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Crusader and Lionheart come together under Advantage brand

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The Crusader International Group of companies and its US affiliates in the Lionheart Insurance Group will bring all of their entities together under the Advantage brand.

The rebranding comes into effect as the group celebrates its 20th anniversary of doing business in the Cayman Islands. It began operations there in 1993.

The Advantage Group of companies provides services such as captive insurance management and consultancy, domestic and offshore rent-a-captive facilities, structured risk financing, offshore life and annuity insurance, and wealth structuring.

The group operates in the Cayman Islands, Washington DC, South Carolina, Scottsdale, Arizona and Puerto Rico.

The name of Crusader International Management in Cayman has changed to Advantage International Management (Cayman). Lionheart Insurance Management will be Advantage Insurance Management (US).

Fiona Moseley, president and director of Advantage International Management (Cayman), said that, given the increasingly competitive and hardening insurance market, the solidity of a single brand made sense. "Our advantages are in the locations we serve from, the solid regulatory environments of those locations and the broad, yet integrated services that we provide."

Now that the companies are united under the Advantage brand, the market can appreciate the breadth and depth of the firm and its offerings, explained Moseley.

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CITINBRIEF

Solvency II not for captives, says Bermuda Monetary Authority

The Bermuda Monetary Authority (BMA) has published its 2013 business plan stating that Bermuda will not apply Solvency II-type regime to captives. The business plan also highlights regulatory priorities and goals for the year ahead.

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Run-offs must think hard on legacy liability, says PwC

Finality was the important message that came out of PwC's sixth survey, Discontinued Insurance Business in Europe, which said it was key for legacy insurance liabilities.

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Crusader and Lionheart come together under Advantage brand

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She said: "Markets are expanding, they are truly global, and the localised model we utilised in the past would no longer work. We ultimately needed a name that all of the group could come under that would serve us well in markets all over the world, including those in Asia and the Middle East."

"The name Advantage is the perfect choice for us as it is easy to use in the many corners of the world that we touch."

The senior management team of the Advantage Group is made up of: Fiona Moseley; Simon Kilpatrick, director and executive vice president; and Stuart Jessop, director and executive vice president.

In preparation for the rebranding, some of the firm's key people were relocated and reorganised to better accommodate the new strategy, explained Moseley.

April Panton recently moved back to the Cayman Islands from South Carolina and was promoted to senior vice president of client services, and Melisa O'Brate has taken over all of the group's business development and marketing responsibilities, working towards building the business and expanding Advantage's reach into new markets.

Moseley describes the rebranding as one step in the execution of a new strategy for the company, with exciting new projects planned for the year ahead. She also voiced special thanks to company founder Ian Kilpatrick.

"Advantage and all of the companies that now fall under that name have been the vision of Kilpatrick, who has been instrumental in the development of the Cayman captive industry, from early drafting of the legislation that brought that captive industry here to being a founding member of the Insurance Managers Association of Cayman."

Solvency II not for captives, says Bermuda Monetary Authority

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Jeremy Cox, BMA's CEO, presented the plan to stakeholders at the authority's annual meeting. He said: "We will work hard to ensure that Bermuda firms will continue to benefit from operating within a practical, risk-based regulatory and supervisory environment that fits the unique nature of Bermuda's market."

Cox stated that Bermuda would not apply any Solvency II-type regime to the captive sector, adding that the BMA plans to introduce a risk return as part of consolidated annual filing for captives that they will submit electronically.

Cox said: "What the risk return embodies is something that allows the regulator to get that key risk information and I think it is something the industry will be quite happy to see in place given that they were volunteering so much of this information already."

"This step, as well as the changes to our framework for the commercial sector, reflects our ability to take independent decisions on regulatory change at a pace that's right for Bermuda and according to what makes sense for our diverse market, while taking into account achieving global recognition for our supervisory regimes."

Cox also revealed regulatory projects that are planned for 2013 and will support new business development opportunities in Bermuda, including a new supervisory regime for corporate service providers (CSP).

He said: "Under the CSP regime the authority will license and supervise professional service providers in Bermuda that act as agents for forming corporate entities, as well as providing other corporate services."

