captive insurance times
The primary source of global captive insurance news and analysis
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AN EMERGING MARKET

Singapore opens its doors to the ILS market

All change

The PRA opens up Solvency II consultation paper

Leverage your strengths

An outlook on The Bahamas' captive insurance market


THE BAHAMAS
CLEAR
CHOICE
INNOVATION
EXPERTISE
LOCATION
Like its translucent waters
The Bahamas is the Clear Choice
for captive insurance.
Located just off the coast of Florida, The Bahamas captures everything that captive owners are looking for --- expertise that nurtures innovation to meet market needs and an idyllic environment to meet, live and do business.

USA Risk Group appoints new CEO

USA Risk Group has appointed Stephen Roseman as president and CEO, replacing Gary Osborne, who stepped down from the role last month.

Roseman will lead the USA Risk Group's operational leadership team that has been in place since 2016, and will be responsible for overseeing the firm's long-term growth strategy.

The new president and CEO has worked closely with the senior management at the firm since its acquisition by Spencer Capital Holdings in 2015.

Roseman brings more than 20 years of experience, including his role as president of Spencer Capital Holdings, where his responsibilities include overseeing a portfolio of insurance and financial services companies.

At USA Risk Group, Roseman will develop a client advisory panel to help shape the future of the firm. The panel will gather insights with regard to the shifting captive management landscape.

Commenting on his appointment, Roseman said: "I am thrilled to have the opportunity to join as CEO of USA Risk Group, where I have worked closely with a team of experts, each with a unique skill set, who pride themselves in implementing impactful solutions while serving as trusted advisors to their clients."

He added: "I am excited about the opportunity for growth that lies ahead while building on the legacy of consistent, high-quality customer service that has driven USA Risk Group for nearly 40 years."

Osborne departed the firm after serving a 22-year tenure at the company. He joined the firm in 1995 as head of its Hawaii operations.

During his time as president, Osborne was responsible for the development of risk strategies and programmes for clients and prospects, as well as the captive and alternative market divisions of USA Risk.

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Artex opens Singapore office

Artex has launched Artex Risk Solutions Singapore to oversee the growth and development of the firm's Asia Pacific captive and risk solution strategy.

As part of the opening, Vic Pannuzzo has been hired as CEO for the new office.

Nick Heys, CEO of Artex International, commented: "We're delighted to bring Vic Pannuzzo into the Artex family. With over 30 years of experience serving large multinationals in the insurance and risk services industry within the Asia Pacific marketplace, the last 17 managing and advising captive clients and prospects, Pannuzzo is well-equipped to establish Artex as the premier provider of captive services in the region."

David McManus, Artex president and CEO, added: "We have a number of clients in the Asia Pacific region already and believe that we now have a great opportunity to release the untapped potential in that marketplace. This expanded global reach also enhances the variety of solutions Artex offers our customers worldwide."

StatSure Financial launches captive

StatSure Financial has launched a captive insurance solution for hedge fund managers.

The new structured offshore captive vehicle will provide protection against fees lost resulting from a mass redemption or other business risks related to a run-on-the-fund.

A run-on-the-fund can cause hedge fund managers to lose assets along with attendant fees. StatSure Financial's calculations show that a manager stands to lose $20 million in fee income for every $100 million in lost assets.

No commercial insurer offers redemption insurance, resulting in the majority of hedge fund managers self-insuring on a pay-as-you-go basis.

Joe Taussig, one of the founders of StatSure Financial, explained the lack of protection in place for hedge fund managers.

Taussig said: "Hedge fund investors are like a theatre goer sitting next to the exit, someone yells 'fire' and even if you're 100 percent sure it is a false alarm, you better get out the door first or you'll get trampled in the stampede."

"If they think that other investors are going to head for the exits for whatever reason, it becomes a death spiral, the hedge fund manager has to liquidate positions on a fire sale basis which exacerbates bad performance and has more people bailing out."

"It's a classic captive situation where there's no commercial insurance available."

Currently, managers have to self-insure risks on a pay-as-you-go basis.

StatSure Financial's solution provides an alternative, allowing hedge fund managers to take advantage of regulatory accounting and tax structures unavailable to commercial companies and build up very big reserves.

The captive was incorporated last year, but the public launch took place this week at the Managed Funds Association conference, where the concept received a positive reception.

ILS growth to continue in 2018

The insurance-linked securities (ILS) market will continue to grow this year after a record-setting year in 2017 with the market recovering from recent natural disasters, replacing lost capital and investors showing increased interested in ILS products, according to a report from Willis Towers Watson.

The latest Willis Towers Watson quarterly ILS market update found that non-life ILS capital stood at an estimated $88 billion at year-end 2017, a year-on-year increase of 17 percent from $75 billion in 2016.

Willis Towers Watson suggested that this record growth shows that the ILS market was able to withstand the sizeable natural catastrophe losses in 2017 as funds reached out to their investors and risk partners.

Additionally, they suggest the growth is evidence that ILS capital is looking to both the short-term potentially for modestly improved risk spreads and the longer term opportunity to partner with reinsurers, insurers, and insureds to fuel asset under management growth and make insurance more available and affordable.

Bill Dubinsky, managing director and head of ILS at Willis Towers Watson Securities, commented: “We see no end in sight to ILS growth. The ILS community is signaling that it is ready and open for business.”

Dubinsky added: “2018 is shaping up as a brutal battle for market share between, on the one hand, incumbent reinsurers and ILS investors trying to both maintain their positions and exact some rate increases and, on the other hand, other ILS investors and reinsurers trying to stake a claim to participate in additional risk.”

USHEALTH Group ratings upgraded

A.M. Best has upgraded the financial strength rating of Freedom Life Insurance Company of America and National Foundation Life Insurance from B+ (good) to B++ (good).

Both firms, which are subsidiaries of USHEALTH and are collectively known as USHEALTH Group, also saw their long-term issuer credit rating improve from “bbb-” to “bbb”.

The outlooks of these ratings have been revised from positive to stable.

According to the ratings agency, USHEALTH Group’s ratings are reflective of its adequate balance sheet strength, its strong operating performance, limited business profile and adequate enterprise risk management.

In response to the Patient Protection and Affordable Care Act (ACA), USHEALTH Group altered its business profile to supplemental health and ancillary products, which has proven to be a profitable move and has positively affected its ratings.

