captive insurance times
The primary source of global captive insurance news and analysis
ISSUE148 16 May 2018

# If you teach it, They will come

Michael Zuckerman on teaching the next generation of captive professionals

## Brexit Solution

How La Linea could solve insurers relocation issues

## Utah Update

Travis Wegkamp explains how the state has grown into a world leader



# Vermont to experiment with use of blockchain for captive insurance

The Vermont Captive Insurance Division is planning to work with the Vermont Secretary of State to experiment with the use of blockchain for captives.

Vermont, the largest US captive domicile, will trial the use of blockchain software for filing incorporation documents for captives.

The state's captive insurance division is currently working with the Secretary of State on a memorandum of understanding, with the project expected to begin in the summer.

According to David Provost, deputy commissioner of the Vermont Captive Insurance Division, the specifics of the arrangement have not yet been decided.

Provost said: "We are still working out all the details and exactly what we are going to do, and we may have to hire some software engineers to help with the project, but I don't expect it will start until the summer."

"We form 25 to 50 captives a year, so, at a maximum, we are looking at a couple of transactions a week."

"This is something we can experiment with and work with the Secretary of State to work through the technology before they try to roll this out and use blockchain for larger or more frequent transactions."

In addition to working out how blockchain may be used for the benefit of captives, the Vermont Captive Insurance Division has been in contact with people in the blockchain industry to see how captives can work for them.

Provost explained: "There is going to be a certain amount of people in the blockchain industry that are going to need captives."

"There may be blockchain businesses that form captives for various reasons, including their own liability insurance for developing software."

New legislation, which was introduced in January 2018, relating to blockchain in Vermont is currently due a third reading by the state's House of Representatives.

SB 269, which was introduced in January 2018, proposes the implementation of strategies relating to blockchain and other emerging technologies in order to promote regulatory efficiency and provide governance structures that may expand opportunities.

Provost suggested that though the legislation was specific to a "personal information trust", the underlying idea was to encourage blockchain businesses to form in Vermont and to promote a new industry in the state that is blockchain based.

He explained: "The business they're legislating for doesn't exist yet, but they're hoping that having a favourable regulatory environment will invite entrepreneurs to start blockchain businesses in Vermont."

"Any legislature loves jobs and opportunities, so they looked at this idea which was marketed to them as the 'next captive insurance'."

"Our legislature did so well with captive insurance they're always looking for the next idea that is going to do the same thing, generate clean jobs and improve the economy."

Provost said he did not expect the blockchain legislation to have a direct influence on captives should it pass.

"Directly I don't think it will have an impact."

"I view blockchain more as a software product or method and I think captives will take advantage of it."

He concluded: "I am trying to keep an open mind and I expect captives will use it."

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Published by Black Knight Media Ltd
Company reg: 0719464




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## Microsoft captive issued cease and desist

The State of Washington Office of the Insurance Commissioner has issued a cease and desist order to Microsoft's Arizona-based captive, Cypress Insurance.

Order No.18-0220, which was issued 9 May, prohibits Cypress from engaging in or transacting the unauthorised business of insurance in the state of Washington, or seeking and obtaining insurance business in the state.

It also requires the captive to cease and desist from soliciting state residents to purchase any insurance to be issued by any unauthorised insurer or induce them to purchase any insurance contract.

Cypress, which was admitted as a captive company in Arizona in 2008, is a pure captive whose sole insured is Microsoft and its liabilities which are based in Redmond, Washington.

The order states that Cypress doesn't hold a certificate of authority to transact insurance in Washington State, doesn't hold a Washington state surplus line broker's license to place non-admitted insurance in the state, nor is insurance coverage provided by the captive placed through a surplus line broker licensed in the state.

Additionally, it claims Cypress has not paid premium tax on the $71,194,935 it collected between 2013 and 2018, representing $1,423,898.70 in unpaid premium tax.

According to the order Cypress's actions, therefore, violate "Revised Code of Washington (RCW) 48.05.030(1) (certificate of authority required), RCW 48.15.020(1) (solicitation by unauthorized insurer prohibited), RCW 48.17.060(1) (license required), RCW 48.14.020(1) (failing to remit two percent premium tax),and RCW 4S.14.060(l)-(2) (failing to timely remit two percent premium tax)".

The order does not prevent the captive from fulfilling the terms of contracts formed prior to the date of the order, 9 May 2018, from providing a refund when requested by Washington insured or upon request of the Insurance Commissioner, further ordering the replacement of Cypress contracts with an authorised insurer.

Cypress has the right to demand a hearing within 90 days of receipt of the order.

## AmTrust captive acquisition under review by SEC

AmTrust's acquisition of Luxembourg captives has been reviewed by the US Securities and Exchange Commission (SEC) in an investigation that began in 2013.

According to AmTrust, it has been responding to the SEC's investigation since June 2013.

Alongside the captive acquisition assessment, the investigation saw a review of the company's investment in life settlement contracts and certain accounting practices, including accounting for loss and loss adjustment expense reserve estimates for their major business lines and segments, internal controls and other related matters.

AmTrust is a multinational insurer that specialises in property and casualty insurance through its primary insurance subsidiaries. It is rated (A) Excellent by A.M. Best.

The company said it has been responsive to the ongoing inquiry and will continue to cooperate to any governmental or regulatory inquiries or investigations.

According to a statement by AmTrust: "The company cannot predict the eventual scope, duration or outcome of such inquiry or whether it could have a material impact on the company's financial condition, results of operations or cash flow."

## Delaware captive bill reaches senate

A captive insurance bill that proposes increasing the authority of the Delaware insurance commissioner (IC) has been passed by the state's House of Representatives.

HB 334 was passed by the house on 1 May, with 40 representatives voting yes and one abstaining.

It has now been assigned to the Banking, Business and Insurance Committee of the state Senate.

The bill would amend Title 18 of the Delaware Code to authorise the IC to issue conditional certificates of authority to captive insurance candidates, which would allow them to conduct business while the IC completes the review of their application materials.

These conditional certificates of authority will only be issued once the IC has received "evidence of the minimum capital and surplus required by chapter 69 and a certification from the captive owner that the application materials comply with the requirements of chapter 69".

The bill noted: "A captive insurance company granted a conditional certificate of authority must pay the IC a fee of $100."

The bill, which was introduced to the house by representatives Trey Paradee and Jeff Spiegelman and senators Brian Bushweller and Bruce Ennis, includes technical corrections to align existing law with the standards of the Delaware Legislative Drafting Manual.

Additionally, it permits the IC to instantly revoke a conditional certificate of authority if they decide the captive has failed to comply with chapter 69 licensing requirements.

## WTW to integrate ILS business

Willis Towers Watson (WTW) will integrate its insurance-linked securities (ILS) business into its reinsurance firm, Willis Re.

The ILS business, which was previously part of WTW Securities business unit, will be integrated in order to enhance the client offering.

The ILS team will continue to be led by head of ILS William Dubinsky and report to Willis Re deputy chairman, Mark Hvidsten.

