the area of micro captives, is undergoing major compliance changes and people will need to have the most up-to-date information in order to plan accordingly."

He added: "By joining the committee, it is my hope to increase the awareness of the benefits of micro captives and help taxpayers understand the steps they should be taking to ensure everything is done by the book and in line with IRS guidelines."

Guy Carpenter & Company has appointed Andre Eisele as CEO of the Pacific region, while Heinrich Eder will join the company's advisory board in the same region.

Eisele joins from Swiss Re, where he was head of clients markets property and casualty for Australia and New Zealand for three years.

In his new role, he will be based in Sydney and will report to Tony Gallagher, CEO of the Asia Pacific region.

Eder previously worked as managing director of Munich Holdings in Australasia, in charge of life and non-life operations from 2005 to 2016.

Gallagher commented: "Andre Eisele brings 17 years of international reinsurance experience covering many different Asian and European markets in addition to a solid understanding of the Pacific markets. I am pleased to have Eisele leading the Pacific business, where he established a strong reputation in the market coupled with extensive market knowledge."

"Also, we are privileged to have Heinrich Eder join Guy Carpenter at a time when so much is changing in the market. He brings a wealth of experience to the Pacific region, where he has a great understanding of the issues facing our clients and the solutions to help them grow their business."

Strategic Risk Solutions (SRS) has appointed Jesse Olsen as senior consultant for SRS Advisers, the company's consulting division, based in Houston, Texas.

Olsen will lead the group's consulting activities in the western US and develop SRS's presence in Texas, Oklahoma and mid-western US captive domiciles.

Previously, Olsen served at Lockton Companies, where he was responsible for advising clients on captives and alternative risk financing programmes.

His experience includes performing captive feasibility and utilisation reviews, negotiating collateral, structuring alternative risk programmes, overseeing actuarial analysis and managing risk control and claims consulting units.

Brady Young, president and CEO of SRS, commented: "Our collaboration with Jesse Olsen during his tenure at Lockton demonstrated that he was the right person to help us expand our presence in the west and fulfil our mission to provide clear and concise advice to executives on captives and alternative risk structures."

Olsen added: "Captives are my focus and passion. As an independent firm solely focused in the captive space, SRS aligns well with my interests and goals. I am eager to get started and contribute to growing SRS's reputation for delivering exceptional captive management and consulting services."

XL Catlin has established a captive centre of excellence after appointing Owen Williams to its captive team.

Williams, who serves as captive centre of excellence manager, is based in London and will work with underwriters and the company's captive clients to deliver fronting services.

Matt Latham, head of captive programmes at XL Catlin, commented: "We have grown our captive business significantly over the past three years; establishing our centre of excellence allows us to continue to deliver outstanding service for existing clients while growing our portfolio."

Latham added: "In recent years there has been a steady trend for clients to expand the range of coverages written in their captives beyond standard property and casualty risks, to include emerging risks such as cyber or non-damage business interruption."

"Strengthening our team and offering allows us to support these clients as they move forward." CIT

captive insurance times

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