In addition, the rating improvements reflect USHEALTH Group’s positive earning trends over several years in support of favourable absolute capital growth and significant revenue growth attributed to an expanding captive sales force.

The positive rating actions are also due to the group’s improved loss ratio in recent years and its focus on growing its captive agent force, which has seen a substantial improvement in sales growth.

Offsetting the positive rating factors is the increasingly competitive market that is closely linked to the regulatory environment and the lack of product and geographic diversification.

The group’s premium is obtained primarily from a single product concept, and approximately one-half is derived from three states.

33 new captives for Cayman

The Cayman Islands Insurance Supervision Division licensed 33 new captive insurance companies last year, in comparison to the 39 it licensed in 2016.

The year-end statistics from the Cayman Islands Monetary Authority (CIMA) showed that 48 licenses had been cancelled in 2017, meaning as of 31 December 2017 there were a total of 696 captives in the domicile.

The Cayman Islands remains the leading jurisdiction for healthcare captives, representing almost half of all captives.

Medical malpractice liability continues to be the largest primary line of business with 32 percent of companies, followed by workers' compensation with 21 percent.

Total premiums were reported as $12.4 billion and total assets were reported as $61 billion.

A statement from CIMA confirmed that: "Activities in the captive insurance industry remained strong in 2017."

"The formation of 33 new insurer licensees, which included captives, commercial reinsurers/insurers, catastrophe bonds, is a testament to the robustness of Cayman's regulatory and legislative framework, especially in an environment, which is more competitive and less conducive for new captive formations."

Hawaii welcomed 30 new captives in 2017, according to year-end stats

The Hawaii Department of Commerce and Consumer Affairs issued 30 new captive insurance licenses in 2017, according to its year-end statistics.

Of the 30 captive insurance licenses issued, 24 were pure captives, two were risk retention groups, three were reinsurance companies and one was a leased capital facility captive.

The department's year-end statistics show that as of 31 December 2017 Hawaii had a total of 230 active domiciled-captive insurers, 202 of which are US-owned, while the remaining 28 are Japanese-owned.

Of the 230 captives domiciled in the state, 71 are from the construction and real estate industry, 41 are from the telecommunications and manufacturing industry, 30 are from the healthcare industry, 34 are from the financial services industry, 26 are from the transportation and energy sector, and 28 are from retail and other services.

South Carolina pleased with 2017 figures, despite "external forces"

The South Carolina Department of Captive Insurance (SCDOI) was pleased with its captive figures in 2017 despite "external forces" that have cut the amount of licensed captives per year, according to SCDOI captive administrator, Jeff Kehler.

Kehler said it was no longer realistic for the domicile to licence 20 to 30 new captives per year, given the external forces at play. These include the sustained soft market, saturation of the large corporate sector, and the large number of US-based domiciles available to prospective captive owners.

He added: "Against this backdrop, we're pleased with how 2017 turned out for us, and very gratified at the growing recognition from the industry that in South Carolina, it's all about quality."

South Carolina licensed a total of 15 new captives in 2017, which included two risk retention groups, three pure captives, nine special purpose captives and one incorporated cell, mean the state now has a total of 169 active captives.

South Carolina also saw nine companies deleted from its portfolio, eight voluntary dissolutions and one merger.

According to SCDOI captive director Jay Branum, the net gains that the domicile posted to their portfolio represented how positive 2017 had been for them in comparison to the rest of the market.

Branum explained: "Our new versus dissolved numbers compare quite favorably with the numbers reported so far by other domiciles, including Vermont–24 new versus 39 dissolved–and Utah–60 new versus 106 dissolved."

"We're still posting net gains to our portfolio as opposed to the net losses some other domiciles are experiencing."

Branum also suggested that the figures showed that South Carolina were "more than holding our own in this domicile-congested onshore environment".

He continued: "The keys for us continue to be the quality of the programmes, and the commitment of the captive owners. I would rather have 15 solid programmes with committed owners for whom tax is a secondary concern than dozens of tax-driven micro-captives, which in some cases bring in fewer premium tax dollars than the cost of licensing and regulating them."

2017 to be costliest on record for weather disasters, says Aon

Weather disasters caused $344 billion in global economic losses in 2017, making it the costliest year on record for weather-related events, according to Aon's catastrophe report.

The Weather, Climate & Catastrophe Insight: 2017 Annual Report revealed that there were 330 natural catastrophe events last year, which caused economic losses to total $353 billion.

Of the total economic losses, 97 percent ($344 billion) were caused by weather-related disasters.

According to the report, 2017's natural catastrophe losses were 93 percent higher than the 2000 to 2016 average.

Insured losses to government-sponsored programmes and the private sector reached $134 billion in 2017, among the costliest ever occured, which was a 139 percent increase on 2016's $56 billion.

This huge increase was primarily due to high insurance penetration in the US that suffered

an extremely active Atlantic hurricane season, severe weather events and wildfires.

The report also found that wildfires caused $14 billion of insurance losses in 2017, a record for the peril.

Eric Andersen, CEO of Aon Benfield, said: "While 2017 was an expensive year for the insurance industry, the reinsurance market had an estimated $600 billion in available capital to withstand the high volume of payouts."

"Most critically, the US weather and wildfire events in particular have demonstrated the value of reinsurance, with claims being paid in an average of eight days to augment the recovery process."

Impact forecasting director and meteorologist, Steve Bowen, added: "It becomes more imperative than ever to identify ways to increase awareness, improve communication, and lower the insurance protection gap. We know natural disasters are going to occur. The question is how prepared are we going to be when the next one strikes."

QIC: Markerstudy acquisition is evidence of progression

Qatar Re's acquisition of Markerstudy Group's insurance companies represents the latest milestone on its journey toward becoming a global insurance group, according to Qatar Insurance Group (QIC) group president and CEO, Khalifa Abdulla Turki Al Subaey.

As part of the transaction, which was announced 3 January and is subject to regulatory approval, Qatar Re acquired Markerstudy Group's Gibraltar-based insurers, namely Markerstudy Insurance, Zenith Insurance, St Julians Insurance and Ultimate Insurance.

Al Subaey suggested that the deal is evidence of the progression of QIC's global expansion and diversification strategy, and gives them a solid platform to access the UK market looking ahead.

The transaction is subject to regulatory approvals and is expected to be completed in the first half of 2018.