According to James Kent, global CEO of Willis Re, the firm's status in the ILS market will continue to strengthen as the businesses are brought "together in a more effective way".

Kent added: "The movement of the ILS business into Willis Re reflects ongoing efforts to evolve our company and better align our portfolios in order to continue to effectively serve our clients."

Rafal Walkiewicz, CEO of WTW Securities, commented: "The insurance industry is changing faster than ever and capital markets are becoming an integral part of the industry risk transfer mechanism."

"Our clients no longer decide between traditional reinsurance and third party capital, but expect an integrated solution that serves their long term needs."

He continued: "Capital markets professionals working hand in hand with reinsurance brokers are best positioned to offer strategic advice and continue to develop cutting edge products for our clients."

## HR 1625 tidies PATH and provides guidance for micro captive owners

HR 1625 has provided much-needed guidance for taxpayers with micro captives, primarily clarifying parts of the Protecting Americans from Tax Hikes (PATH) Act 2015, according to John Dies and Matthew Spradling from alliantgroup.

Signed into law by US President Donald Trump on 23 March, HR 1625, the Consolidated Appropriations Act 2018, provided clarifications on the section 831(b) diversification requirements, which were implemented in the PATH Act.

The PATH Act enacted two diversification tests, the 20 percent test and the ownership test, in order to address the potential abuse of micro captives.

To qualify as a micro captive under section 831(b), the taxpayer must meet at least one of these tests.

Previously, in the 20 percent test the definition of a policyholder was unclear, creating confusion in relation to risk management pools.

HR 1625 has amended the definition of a policyholder meaning that the pool itself is not a policyholder, but each discrete insured paying premiums into the pool is a policyholder.

Dies and Spradling said that this common sense change is anticipated to have a positive impact on the captive industry.

A similar confusion was amended for the ownership test, with the definition of a specified holder being clarified and a new aggregation rule being applied.

Additionally, the ownership test was modified to look at the “relevant specified assets” of the captive as opposed to looking at the specified assets.

These changes are a move in the right direction, but according to Dies and Spradling, they have not resolved all the uncertainties surrounding the PATH act tests and further guidance is still desperately needed.

## WTW report: ILS market experiences historic start to 2018

The insurance-linked securities (ILS) market has experienced a historic start to 2018, with $3.1 billion of underwritten widely distributed non-life ILS capacity in the first quarter of this year, according to a report by Willis Towers Watson (WTW).

The ILS Market Update Q1 2018 report revealed that a record breaking $3.1 billion was issued through five catastrophe bonds.

A vast improvement on the $1.7 billion issued in during the same period in 2017, Q1 this year broke the record of $2 billion held by Q1 2016, and was the third-highest quarter ever.

The first quarter was dominated by diversifying transactions, other than Allstate bond Sanders Re 2018-1.

The other deals were sponsored by Mexico, Chile, Colombia and Peru, and by Japanese cedants: Zenkyoren, Mitsui Sumitomo Insurance and Tokio Marine & Nichido Fire.

Unlike 2016, when the market struggled in Q2, however, WTW suggested Q2 this year would be robust.

William Dubinsky, managing director and head of ILS, said: “We expect the current trends in ILS growth to continue.”

“Without a true surprise loss, like an ice-storm in Miami, end-investors will continue to allocate capacity to ILS.”

“Yield increases under government bonds are expected to be neutral or maybe even slightly positive for issuance and asset growth, and even more importantly, we will continue to see a trend towards true syndication, reducing the power of large leading markets."

## R&Q profits from streamlining strategy in 2017

Randall and Quilter (R&Q), the global underwriting management and legacy acquisition specialist, saw an increase in profits of nearly 300 percent last year following the implementation of its streamlining strategy.

The Bermuda-based firm's year-end results for 2017 revealed that the pre-tax profit was £23.5 million last year, up from £8.5 million in 2016.

The figures included the £11.8 million profit on the sale of R&Q's Lloyd's managing agency, meaning the underlying profit growth was 38 percent. As part of R&Q's strategy to create a streamlined business that was focused around legacy acquisitions and programme underwriting management, the company sold both its Lloyd's management agency, in November 2017, and insurance services businesses, in January 2018.

R&Q's captive management operations were included in the sale of the insurance services to Davies Group earlier this year.

The transaction saw the sale of the entire share capital of JMD Specialist Insurance Services Group and its subsidiaries, R&Quiem, John Heath & Company, AM Associates Insurance Services and Randall & Quilter Bermuda Holdings Limited and its Quest subsidiaries.

According to Ken Randall, group chairman and CEO, R&Q was in "good shape" following the transformation it experienced in 2017.

Randall stated: "We refocused and simplified the business around legacy acquisitions and insurance programme underwriting management, however, this did not divert the business from delivering strong underlying earnings growth of 38 percent."

"I am pleased to report that we have an excellent pipeline of new business in both programme underwriting management and legacy acquisitions."

"Programme underwriting management business has been building steadily, especially towards the end of the year and we anticipate strong future profit growth from this business area, as commission earnings from new programme launches gain momentum from the end of 2018 and beyond."

He added: "As a group we have always seized upon opportunities, which inevitably come from market turbulence and this is certainly true today as we witness major upheavals in the global insurance industry–especially those arising out of the challenges posed by Brexit and the emergence of new technologies."

"With a strong and energised management team, we are very well placed to develop and profit from the multiple opportunities in our chosen business segment."

## 'Crumbling foundations' captive insurer selects superintendent

Captive consulting firm Michael Maglaras and Company have been selected to act as the superintendent for the Connecticut Foundation Solutions Indemnity Company (CFSIC).

CFSIC is the non-profit captive set up to distribute remediation funds to assist homeowners impacted by the 'crumbling foundations' issue.

Michael Maglaras and Company will take on the assignment on 28 April, with the initial contract a one year term.

The Ashford-based firm has more than 30 years experience in captive insurance implementation, underwriting, and advisory services.

In the role, the firm will be overseen by the captive's board of directors, which is currently in the process of being selected.

CFSIC has no employees and therefore the superintendent will be responsible for contracting any required services.

Commercial insurance companies have generally refused to cover the 'crumbling foundations' issue, which was caused by concrete of a stone aggregate mined from a quarry containing pyrrhotite and has resulted in cracks forming decades after the foundation was constructed.

In February, the State Bond Commission approved $350,000 to provide the initial capital to license CFSIC.

The Connecticut state government predicts the assistance fund will be accessible through the captive in July 2018, with $100 million available in state bonding over five years.

Michael Maglaras, principal of Michael Maglaras and Company, said: "We are pleased to have been selected by the incorporators of CFSIC to launch this new captive insurance company and to assist its board of directors in bringing needed relief to hard-hit homeowners in the northeast corner of Connecticut."

"We have much work ahead of us–and it's hard work–but I would sum it up in one phrase: Help is on the way."

## Bermuda takes bite of Big Apple

Captive insurance experts made up part of a 60-strong delegation of Bermuda industry leaders travelling to New York City on 2 May to showcase the opportunities available in the Bermuda's global business market.

The delegation attended an executive forum set up by the Bermuda Business Development Agency (BDA), which was aimed at attracting potential investors and professionals.