He stated: "The main strategic attraction of this unique deal is the addition of a sizeable lower volatility book of UK motor insurance business with predictable and long-term profitability."

"The Markerstudy transaction will enable QIC to continue writing UK business under any post-Brexit scenario."

Looking forward, Al Subaey suggested QIC will continue to implement their global expansion and diversification strategy while maintaining their leadership position in the MENA region.

He added: "Through the Markerstudy transaction, we continue to strengthen the foundation for our target of becoming a global top-50 insurance group."

Amica's ratings downgraded

A.M. Best has removed from under review with negative implications and downgraded the long-term issuer credit ratings from "aa" to "aa-" and affirmed the financial strength rating of "A+ (Superior)" of Amica Mutual Insurance and its wholly-owned subsidiary, Amica Property and Casualty Insurance (Amica).

The financial strength rating of "A+ (Superior)" and the long-term issuer credit rating of "aa-" of Amica Life Insurance, another wholly-owned subsidiary of Amica Mutual, were also affirmed.

The outlook of these ratings is stable.

The ratings of Amica had been placed under review with negative implications on 13 October 2017, but following an analysis of Amica under the updated Best's Credit Rating Methodology this has now been removed.

According to the ratings agency, Amica's ratings are reflective of its balance sheet strength, categorised as strongest, in addition to its adequate operating performance, favourable business profile and appropriate enterprise risk management.

The downgraded ratings reflect the declining underwriting results in recent years, mainly due to weather-related catastrophe events and auto losses.

Also attributing to the rating actions, is Amica's risk-adjusted capitalisation being at the strongest level, low underwriting leverage, strong liquidity.

Amica benefits from a favourable business profile, its diverse product offerings, its reputation for outstanding customer service, low-cost structure as a direct writer, and its experienced senior management.

Amica Life's ratings are a response to its balance sheet strength and risk-adjusted capitalisation, both categorised as strongest, as well as its good liquidity, lack of debt and strong reserve adequacy–a result of the company's choice not to use captive reinsurance to fund its XXX redundant reserves.

An additional key rating factor, is the strong support from Amica Mutual, which provides capital, shares brand name, management expertise and its strong consumer base, which helps Amica Mutual operate in a highly competitive environment.

R&Q completes assumption from Connecticut-based RRG

Randall and Quilter Investment (R&Q) has completed the assumption of auto liabilities from a Connecticut-domiciled risk retention group (RRG) to Accredited Surety and Casualty Company, R&Q's wholly-owned admitted carrier.

The RRG, with estimated reserves of approximately $1.6 million, wrote auto liability policies in California in 2015.

The transaction, which was completed through Accredited, provided full finality to the RRG for the auto liabilities assumed, enabling the entity to wind up.

Ken Randall, chairman and CEO of R&Q, commented: "We are very pleased to announce our first assumption with an RRG was completed prior to year-end."

"This transaction is evidence of our unique ability to provide finality solutions to US self-insurers through the use of Accredited and is an area which we are looking to expand in 2018."

PartnerRe agrees £725 million reinsurance deal with PIC

PartnerRe has entered into a £725 million longevity reinsurance deal with Pension Insurance Corporation (PIC), a UK specialist insurer of defined benefit pension funds.

The deal covers the longevity risk acquired by PIC when they insured the Dockworkers Pension Fund in a full buy-in last year. The agreement, which is the first transaction between PIC and the Bermuda-based reinsurer, follows a full market tender process.

Head of longevity and portfolio reinsurance at PartnerRe Kevin O'Regan commented: "We hope that the confidence and reassurance of having well-structured reinsurance in place will enable PIC to continue their vital service to pension scheme members, and we look forward to supporting Khurram Khan and the PIC team on future transactions."

Khurram Khan, head of longevity risk at PIC, said: "This deal covers a group of lives whose demographic profile made this a challenging portfolio to price. We enjoyed working with PartnerRe. Their focused and nimble approach was central to enabling a rapid completion."

AIG to acquire Validus

AIG has agreed to acquire all outstanding common shares of Validus, the provider of reinsurance, primary insurance and asset management services, in a deal worth $5.56 billion.

The transaction will see AIG gain a diverse set of franchises including AlphaCat, Validus' insurance-linked securities investment manager, which currently manages $3.2 billion on behalf of clients.

The reinsurer Validus Re, US specialty property and casualty underwriter Western World, and Lloyd's of London syndicate, Talbot, will also be acquired in the deal.

Holders of Validus common shares will receive cash consideration of $68 per share, funded by cash on hand.

The deal, which is expected to be finalised in mid-2018, is part of AIG's strategy to deliver profitable growth and is predicted to be immediately accretive to AIG's earnings per share and return on equity.

Peter Zaffino, AIG's CEO of general insurance, said: "Brokers and customers of both companies will benefit from this acquisition, and I look forward to all that

Marsh forms new Mangrove PCC

Marsh Captive Solutions has formed Mangrove Insurance Europe PCC, a new protected cell company (PCC) domiciled in Malta.

This marks Marsh's third PCC and joins Mangrove Insurance Solutions PCC and Mangrove Insurance Solutions, which are based in Washington DC and the Isle of Man, respectively.

Mangrove Insurance Europe PCC will be led by Rob Geraghty, international sales leader, and Lorraine Stack, international advisory and sales leader at Marsh Captive Solutions.

Stephen Portelli, head of office, and David Galea, deputy head of office at Marsh Malta will management the PCCs.

Geraghty said: "PCCs are an attractive alternative to the conventional commercial insurance market. By utilising a PCC, firms can avoid the uncertainty associated with market cycles and lack of cover for uninsurable or 'difficult to place' risks, while those with smaller insurance expenditures are able to access captive insurance arrangements more easily without the need to form a single-parent captive."

we will be able to accomplish by bringing Validus into AIG."

Ed Noonan, Validus' chair and CEO, added: "We believe this transaction offers compelling value for our shareholders and reflects the strength of the business we've built together with our talented global team."

"Joining AIG and becoming part of a larger, more diversified organisation immediately opens new opportunities for our people and our franchise."

Tennessee captive premiums exceed $1 billion mark in 2017

Tennessee-domiciled captive insurance companies exceeded $1 billion in written premiums in 2017 for the first time, according to year-end figures from the Department of Commerce and Insurance (TDCI).

The figures also showed that the TDCI approved 52 new risk-bearing entities last year, compared to the 104 in 2016.

The 52 licenses approved consisted of nine pure captives, four protected cell captives, and 39 cell companies.

As of 31 December 2017, Tennessee had a total of 591 captive insurance companies, a nine percent increase on 2016.

The state's captive industry has grown in both company size and licensees every year since the introduction of new legislation that revamped Tennessee's regulation of captive companies in 2011.

As of 21 December, three new rules were implemented to modernise captive insurance in Tennessee and set the Volunteer State apart from other US domiciles.

The new rules will allow protected cells to go dormant and later to be restarted; new captives and cell companies will no longer be required to be audited if they were formed in the last quarter of a year and finally, a full financial exam will not be required where specific limited questions have arisen about the operation of a captive company.

Director of captive insurance Michael Corbett commented: "Not only are the size of new captives increasing, we are seeing the maturation of the captive insurance marketplace. Captive owners are discovering better ways to manage risk through their existing programme and are putting more risk, and therefore more premiums, into their captives."

Julie Mix McPeak, TDCI Commissioner, added: "Tennessee's reputation as a business friendly state has helped us become one of the first states now mentioned when corporations discuss where to establish a captive insurance company."

Advantage opens Vermont office

Advantage Insurance has opened a new office in Vermont to support its growing captive insurance services business.

The customised insurance specialist has also sponsored a new protected cell captive insurance company, Advantage Insurance of Vermont, which will allow clients to access a full range of captive insurance services in the domicile.

The Vermont office will be led by Christina Kindstedt and Sandra Griffith, who both bring experience in managing captives in the state.

Advantage expects to hire additional professionals in accordance with the growth of the Vermont office.

Les Boughner, chairman of Advantage's business insurance division, commented: "Expanding our market footprint to Vermont is a significant milestone in the growth of Advantage's captive insurance services business."

Walter Keenan, Advantage's CEO, added: "We thank the captive insurance division of the Vermont Department of Financial Regulation for their support for our entering the state, and we look forward to the success of our clients who choose Vermont as their captive insurance home."

Weathering the storm

Fort Lauderdale, Florida, played host to over 300 delegates for the 2018 World Captive Forum with the main discussion centering on the challenges the industry will face moving forward

Ned Holmes reports

Beginning with Dr. Alex Young's keynote speech on the potential impacts of space weather, much of the emphasis of the 2018 World Captive Forum was on identifying the challenges the industry will face moving forward and the steps that can be taken to weather the storm.

In his speech Dr. Young, associate director for science at NASA, explained to delegates that societies ever-increasing reliance on technology means space weather has the potential to "completely devastate the power grid" and cause trillions of dollars of cost.

The speech was received with great interest, particularly due to its relevance after the record year experienced in relation to weather-related disasters and catastrophe bonds in 2017.

Flood of changes

The most important challenges identified for the industry were related to the flood of incoming changes in taxation and regulation.

Changes to Brexit, Solvency II and the EU blacklist were discussed, but as of the conference was US-based, much of the focus was on the US tax reform, federal activity, the EU/US Covered Agreement and state income law changes.

Speaking on the hot topics panel alongside Tom Jones of McDermott Will & Emery, was Bruce Wright of Sutherland, Asbill & Brennan, who warned captive owners in the US to take note of developments relating to the new cyber compliance law in New York.

The New York Cybersecurity Regulation, which became effective 1 March 2017, requires financial services companies

to adopt a cybersecurity programme that "ensures the safety and soundness of the institution and protects its customers".

Wright explained that as the National Association of Insurance Commissioners has adopted a similar cyber compliance model all US captive owners need to pay attention.

According to Wright, while it is no bad thing for the industry to have to be more careful concerning cyber security, captives in New York have had issues with complying to the stringent regulations, which emphasises the protection of electronically maintained non-public information.

Wright said: "The question is how all the other states are going to deal with this."

"We are going to likely see this go through the country and the question is how are the jurisdictions with captive laws going to respond with regards the operations of captives when and if these laws are adopted."

Forecasting danger

During the panel on Brexit, base erosion and profit shifting (BEPS) and other international regulations, Ciaran Healy, director of consulting at Willis Towers Watson's global captive practice, advised captive owners to ensure they had their "defence ready".

Addressing the US market specifically, Healy warned that the presence of the Organisation for Economic Co-operation and Development's BEPS framework is going to be felt in the US market with the full implementation a year away.

Healy said that the BEPS framework had already been a gamechanger in the European captive market and with tax sensitivity at the highest it has ever been, similar impacts will soon be felt in the US captive market.

The BEPS framework is an initiative that brings together over 100 countries aimed at harmonising tax regulations internationally and giving tax authorities more power.

Healy suggested that the impact of BEPS in the US had been underestimated slightly, but that with full implementation a year away, the presence will begin to be felt as soon as local tax authorities start using the powers BEPS brings.

He commented: "Potentially it has been misinterpreted, the interpretation was that it is a European phenomenon and it's a European problem, but it's not its a global taxation framework renovation and that includes the US."

"A lot of captives were probably set up in a period of time when tax sensitivity wasn't quite as high. For a lot of those captives the owners may need to reassess the captive footprint where it is and what it is doing and for companies looking to set up captives in the US the whole substance thing is going to be more on the agenda than it was previously."

According to Healy, captives that are set up for the right reasons and properly conducting business need not be worried.

He explained: "As an industry BEPS isn't something to be fearful of. If you're doing your risk management and risk financing arrangements for the right reasons and if a captive is set up for legitimate economic and risk management reasons there's nothing to be fearful of."

He added: "Those captives that have been utilising tax arbitrage, they probably should be a little bit afraid of what BEPS and the anti-tax avoidance measures are bringing in."

A perfect storm for micro-captives

It was clear that the fallout of the Avrahamis' verdict was still being felt throughout the conference, with the case and Judge Holmes' verdict a talking point in almost every session and workshop.

Speaking in the pre-conference workshop on fundamentals and recent developments, Dan Kusaila, tax partner at Crowe Horwarth, suggested a "perfect storm" may be on the way for micro-captives.

Kusaila explained: "From an 831(b) perspective, the Internal Revenue Service (IRS) come up with the Dirty Dozen list and for three years running 831(b) companies have been on it. Avrahami came out with the unfavourable ruling for 831(b) companies."