Notable attendees in the delegation included Bermuda premier, David Burt, and National Security minister, Wayne Caines.

Insurance market veteran and current AIG CEO, Brian Duperreault, delivered the keynote. The Bermuda Executive Forum NYC 2018 discussed advantages of the island's market, as well as hot topics, such as tax reform and emerging technologies.

Throughout the day, a range of panels highlighted the diversity of the Bermuda market, including coverage of captives, reinsurance, and insurance-linked securities.

The 'Captives Re-invented' session focused on how captives are developing to deliver increased value and how Bermuda continues to be an industry leader in that development.

Speaking before the event, BDA chairman Paul Scope stated: "We've had a strong response to date and we're extremely grateful to all our supporting stakeholders for their partnership in this initiative."

"The programme's discussions promise to be stimulating and informative and should encourage attendees to explore the many opportunities Bermuda offers as a blue-chip platform for doing global business."

## LIIA and IBFC to host Asia Captive Conference for second year

The Labuan International Insurance Association (LIIA) and Labuan International Business and Financial Centre (IBFC) will jointly host the Asian Captive Conference (ACC) for the second consecutive year.

The conference will be focused on the challenges of self insurance, covering transparency and digital disruptions.

ACC 2018 aims to shed light on the challenges risk managers are facing from technology and from meeting the growing demands of tax transparency brought by multilateral organisations and regulators. The conference will be held in Kuala Lumpur on 1 and 2 August, and the joint hosts are encouraging more participation from the Asia region's risk-related and risk management industries.

Farah Jaafar-Crossby, CEO of Labuan IBFC, said: "We are excited to organise the ACC 2018 again and we hope to see more delegates from the Asian region especially when the conference is a platform dedicated to the development of the self-insurance industry in the region."

Jaafar-Crossby added: "The self-insurance sector is a niche market and we believe that there is a huge potential for structures such as captives and protected cell companies as a self-insurance tool, to grow in this region, especially with the ever-evolving risk landscape in the region."

"Indeed, the return of ACC 2018 is testament to Labuan IBFC's efforts to continue to build understanding among Asian corporations, on the need and benefits this risk management tool."

LIIA chairman, Raymond Wong Shu Yoon, stated: "We are pleased and honoured to have Labuan IBFC as a partner for this event again and we are definitely excited to see the turn out for this year and we hope to receive a positive response from the industry players in the Asian region."

He continued: "We are optimistic and passionate about the growth of the captive insurance market in Asia and we hope that through initiatives such as hosting the ACC 2018, risk managers and practitioners alike will have a better understanding of the benefits of using captive insurance as an alternative risk management and mitigation tool."

## New York updates disaster response requirements

The New York Department of Financial Services (DFS) has issued updated disaster response and recovery plan requirements for all insurance companies, including captives, licensed to conduct business in the state.

The updated requirements were communicated to insurers via two updated circular letters, the first of which was aimed at a property and casualty, title, and captive insurers.

The circular letter warned captives, amongst other insurers, that they "must be prepared to respond at every level" if a disaster occurs.

When a disaster occurs in New York, the DFS provides vital information to the Governor and the state office of emergency management regarding the extent of losses, damages, personal injuries and deaths caused.

This information assists the Governor in determining whether and when to request a federal disaster declaration and how to prioritise the deployment of the state's assets.

Following a disaster, the DFS superintendent will activate the department's Insurance Emergency Operations Centre, which is staffed by insurance industry disaster liaisons and department representatives to coordinate disaster responses.

According to the updated requirements, all insurers must submit updated disaster response and recovery plans and responses to online questionnaires by 29 June 2018.

In addition, insurers must have a business continuity plan and regularly perform a business impact analysis in order to predict the consequences of the disruption of business.

The analysis should identify the operational and financial impacts resulting from the disruption of business functions and processes.

Financial services superintendent Maria Vullo explained: "When disaster strikes it is important for all insurers to be able to respond quickly and to be able to continue operations to ensure they can serve the increased needs of consumers resulting from the emergency, whether it's a storm, a data breach or a terrorist attack."

  

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# Crossing La Linea:
## The immaculate conception of a post-Brexit solution

**Brexit will likely require insurance companies to relocate to ensure access to their preferred market, Ned Holmes explores Nigel Feetham's post-Brexit solution for Gibraltar and UK insurers**

Ned Holmes reports

It has been 23 months since Britain voted to leave the EU, and while it appears that the UK government is still struggling to formulate a unified plan for life after Brexit, the financial sector has been actively ensuring that it is ready for whatever Brexit brings.

Nigel Feetham, partner at Hassans International Law Firm, is one such zealous arbiter. Having worked with some of the biggest names in the financial market, the Gibraltar-based lawyer has a strong international client base and has been a driving force in the protected cell company sphere, both in Gibraltar and internationally. In March the UK government confirmed that Gibraltar-based financial services firms would be guaranteed access to the EU markets until 2020, regardless of the Brexit deal.

This announcement confirmed what Feetham had long predicted, that Brexit would not affect Gibraltar-based companies that only

write UK business, which constitute the majority of companies licensed in the region, but would mean that companies looking to ensure post-Brexit access to the UK market would be forced to redomicile.

For the last 18 months, Feetham has been working on a Brexit contingency plan for these companies that write EU business and will need to relocate should the UK leave the single market.

He explains: "I'd been looking at EU solutions for Gibraltar insurance companies that would be affected by Brexit, in other words, a post-Brexit European solution."

"There are a number of businesses in Gibraltar that either write EU business exclusively or a large part of their portfolio is EU business. These companies need an EU solution and I have spent a lot of my time over the last 18 months exploring options."

**The two-way strategy**

Due to its similarities to Gibraltar, Malta emerged as an early option.

Feetham says: "I visited Malta on a number of occasions and I realised very quickly that it was a very similar jurisdiction to Gibraltar. The prudential regime is very similar, it's has a benign tax environment, the application process is similar, and it has an approachable regulator."

"It seemed clear that Malta was a viable solution for Gibraltar insurance companies that needed a European solution."

Insurers domiciled in Malta can currently write insurance in Britain and Europe, however, in the event that Britain leaves the single market those operating from Malta, while having continued access to European markets, will no longer be able to sell insurance into Britain.

Consequently, Feetham developed a "two way Brexit strategy" in which Malta-based companies looking to continue to work in the UK market would move to Gibraltar and visa versa. This provided insurance companies based in both domiciles with a post-Brexit solution.

He expands: "I have been working on the basis that Gibraltar companies need an EU solution, therefore, Malta is a viable option for them, Maltese companies need a viable UK solution, Gibraltar is a viable option for them because Gibraltar companies will be able to continue trading in the UK post-Brexit."

The redomiciliation of the UK-focused motor insurer St Julians Insurance Company in January was evidence of his strategy, and that there was likely to be traffic between the two domiciles as Brexit approached.

**A eureka moment**

In late 2017 Feetham had what he described as a "eureka moment". Travel between Malta and Gibraltar, a journey he had made on multiple occasions while researching his strategy, was not easy.