"We've had the Form 8886, that's like putting together a nice diary and sending it to the IRS and saying 'here's everything I am telling you about my captive'. Not only is there the risk of sending that to the IRS, but it's costly to put together. So you've got all this and then add in the the drop of the 21 percent tax rate and those companies have a perfect storm coming."

There was a reflection from some that this may not be a bad thing, one attendee went as far to say that bad micro-captives are soiling the industry and questioned why regulators are letting them do this.

Clearer skies ahead

Though the conference was largely focused on the potential challenges ahead, it was not all doom and gloom. In fact, with the conference coming early in the year, there was a lot of positivity from many delegates both reflecting on their 2017 figures and their 2018 predictions. One regulator even predicted that his domicile growth would "explode" over the coming year.

The Latin American captives panel provided a warm finale to the conference's first full day.

Speaking on the panel, Bartolome Massot-Cristino, assistant vice president at Quest, described the continued growth of the Latin American captive market as "very impressive" considering the political instability across many of the domiciles.

Massot-Cristino revealed that the predicted figures for the Latin America market show a 2.5 percent average growth in 2017, an increase from the 2.2 percent growth in 2016, and he expects continued growth in 2018.

Massot-Cristino said: "The latest outlook by Mercosur, which is the common market in Latin America, is telling us that the outlook is very good and it will continue for the foreseeable future. Considering the political situation across these countries, a lot of political instability, we think these figures are very impressive."

The Latin America market was hugely affected by the global financial crisis, as it lowered the price of commodities, and between 2010 and 2016 there was a deceleration in market growth, but according to Massot-Cristino this changed in 2017.

He explained: "For the last six years, from 2010 to 2016, we saw a deceleration in market growth. So, 2017 is the first year in seven years that we have seen an increase in growth and that is the outlook for the foreseeable future."

Massot-Cristino puts a large part of the change of fortunes is down to a wave of young talent flooding the Latin America market.

He said: "The world is changing. A lot of young students who went to Europe and the US to study economics and finance—they are accountants and lawyers—very well educated young professionals are going back to their home countries."

"What we have to realise is that these young people know what we do in more developed economies and they are doing it now in Latin America. That's what makes it so interesting, this is the moment to divert more resources to the region."

Another member of the panel, Esperanza Mead, principal of Actuarial Factor, suggested that due to its current size the Latin America market represents an excellent opportunity for growth.

"Today in the world we have approximately $90 billion in annual written premiums for captives. Out of that less than $3 billion comes from Latin America. That means there is an opportunity to grow captives in Latin America." **CIT**

Leverage your strengths

Tanya McCartney, CEO of BFSB, discusses the outlook for The Bahamas' captive insurance market in 2018

Ned Holmes reports

Has 2017 been a successful year for the captive insurance industry in The Bahamas?

On the basis that we have experienced growth and a stable regulatory environment, yes we can say that 2017 was a success. At year-end 2017, the captive industry experienced a year-on-year increase in both licensed and registered captive entities operating from within The Bahamas.

In October, Ray Brown, principal of actuarial consulting firm Nichol & Co, discussed the benefits of potential growth for The Bahamas captive industry. He suggested an increase of 200 to 300 companies, do you think this is a realistic target and what can be done to achieve this?

The Bahamas is an ideal jurisdiction for captives and if we leverage our strengths we can continue to experience growth. While we do not set specific targets there is a sustained commitment by the government and private sector to develop the domicile.

The captive environment in The Bahamas is supported by a highly experienced and diversified asset and wealth management industry.

The jurisdiction has developed a reputation as a leader in these areas, which has enabled it to facilitate synergies with the insurance market.

The legislative framework for captives within the jurisdiction provides robust statutory protection to ensure that the assets and liabilities of each account are truly separate and distinct.

Cell captives benefit from the natural economies of scale created within such structures, and the regulatory regime in The Bahamas is a clear response to the demand for cost effective means of entering into the captive markets.

What is new in terms of regulations? And is there anything on the horizon for 2018?

The reality is that The Bahamas has demonstrated a long-standing commitment to being a responsible member of the international community.

In this regard, the government continues to work assiduously to ensure that every step is taken to emphasise demonstrably this continued commitment.

As such, the country's counter-money laundering, anti-terrorism and proliferation legislation, and tax cooperation framework must meet international best practices, standards and norms.

There is a requirement for continuous improvement as the goalposts shift. Hence, we expect that there will be enhancements to our anti-money laundering and countering of terrorist financing regime.

The intent is to update the existing regime to take into account broader identified risks.

In December 2017, we joined more than 108 countries in the Organisation for Economic Co-operation and Development's Global Forum in acceding to the Multilateral Convention on the Mutual Administrative Assistance in Tax Matters (the Multilateral Convention).

Arriving at this point required much collaboration between the government and industry stakeholders in The Bahamas in order to address the risks to tax compliance posed by non-cooperative jurisdictions.

The Bahamas will implement common reporting standards (CRS) using the "wider approach", which means that financial institutions will need to collect and retain the CRS information for all account holders.

We have also signed the Multilateral Competent Agreement and entered the inclusive framework on base erosion and profit shifting (BEPS) in December 2017.

The Bahamas indication of a definitive position on BEPS in December 2017 demonstrates its proactive engagement with international stakeholders as a means of strengthening the positioning of the jurisdiction.

Under the recently passed Commercial Enterprises Bill, the captive insurance and reinsurance industry were specified as areas where incentives and concessions will be provided to stimulate growth in these areas.

Do you agree with the fears raised by Bahamas Insurance Association chairman Emmanuel Komolafe that The Bahamas may be shooting themselves in the foot by making the decision to include both general and captive insurers as financial institutions under the Financial Transactions Reporting Act?

All jurisdictions must balance business objectives with the need to adhere to international regulatory standards. We have been quite adept at doing this and with the collaboration of the government and private sector we are confident that we will continue to have an environment that is conducive to growth in the captive sector. CIT

"The Bahamas is an ideal jurisdiction for captives and if we leverage our strengths we can continue to experience growth"

Tanya McCartney, CEO, Bahamas Financial Services Board

An emerging market

The Monetary Authority of Singapores is taking steps towards its goal of becoming a global insurance marketplace in 2018 by establishing itself as a positive environment for creating catastrophe bonds. Ian Stewart, partner at Clyde & Co, explains more

Ned Holmes reports

The Monetary Authority of Singapore (MAS) aims to establish itself as both Asia's leading insurance hub and a global insurance marketplace. What are they doing and how far away are they from achieving that goal?

Singapore has pursued a strategy of encouraging the development of a thriving and competitive local and international insurance and reinsurance market and has gone a considerable way towards establishing itself as both a regional leader and credible participant in the global marketplace.

Whereas other Association of South East Asian Nations' (ASEAN) markets continue to limit participation, whether by refusing to issue new licences or limiting or reducing the level of permitted foreign investment, Singapore has kept its doors open, actively encouraging new entrants and foreign participation.The regulatory regime that has been implemented is transparent and whilst it continues to evolve, has remained relatively stable for a number of years, thereby providing certainty to the market.

The establishment of the Lloyd's Asia platform in Singapore has facilitated its rise as a major reinsurance hub and the MAS has taken a leading role in the development of a more integrated ASEAN insurance market. It established an attractive offering for captive insurance and has become a leading regional centre for captives.

And more recently, the MAS has positioned itself to both facilitate and take advantage of the transformation of the insurance industry via financial technology and insurance technology innovations.

What role does this new ILS grant scheme have in the achievement of that goal?

The purpose of the insurance-linked securities (ILS) grant scheme is to 'catalyse' the development of Singapore's ILS market. The initiative has arisen in response to market interest in the development of a regional ILS platform.

Cat bonds have for some time now been seen by investors as an effective asset diversification instrument with low volatility and stable returns and on the supply side, Asia Pacific issuers have expressed a growing belief in the advantages of developing a regional market for cat bonds that will benefit from a deeper understanding of the underlying risks.

In essence, the development of a Singapore ILS market can therefore be viewed as a regulator's response to market appetite and a broader acknowledgement that, in order to remain competitive on a global stage, Singapore must continue to develop products and markets that offer flexibility in addressing changing risk transfer and investment requirements.

Who will be eligible for the grants and how will they work?

The grant will be made available to all Singapore insurers and will apply to ILS bonds covering all forms of risks, not just those relating to natural catastrophes.

The grant scheme officially commenced on 1 January this year, and provides for all of an issuer's upfront set up costs involved in issuing bonds in Singapore to be met by the grant. By removing the upfront costs of issuance, Singapore will stand a much better chance of bringing some ILS business to the country, as costs of issuance are often a major barrier especially for new sponsors.

Further specific details regarding the scheme have yet to be disclosed.

It should be noted that in addition to the grant scheme, the MAS has also established an alternative risk transfer working group made up of industry experts in the ILS market.

This working-group will continue to advise the MAS on initiatives that aim to develop Singapore as an ILS hub.

Why are they targeting the ILS market specifically?

The development of a local ILS platform can be viewed as a response by the MAS to market demand from both potential investors and issuers.

With some predicting that the global ILS market may be valued at $90 billion by 2019, it is also a recognition by the MAS that in order to remain competitive as a global reinsurance hub, it needs to position itself to participate in what is a rapidly growing business sector.

However, it should also be seen as a local response to local challenges. Much has been made of the need to address the 'Asian protection gap', whereby a vast percentage of economic losses from disasters go uninsured. Over the last 20 years, Asia has accounted for almost half the world's economic losses from natural disasters, valued conservatively at more than $900 billion.

Yet less than 5 percent of those economic losses in developing Asia were insured, compared with 40 percent in more developed countries. Developing alternative risk transfer mechanisms like ILS can play an important role in meeting this challenge.

What are the targets/predictions for ILS in Singapore in 2018?

It is generally accepted that the development of an ILS platform will not occur overnight and that the establishment of a functioning market will take time as the necessary regulatory framework is established and refined and gradually the expertise necessary to provide services to potential sponsors is put in place.

The issuance of the first local cat bond in Singapore during 2018 would be regarded as a vindication of the scheme and would create significant optimism for future growth.

With the emergence of London as a potential ILS player as well, is the market becoming more competitive?

The ILS market is definitely becoming more competitive. And with the prediction that the global value of such products could hit $90 billion by 2019, it stands to reason that leading insurance hubs around the world will seek to secure an increasing market share. **CIT**

"The issuance of the first local cat bond in Singapore during 2018 would be regarded as a vindication of the scheme and would create significant optimism for future growth"

Ian Stewart, partner, Clyde & Co

All change

The Prudential Regulation Authority has opened up a consultation for changes around Solvency II reporting requirements, and while there is a willingness for change, Adrian Mincher of Majesco says changes can't come quick enough for UK insurers and captives

Becky Butcher reports

Now solvency II has been live for two years, how are captives managing?

Two years in, the biggest impact has been the level of regulatory requirements, which has increased the burden up to eight-fold.

The issue for many captives is the information needed to meet the requirements resides in multiple locations, including spreadsheets, general ledgers for overheads, fund management software for returns, third-party reports and more.

The impact has been felt particularly by the smaller captives with limited resources, compared to the larger captives with the financial resources to invest in the process.

Solvency II has required firms to take a detailed and real-time look at income, overheads and liabilities. Reinsurance has become increasingly important in terms of offsetting risk exposure and securing balance sheets when firms calculate their solvency ratio.

The matrix depends a great deal on the volatility of the risks the captive is covering, but the minimum solvency ratio for high-volume low-volatility business starts at 100 percent.

What does Solvency II's pillar III reporting actually entail for captive insurers and what challenges are they facing around those reporting requirements?

Pillar III focuses on the areas of reporting and disclosure. All regulated firms are required to make public the details of the risks they hold, their capital adequacy, and the risk-management measures they have adopted. The aim behind the requirement is to

assist the market in improving the industry's financial discipline. In reality, it has required the production of far more detailed reports to regulators to ensure the company's Solvency Capital Ratio (SCR) is in line with the risks on their books. In effect, it means that firms need far more instant data to satisfy these requirements and to provide evidence of how that information is obtained to create the SCR.

Have you seen captives outsource their IT processes to third-party providers?

The vast majority of captive owners outsource the management of the captive. Many of the world's insurance brokers such as JLT, Willis, and Aon have extensive captive management practices that provide IT processes to captives.

Captive owners increasingly rely on the captive managers to provide the infrastructure and therefore, assume the regulatory reporting function. These captive managers are well aware of the requirements and what needs to be done to meet them.

Do you think the captive managers are facing the burden of Solvency II as well, is it a lot more pressure on them?