Every time he made the journey it would be via the UK or another European destination and on occasion, it would be a whole day's travel.

In addition to travel time was the issue of relocating a company with a large infrastructure. Originally, Feetham had considered an outsourcing arrangement, in which the company was redomiciled but the company services were outsourced back to Gibraltar.

However, a recent public document published by the European Insurance and Occupational Pensions Supervisors aimed at UK companies looking for Brexit solutions said that a company that relocates to the EU mainland would not be allowed to outsource everything back to the UK. Clearly, this creates a similar limitation for companies outsourcing from Malta to Gibraltar.

So, Feetham asked himself whether there is a closer place, which doesn't require a high level of travel time, and is easier for companies with an existing infrastructure in Gibraltar.

**The La Linea solution**

The answer to that question was La Linea de la Concepción, a Spanish town just across the Gibraltar-Spain border.

Feetham explains: "In my eureka moment I asked the question: 'can I not redomicile the Gibraltar insurance company 200 metres from where they currently located, across the border, move it physically and constitutionally into Spain, but keep the Gibraltar infrastructure?'"

"Employees can cross the border and you are not outsourcing anything. Geographically and physically we are talking about a 10-minute walk … you aren't losing that professional infrastructure because you continue to tap into it."

Rather than relocate to Malta, Feetham proposed a company with a large infrastructure in Gibraltar could move to La Linea, therefore keeping the infrastructure in the area as well as retaining employment, economic activity, and sharing the benefits of that activity with their neighbours in La Linea.

He says: "We are looking at the concept of a joint financial hub between Gibraltar and La Linea, based on collaboration and cooperation. Until now everybody is looking at jurisdictional competition, in a cannibalistic way that's saying let's take as much business away as we can."

Feetham believes that the concept of a financial hub between Gibraltar and La Linea that takes advantage of what each other has to offer is not just limited to insurance but can be extended equally to other areas including financial services and gaming. It's a point he has repeated previously.

Recently Spain has announced changes to the fiscal regime in its autonomous regions in Ceuta and Melilla to make these two Spanish enclaves attractive to gaming companies looking to compete with Malta for European business post-Brexit.

**Malta v La Linea**

Malta's similarities to Gibraltar, its prudential regime, benign tax environment, the similar application process and approachable regulator, make it a more attractive option to many companies and will better serve their commercial objectives, but Feetham believes some clients will prefer the option of La Linea.

He says: "If a company has got an infrastructure in Gibraltar they can't physically move that, you can't physically move an office or take employees to Malta … so in that scenario La Linea becomes attractive."

There is no tax motivation behind relocating to La Linea, and companies that make the move will have to pay the same level of tax as any other company in Spain. So, for many Gibraltar-based companies, it will be the choice between a more benign tax environment in Malta and retaining infrastructure in La Linea.

Additionally, Spain's standing and level of influence within the EU may be a factor.

Feetham explains: "By choosing La Linea, they're prioritising two things. Infrastructure and Spain's standing in the EU. Spain is a large member of the EU, an influential member of the EU. With the UK exiting the EU, Spain's status within the EU can only increase."

"Therefore to the extent that you are located in Spain and regulated by the Spanish regulator, for some companies that may carry more kudos."

**Spanish regulators**

Following two meetings to discuss prospective applications and the prospective interest on the Gibraltar market, the Spanish regulator has responded very positively to the La Linea/Gibraltar strategy and Feetham has been very impressed by their approachability.

"Those meetings have gone very well and been very constructive and I would expect at least one insurance application to be submitted over the next few months, which is a positive."

According to Feetham, Spain answers the key question a company must ask themselves when choosing where to relocate to in Europe.

He expands: "Why choose one over another?"

"The answer in my book, is to ask are you sitting in front of an approachable regulator?"

"From the two meetings I have had, the answer is a big yes. The Spanish regulators have come across as being very approachable, so that is a major plus."

**On the clock**

UK Prime Minister Theresa May triggered Article 50 on 29 March 2017, which according to The Lisbon Treaty gives the country two years to leave the EU.

As that March 2019 date approaches, alongside the end of the one year transitional period in March 2020, companies in the UK and Gibraltar will need to begin putting their post-Brexit strategy into place.

"Businesses that need a European solution have to make up their minds quickly over the next couple of months as to what that solution is," says Feetham. "Malta or Spain or both, and then submit a licence application."

**London calling?**

London or UK-based insurers that currently write EU business and will be looking to ensure continued access to the EU market following Brexit will have to make similar decisions to their Gibraltar counterparts, and Feetham feels the La Linea/Gibraltar option may appeal to them.

He says: "You can move the goalposts further. London has a problem, they need a solution. I can offer a solution that is Gibraltar and La Linea."

The London insurance sector has traditionally been very close to Gibraltar, and Feetham suggests that it could continue to plug into the Gibraltar infrastructure as they have done in the past by using the La Linea option.

He concludes: "If you are dealing with UK brokers that are dealing through European distributors and brokers, being based in Spain and perhaps having an office in Madrid, even if your corporate office is in La Linea, could be commercially more attractive for the business than a location in Malta."

"It is much easier to get to Madrid and the credibility of a larger country then comes into play." **CIT**

# Diversity makes the state grow stronger

**Travis Wegkamp, captive director at the Utah Insurance Department, explains how the diverse nature of Utah's economy has seen it grow into a world leading captive domicile**

Since the passage of captive legislation in the state in 2003, Utah has grown to be the second largest captive domicile in the nation and fourth largest in the world.

This growth has come steadily, and at times exponentially, due to the favorable business environment and strong economy of the State of Utah.

Much like the diverse nature of Utah's economy, those companies that have chosen to establish their captives in the state comprise a diverse selection of industries that add to the dynamic nature of our local captive industry.

While no one industry truly dominates the captive landscape here, an abundance come from the healthcare, manufacturing, professional services, and construction industries. With real estate, financial, and retail related industries following closely behind.

This wealth of diverse and unique companies from around the country with captives here in Utah has provided our staff with a breadth of knowledge and expertise in adapting and responding to their various needs and differing insurance programmes.

This has made Utah uniquely capable and willing to work with organisations seeking to be at the forefront in the innovative use of their captives. The captive industry in Utah continues to play a role in the economic growth and stability of the state.

Utah has been a popular choice for smaller captives looking to get their feet wet in the industry. We attribute much of this popularity to our captive legislation that does not impose a state premium tax on captive insurers.

Instead, our legislators chose purposefully to only impose a small $5,000 annual fee. It was the thought and purpose of our captive legislation and flat fee that, rather than attempt to simply fill the state's coffers with premium taxes from captive insurers, we would promote the industry and use it as a method for attracting other highly educated, stable, and well-paying jobs to the state that service the captive industry.

That foresight and forward thinking continues to bear fruit. Since its inception in 2003 the captive industry continues to flourish and provide a noticeable economic benefit to the State of Utah.

Thanks to strong growth, by 2008 our captive industry was providing over $5 million a year in economic benefit to the state, and since 2011 that amount has consistently been well over $10 million a year, with a high of over $22 million.