Ensuring the captive meets regulatory requirements is a fundamental part of the captive manager's job that they assume. In many situations, captive managers support a number of captives, which entails the provision of multiple returns for each of those captives. The issue for captive managers is the sheer volume of information they are required to hold, process and accumulate for each individual captive, as well as, ensuring that information is up to date.

Challenges emerge for captives who assume long tail risks, as by their nature, the liabilities will extend for potentially decades and those liabilities need to be tracked, understood and reported on an annual basis.

Are there any talks around changes or updates to the Solvency II reporting requirements or perhaps even a Solvency III directive?

For UK captives, there does seem to be some light at the end of the tunnel when it comes to reporting requirements. The industry has lobbied long and hard to suggest that the level of reporting it is asked to deliver is far too excessive.

It appears that finally, the Prudential Regulation Authority (PRA) is taking action to remedy this issue. Solvency II was over ten years in the making. However, for the smaller insurers they have needed a sledgehammer to crack that nut. The UK's Brexit vote has been in many ways been a godsend for the smaller insurers, including captives. It has allowed the PRA to take a long hard look at how they want the industry regulated post-Brexit.

While there is a recognition that the UK must have rigorous rules, the PRA is consulting the market with a view to looking at easing to the regulatory burden for insurance entities with liabilities under £500 million.

How long do you think it will take before those new reporting amendments will be put in place?

The PRA consultation will last until April 2018 and while there is a willingness for change, the regulators will take time to assess and consider the responses. For UK insurers and captives, the changes cannot come fast enough. I think the plan will be to have a UK regulatory regime ready to go in time for the March 2019 deadline for Brexit.

There has been a view by many in the UK insurance sector that while our regulators have sought to implement the most stringent of adherence to the Solvency II rules, some of their European counterparts have not been as dogmatic leaving the UK underwriters at a disadvantage. An issue that needs to be addressed. **CIT**

“For UK insurers and captives, the changes cannot come fast enough. I think the plan will be to have a UK regulatory regime ready to go in time for the March 2019 deadline for Brexit”

Adrian Mincher, sales director, Majesco

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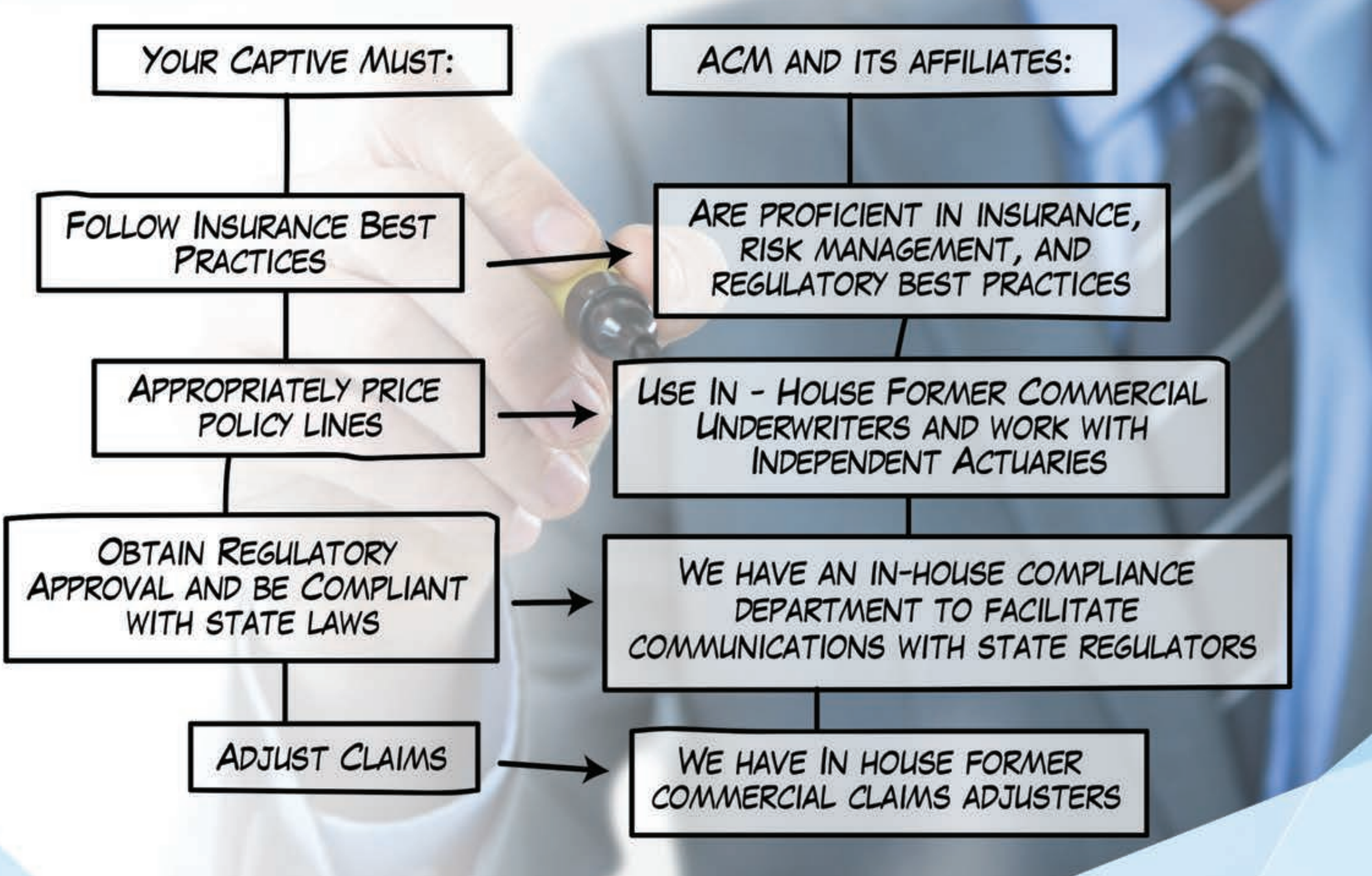