Additionally, cash and other invested assets of Utah captive insurers have a significant impact on the state's economy with nearly $800 million being held by local financial institutions, as reported by our captive insurers.

These financial markers of the economic benefit of captive insurers to the State of Utah are but one indicator of the strength and quality of the captives domiciled here.

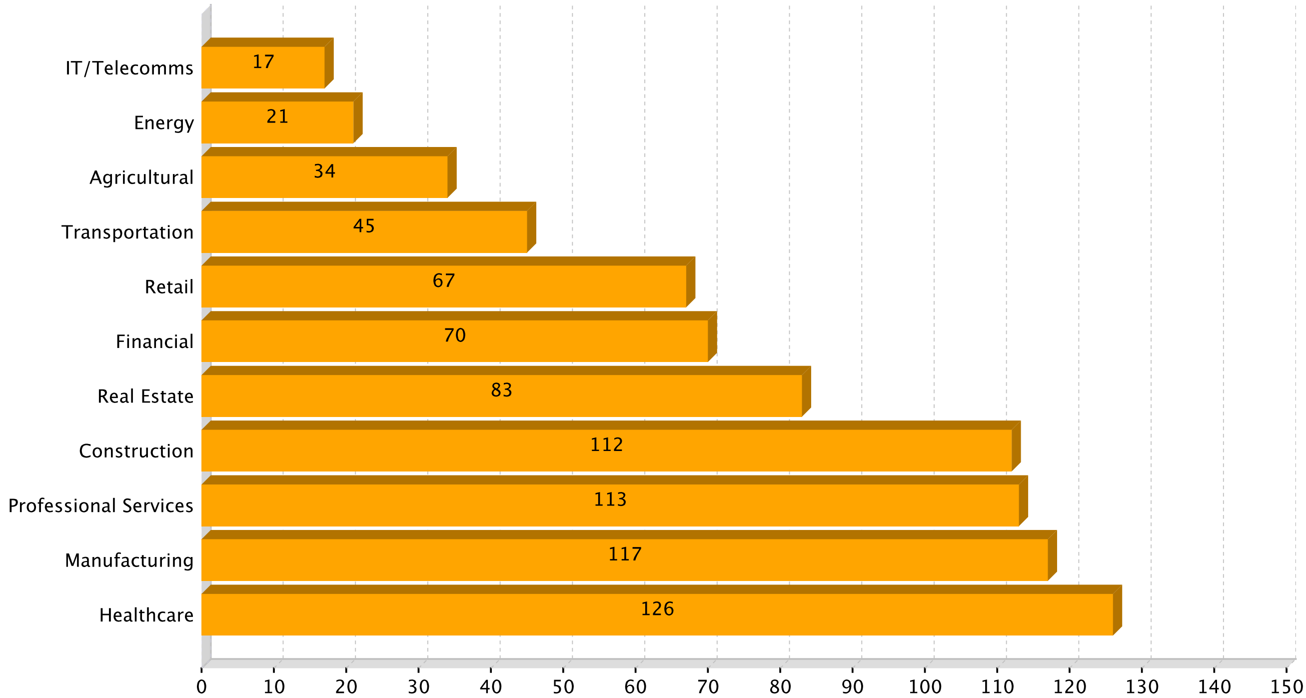
For the past several years Utah captive insurer assets have been north of $3 billion and gross written premiums for those years were just under $1 billion, as reported by our captive insurers.

Those that have formed and operated a captive insurance company here in Utah have discovered a truly symbiotic relationship, where the strength and diversity of our economy and fair regulations have allowed them to run a profitable and beneficial captive programme to their benefit, and the state's as well. **CIT**

> Utah has been a popular choice for smaller captives looking to get their feet wet in the industry. We attribute much of this popularity to our captive legislation that does not impose a state premium tax on captive insurers

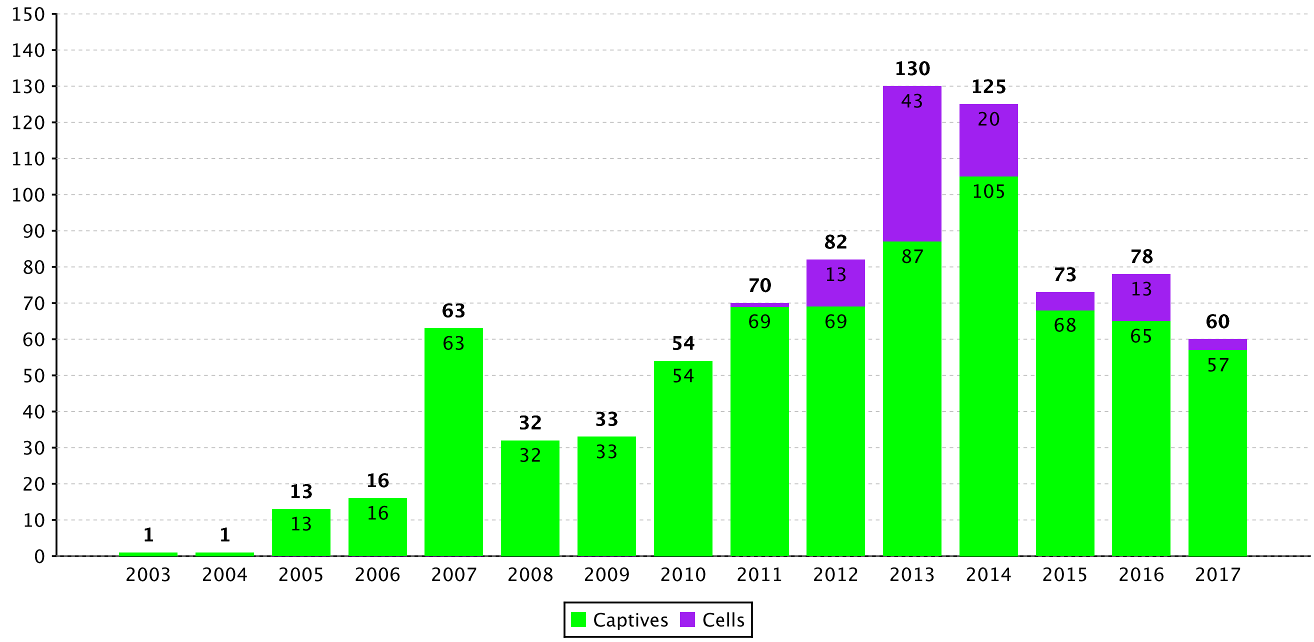
**Travis Wegkamp, captive director,** Utah Department of Insurance

**Chart 1 - Do others in my industry utilize captive structures as a risk financing tool?**



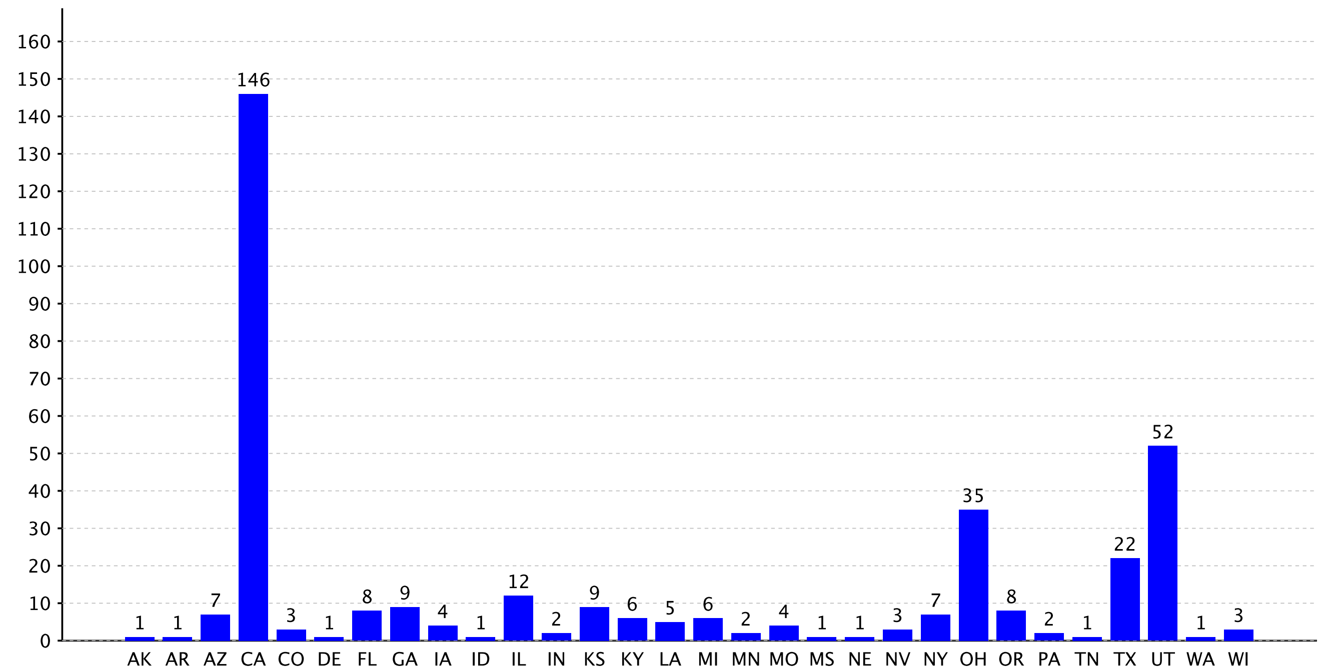

Note that some parent organizations maintain multiple captive insurance companies. On this chart, captives are represented individually and are not aggregated by parent organization.

**Chart 2 - How many captives are being formed in Utah?**



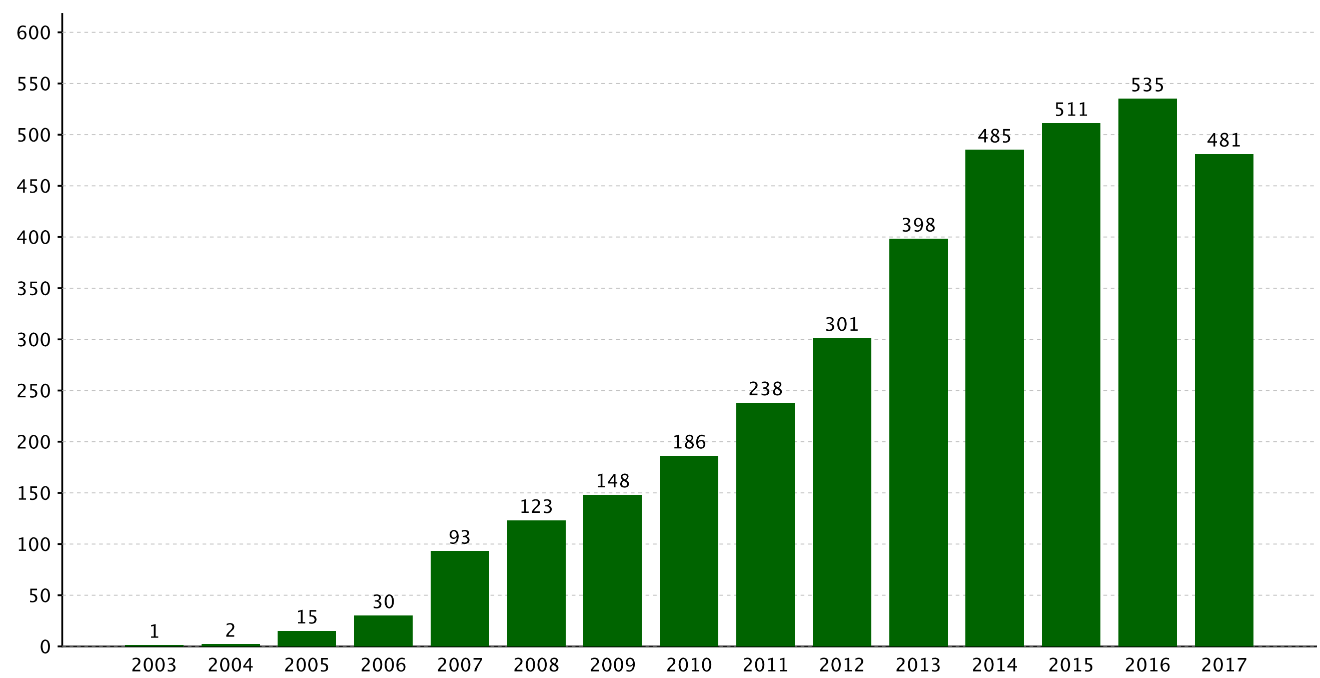

The Captive Insurance Companies Act was passed in 2003. Only two captives were formed in the first two years. In 2005, the Captive Division was formalized. In 2007, Utah began to be recognized as a viable domicile with a record-setting 63 formations. In 2008, the effects of the economic downturn and a softening insurance market slowed the torrid rate of new company formations. In summary, consistent company formations and continuing recognition of the state's business-friendly culture have now placed Utah among the most popular on-shore domiciles.

**Chart 3 - Where are the captive owners located?**




Four key criteria are generally used by organizations to evaluate potential domiciles: sophistication of regulation and infrastructure, efficacy of regulatory body, tax structure, and convenience of the domicile's location. Utah appeals to companies throughout the United States, it is especially attractive to those located in the western states.

**Chart 4 - How many active captive insurance companies does Utah regulate?**




The growth in the number of captive insurance companies domiciled in Utah has catapulted the state into the upper ranks of national domiciles as well as significant placement in the global ranking. This chart displays the annual net growth in the number of active captive insurance companies and cells in operation in the state.

# Temple Of Captive Education

## Michael Zuckerman, professor and academic director for enterprise risk management at Temple University, discusses educating his students on captive insurance and breaks down his new teaching approach

Ned Holmes reports

### What does the captive insurance course at Temple University involve? How is it unique?

The risk management and actuarial science majors in our programme have an opportunity to take a course called 'Risk Financing', usually in their junior or senior year, and this course introduces them to captives.