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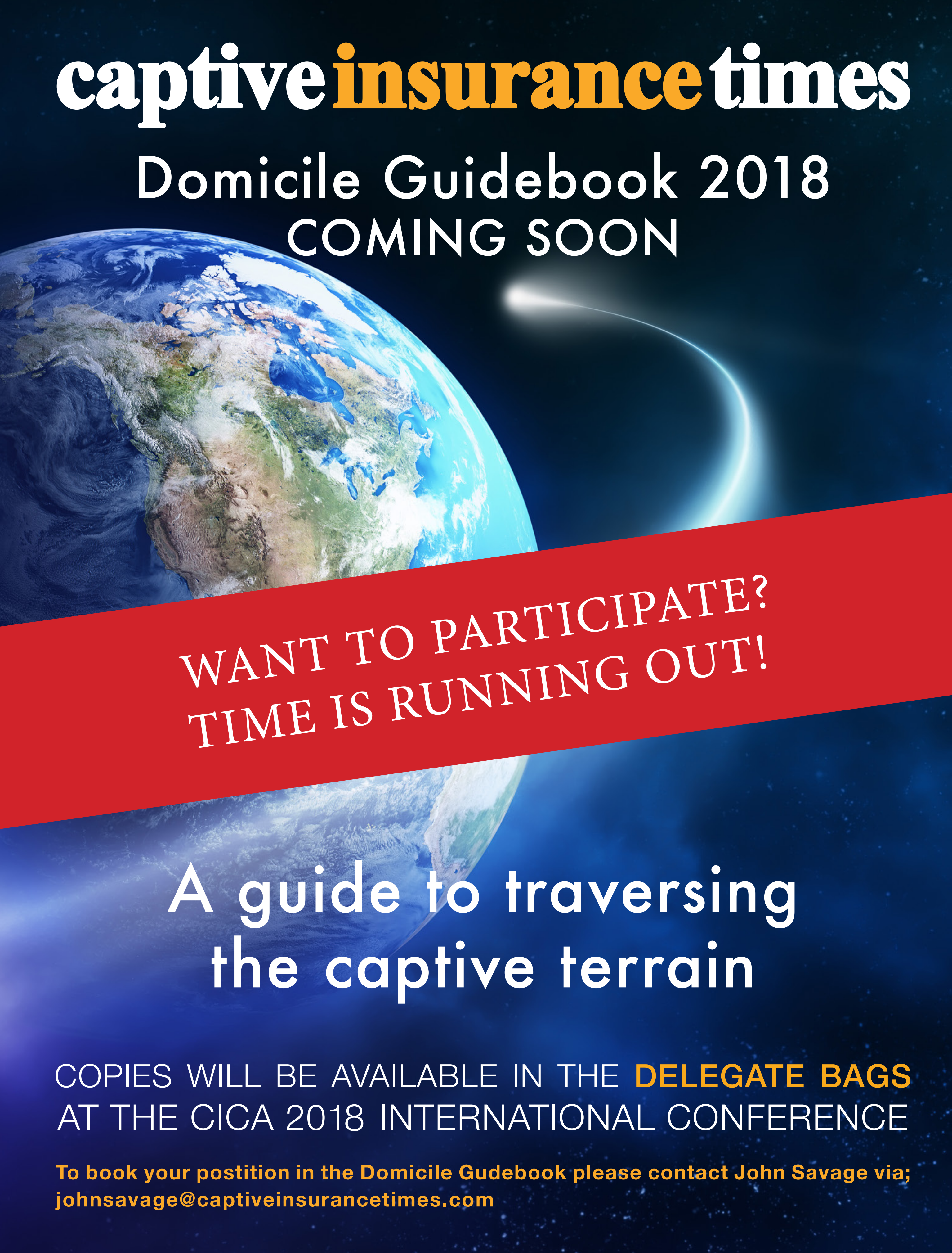
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Comings and going at Regions Insurance, Capstone, the IAIS and more

Capstone Associated Services has appointed Jeff Carlson as its head of operations.

Carlson, who has over 25 years of insurance management experience, will also replace Charles Earls as president when he steps down in 2018, after 20 years at Capstone.

The new head of operations joined Capstone in late 2017, having spent 20 years at AIG.

As head of AIG Life and Accident & Health Operations, Carlson managed large, cross-functional business operations teams in a number of locations throughout US, Philippines, and India.

Capstone are US-based captive sponsors that assist mid-market businesses in designing, forming, and operating captives.

Stewart Feldman, Capstone CEO and general counsel, commented: "With the addition of Jeff Carlson, Capstone will continue its focus on supporting closely-held, mid-market clients throughout the US from our five offices."

He added: "His expertise enables Capstone to improve its day-to-day operations with an eye towards accelerating growth while delivering an ever-improving alternative risk management programme."

Carlson said: "From the initial captive feasibility study, through to the ongoing management of the captive, Capstone works to ensure that regulatory and tax requirements are met."

"I'm honoured to build on Chuck Earls' leadership over these last 20 years."

Craig Swan and Marcelo Ramella, two members of the Bermuda Monetary Authority senior management team, have been appointed as co-vice chairs for the new International Association of Insurance Supervisors (IAIS) committees.

The policy development committee (PDC) and macroprudential committee (MPC) were created as part of an IAIS restructure aimed at adapting to emerging needs in global regulation and supervision.

Swan, BMA managing director of supervision (insurance), will co-vice chair the PDC along with vice-chair Paolo Cadoni from the UK Prudential Regulation Authority.

BMA deputy director for financial security Ramella will co-vice the MPC alongside fellow co-vice chair Steven Seitz from the US Federal Insurance Office.

Jeremy Cox, BMA CEO, said: "Craig Swan and Marcelo Ramella's contributions in working with the IAIS over the years have enabled the BMA to strengthen relationships with insurance supervisors from other countries, and maintain Bermuda's active and ever critical participation in the development of global insurance standards."

"Their contributions are highly-valued, and I commend them for their efforts and on their new appointments serving on top level committees."

Regions Insurance has appointed Mike Breedlove as its new executive vice president of property and casualty operations.

In addition to his current role as Regions Insurance regional executive for the southeast region, Breedlove will be responsible for leading the company's property and casualty strategy.

Regions Insurance, an affiliate of Regions Bank, provides customers across the US with business, individual and captive insurance options, as well as employee benefits services.

Rick Ulmer, Regions Insurance group president and CEO, said: "I am confident Mike Breedlove has the skills, relationships and tenacity to lead this critically important effort for Regions Insurance Group."

He continued: "Our property and casualty producers need to be supported with a clear strategy, targeted resources and focused revenue generating opportunities all while aligning with our strategic carrier partners." **CIT**

Do you have an industry appointment we should cover?
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