The students that are interested in the property and casualty industry have to take a capstone course known as 'Managing Risk Across the Enterprise'. The capstone as it is evolving will focus 50 percent on an overview of enterprise risk management (ERM) and 50 percent on risk financing at a strategic level, primarily the use of a captive insurance company.

This new pedagogical approach will examine captives as a strategic risk management tool and connect this risk financing tool to ERM. The capstone will build on what they're learning about captive insurance companies in the 'Risk Financing' course taking it to a higher level by examining it from a strategic perspective and learning how to use captives within the ERM framework. I am currently seeking a few industry partners to help me enhance the programme and provide data.

### How well is captive insurance received by the students?

I think they like it. Unfortunately, many of them hear about captives in terms of tax advantages. I am trying to steer them away from that thinking. Specifically, our focus is that the captive has to have a legitimate business purpose first and foremost. The tax issues are important and will be addressed once a legitimate business purpose is established for using a captive insurance company.

I use case studies to focus them on a captive's strategic business purpose, and that's what really gets students interested. When they hear about how firms use captives to solve risk management challenges then they say 'ok, I'm ready to dive in'.

### You mentioned you were developing a captive insurance company lab approach based on four modules taught in the Temple University capstone major, can you talk me through it?

For an organisation as large and complex as Temple University starting another captive insurance company is just not something that's practical. So, my thought was, how can I provide the students a more structured but 'real life' discussion about captive insurance companies.

What I am doing in terms of trying to create a 'lab' is to break the captive section into four parts or modules. The first module will examine the feasibility study stage and query how we go about analysing whether a captive makes sense for an organisation? Both from a quantitative and qualitative perspective.

Nicolino Ellis, an extraordinary actuarial student at Temple, is helping me with the quantitative analysis developing a Microsoft Excel based model.

The students will be provided a data set that they will use to calculate loss development factors, an expected loss forecast, develop operational cost assumptions, and then forecast the captive's after tax net present value cash flows comparing it to another risk financing mechanism such as a large deductible programme, or unstructured self-insurance.

It is important for them to understand that to do a proper analysis and evaluation, they must consider the qualitative aspects as well as the quantitative variables. A captive may not always be the right answer. We need to build this into the evaluation.

The second module will assume that the captive is the right risk financing tool and will discuss implementation—how do we get this thing off the ground? For example, in terms of licensing, what do the regulators need to see to approve the captive insurance company? What do we need to send to the regulators such as the financial proforma, business plan, and programme structure including the use of reinsurance? We will also examine who should sit on the board, captive governance, selecting a captive manager and other service providers, as well as examine other operational and underwriting issues.

The third module will specifically focus on best practices for captive management. What does a true risk management captive look like in terms of how is it being managed? This will include managing the captive from an ERM perspective because the captive has underwriting risks, operational risks, and credit risks if it is using reinsurance. And what does a properly governed captive look like? How should a board meeting be run? What should a board agenda look like?

The fourth module will examine strategic planning. What does strategic planning for a captive insurance company look like? If it's a single parent captive or a group captive it needs to meet, over the long term, the risk management needs of its parent or parents. So, the board and the captive manager should be implementing a strategic planning process for the captive.

The challenge will be to create the appropriate curriculum to enable the students to evaluate, analyse, and apply the concepts needed to implement and manage a captive insurance company. The goal is to provide an educational experience that enables the students to truly understand captives as a strategic risk management tool.

Our students must be taught to think more critically about how a firm employs a captive insurance company strategy to address its strategic business goals as well as risk financing goals.

### Do you think risk management and insurance education needs improvement?

I don't know if there needs to be a shakeup. I think what we need to do is encourage our students to think critically, to be more strategic and become better communicators, because communication is critical for our industry. I think we have to stop focusing so much on just insurance education and we have to spend more time building out risk management and ERM curriculum. To build a strong risk management foundation our students do need to understand insurance theory, insurance company operations, insurance contracts and coverage. But what I am saying is that more sophisticated risk control and risk financing applications must be integrated into the curriculum along with ERM principles and concepts.

Some universities do it better than others, I'm not saying that one school has it right and one school has it wrong, I'm not the one to judge that, but I do feel strongly that we need to provide a broader perspective on risk management and ERM. I do think that more focus on risk management/ERM strategy and communication is critical.

### How important do you think experience is in teaching a topic like risk management and insurance?

It's very important to have a faculty that includes both those with industry experience and research faculty. The research faculty are critical for building the foundation for the students so they can become strategic thinkers, so they can become more quantitative. But is also important to expose students to faculty with industry experience. This combination provides a more experiential education, if you will, and brings more 'practice' into the classroom.


But it is not one or the other. Experience is very important but it is not more important than what the research faculty bring to the equation, they just have to be integrated well.

Rob Drennan, who is the chairman of Temple's Risk, Insurance and Healthcare Management Department has done a great job placing our students in internships and full-time jobs after graduation. His focus is on professional development. Students have to work on their resumes, go through interview training, and make sure they're prepared to meet industry professionals at our career fairs and for interviews.

Most of the students in my capstone course have had an internship which is very helpful.

We need to strike a balance for our students between theory and practice. That's why the focus on internships is critical. Furthermore, our student professional organisation exposes the students to industry on a weekly basis. They have a lot of classroom work but they're also encouraged to get practical experience, and we also provide them with a lot of exposure to the industry.

Drennan has built the largest student professional organisation on our campus, Gamma Iota Sigma, and we're the Sigma chapter. Drennan has succeeded recruiting more than 500 members including risk management and insurance and actuarial science students.

Drennan takes professional development very seriously and I think he has built a model which is being copied by others because he has been so successful, I'm convinced of that.

### Does the risk management and insurance industry need to be more involved in education?

The industry has to do more. I see a lot of good things happening but they need to do more. They have to be more visible on our campus. Dan Towle, president at the Captive Insurance Companies Association (CICA), for example, is great and has been very supportive of me. He wants to come to Temple's campus and talk about the captive industry.

I need to make that happen. Towle and Richard Smith of the Vermont Captive Insurance Association (VCIA) to name a few are doing great work trying to reach out to students. VCIA hosted a large number of our students at its Philadelphia Road Show a few years ago.

Resources is the controversial issue. Temple is a large public university; we are the public university in Philadelphia. We don't have sufficient resources needed to produce the next generation.

We need more resources to do all we want to do. Developing captive insurance company laboratories takes a lot of time and money. Ellis is great.He is a volunteer and is graduating this month and will go to work with Willis. At some point we're going to have to pay someone to support this project.

### Does the industry need to do a better job of advertising the benefits of working in the industry?

Absolutely. I don't know exactly how to fashion the message, but the captive insurance industry is kind of hidden. Not because it wants to be hidden but because it is a niche profession.

They need to do a better job of communicating the opportunities, exactly what it means to work in the captive industry.

I think they have to be very clear to the students about the risk management challenges that the captive insurance industry manages for its clients because that is exciting to the students, they want challenges. Globalisation is here to stay and captive insurance is a strategic risk management tool that helps enable a firm to grow and increase in value.

The industry needs to do a better job of communicating what the captive insurance industry does, what are the opportunities, and what are the challenges.

That will really get students excited and drive more students to seek opportunity within our industry, not just fall into it by accident.

### What sort of response did you get from your panel at CICA?

Not a big response. I heard a lot of positive feedback about our students and a few people came up to me to talk about recruiting and how to improve it, but it was short lived. I haven't heard much since.

I was pleased by the immediate feedback about our students because that convinced me that if Temple can get more resources from the industry we can send more students to captive insurance company conferences, enabling the students to see the great things going on, attend the educational sessions, and learn more about the captive industry.

This also gives the captive industry an opportunity to see our students first hand.

The fact that the feedback was so favourable about our Temple students Erin Fleischmann and Angel Song, who attend the March CICA conference, gave me hope for the future.

It showed me Towle is right. We need to bring more students to these conferences. **CIT**

> “The industry has to do more ... they need to do a better job of communicating the opportunities, exactly what it means to work in the captive industry”

**Michael Zuckerman, associate professor of instruction,** risk, insurance and healthcare management,Temple University

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# Coming and goings at Lockton, Alliant Insurance Services, Elevate Captives and more

**Global professional services firm Lockton has promoted Scott Fillmore to executive vice president and appointed him to the executive committee for its Kansas City operation.**

Fillmore, who joined the firm in 2006, is a client advisor that specialises in guiding Lockton teams on complex risk and employee benefits issues, including captive insurance companies.

Teresa Martin, a 25-year Lockton veteran, has also been promoted to executive vice president and will join the Kansas City operation executive committee alongside Fillmore.

In their new positions, Fillmore and Martin will be part of the leadership team that is responsible for Lockton's Kansas City commercial insurance and employee benefits operation.

With 6,500 associations advising clients on protecting their people, property and reputations, Lockton has grown into the world's largest privately held independent insurance broker.

Joe Agnello, CEO of Lockton's Kansas City operation, said the firm's clients and business would benefit from the Fillmore and Martin's insights.

Agnello stated: "Teresa Martin and Scott Fillmore are respected business advisors who have built stellar reputations with their clients, in the insurance industry and the Kansas City community."

**US-based insurance brokerage Alliant Insurance Services has hired John Zukus as its new vice president.**

Zukus will be responsible for providing targeted risk management and insurance solutions across Alliant's diverse portfolio of clients in the Eastern US.

An insurance industry veteran, Zukus has held vice president roles at Wells Fargo, KeyBank and Key Insurance and Benefits.

Zukus specialises in working with clients in a range of industries to produce bespoke captive insurance programmes that are tailor made to reduce their risk exposure and insurance costs.

Executive vice president and senior managing director at Alliant, Bob Bennetsen, said: "John Zukus will add significant depth and specialised expertise to our team in the East."

"He is a longtime innovator within the captive market who will play a key role in expanding our reach and growing our offerings."

**US captive manager Elevate Captives has appointed Ryan Ralston as its permanent managing director of risk management.**

Ralston has been working part-time at Elevate as an independent contractor since January 2016, but his role has now been made permanent.

He will be responsible for overseeing new and renewal 'CORE Reviews'—Elevate's coordinated overview of risk exposure—for the firm's clients.

In addition, Ralston will work with new and existing clients on the consultation and implementation of risk management strategies that lower their risk and enhance profit.

Ralston, who is concurrently the president of RalstonRMC, has previously held roles at Spring Consulting Group, Koch Industries and ERI Solutions.

Jerry Messick, CEO of Elevate, said the company felt the need make the position permanent due to recent growth and requests by clients for much more detailed expertise in enterprise risk management.

Messick said: "We're fortunate to find such depth in Ryan Ralston and be able to have him join our team."

"It means we can develop much more focused risk financing programmes for our clients with a full '360 degree' programme, not only addressing the post-claim issues but proactively addressing pre-claim risk management strategies."

Ralston said his purpose for joining on a permanent basis was the company's "existing pipeline of sophisticated clients who are tactical risk takers who want to manage their risk, and finance it, in a way that benefits both their customers and their own bottom line".

He added: "Elevate's team is brilliant with captive strategies and they have built a tremendously economical platform for successful entrepreneurs who need to change their 'insurance tire' without stopping the car."

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"Together we make a pretty good team and our clients like the approach of having good visibility of their risks, managing out what they don't want, then financing the desired residual risk into a custom-designed captive insurance programme."

**Captive management firm USA Risk Group has promoted Cindy Lyford to senior vice president.**

Lyford, who previously held the role of vice president, is currently the office head for the Vermont and Western domiciled captive insurance business.

An insurance industry veteran with more than 20 years of experience, Lyford joined USA Risk in 2000, and is concurrently a member of the Vermont Captive Insurance Association Legislative Committee.

The promotion reflects her contribution as part of USA Risk Group's leadership.

Paul Macey, head of captive operations at USA Risk Group, stated: "Cindy Lyford's knowledge of the Vermont and Western domiciled captives and the relationships she's developed with clients have served USA Risk Group well since she took over the office head role."

He added: "We want to recognise her contribution to the USA Risk Group business."

**The Connecticut Captive Insurance Association (CCIA) has added eight new members to its board of directors.**

The new members were introduced at the board's annual meeting on 23 April.

The recent additions included; Pam Ferrandino, vice president of business development at Gallagher Bassett; Brendan Maher, Connecticut mutual professor of law at UCONN School of Law; William Murphy, senior vice president of alternative markets, Arch Insurance Group.

Other new included board members included, Dave Raikowski, consulting actuary, Actuarial & Technical Solutions; Frank Tedesco, director of marketing and client relations, Hillswick Asset Management; and Dawne Ware, director at Marcum.

Also joining the board were Mersini Keller, senior manager of business tax services, and George Levine, director of advisory, both from KPMG.

CCIA president Stephen DiCenso, said the new additions showed that captive momentum in Connecticut is growing.

DiCenso added: "We appreciate the volunteer spirit exemplified by these consummate professionals who are very experienced in the captive field."

**USA Risk Group has named Peter Rasmussen as its new vice president of business development.**

In his new role, Rasmussen will work closely with the organisation's subject matter experts and will be responsible for driving sales activity.

Rasmussen, who was previously assistant vice president of sales at Cunningham Lindsey and Zurich, brings 16 years of sales and management experience.

Primarily, he has focused on sales leadership in the B2B space, from commercial property and casualty production to claims and risk management.

USA Risk COO, Shawn Burger, commented: "We are delighted to have Peter Rasmussen join our team as his experience in building relationships with people throughout the insurance industry as well as in a B2B capacity will be strategic for our business growth in the years to come."

"This new role for the company will complement the existing service standards provided by our team over the past 37 years and we're looking forward to having Rasmussen continue the tradition."

Rasmussen said he was excited about the opportunity to work with captive professionals at USA Risk and was ready to hit the ground running.

He added: "I look forward to reaching out to insurance brokers to help determine whether a captive is a viable solution for their clients to gain financial control over insurance and risk management costs." **CIT**