Run-offs must think hard on legacy liability, says PwC

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Respondents are considering a wide range of mechanisms to deliver exits for their run-off business with outright disposals and solvent schemes of arrangement being the most commonly considered.

Dan Schwarzmann, leader of the solutions for discontinued insurance run-off team at PwC, said: "We are seeing increasing focus on legacy liabilities across Europe by large ongoing insurance organisations and in particular the exploration of exit options for portfolios which are no longer core to the business. This has led to a steady stream of exits over the past 12 months and we expect restructuring activity to continue across Europe in 2013."

"The extent of M&A activity in the run-off sector is unlikely to be inhibited by the delays to Solvency II's implementation. The continued appetite of established run-off acquirers for transactions and the increasing attention on the sector by new sources of capital should result in a stream of deals in the next two years. We expect opt-out schemes to figure increasingly as owners of discontinued business across Europe look to pro-actively manage their legacy portfolios towards finality."

Randall & Quilter has been a prolific buyer of runoffs, most recently acquiring the entire issued share capital of Hickson Insurance Limited (HIL), an Isle of Man-domiciled captive insurer, for £525,000.

HIL had been in run-off since 2002, and chairman and CEO of R&Q Ken Randall said at the time that it showed his firm's ability to provide attractive exit solutions for captive owners that have put their captives into run-off or are thinking about not writing new business.

Labuan legislation causes interest

Legislation from the Labuan International Business and Financial Centre (LIBFC) in 2010 is beginning to generate foreign interest.

Datin Isharidah Ishak, partner in the firm First Fiduciary in Labuan, recently said that new legislation has encouraged foreign participation in the creation of foundations and limited liability partnerships due to increasing confidence in LIBFC's legal system.

"Many foreigners were attracted to Labaun because they are aware of the fact that Labuan is an attractive jurisdiction for their business expansion and also to manage their wealth," she said.

Ishak said that there was a lot of interest surrounding protected cell companies and trusts, limited liability partnerships and wealth management vehicles.

The 2010 legislation includes the Labuan Financial Services and Securities Act, the Islamic Financial Services and Securities Act, and the Foundations Act.

Atlas launches new crisis service for captives

Atlas Insurance Management has enlisted Anne Klein Communications Group (AKCG)—a national crisis communications firm—for a new service to aid captive insurers participating in its risk pool, the Atlas Reinsurance Exchange.

With more of the pool's captives now covering losses arising from reputational damage, its relationship with AKCG will help insureds manage this potentially serious risk.

Martin Eveleigh, chairman of Atlas Insurance Management, said: "We at Atlas Insurance Management are always looking at innovative ways to support and provide value to our clients and to their insureds."

"Having a crisis communications team ready to respond at a moment's notice is now among those forward-looking services. When our clients can respond effectively at the onset of a crisis, everyone wins."

Chris Lukach, senior vice president and COO of AKCG, said: "Timely and positive communications during times of crisis can help preserve a company's reputation, its ability to operate and, ultimately, its bottom line."

"We are delighted to assist members of the Atlas Reinsurance Exchange in mitigating the communications risks of their policyholders and preserving their abilities to operate."

Third Point gets top grades from A.M. Best

A.M. Best has affirmed the financial strength rating of "A- (Excellent)" and issuer credit rating of "a-" of Third Point Reinsurance Company (TP Re) in Bermuda.

Partially offsetting positive rating factors are the start-up nature of TP Re, the greater investment risk associated with its alternative investment strategy and the increasing competition and capacity in the reinsurance marketplace, said the ratings firm.

TP Re could be exposed to a convergence of events that could test its capital strength. The underwriting risk along with significant investment risk could have a duplicative adverse effect on its risk-adjusted capital.

The assets of TP Re will be managed by Third Point, a New York-based SEC-registered investment manager with more than $10.1 billion of AUM.

TP Re's assets will be in a separate portfolio within Third Point LLC and will not be combined with other investors at Third Point.

In addition, A.M. Best anticipates that TP Re's management will be challenged by competition from established reinsurers as well as other start-up entities.

Carey Olsen and Hempel and Boyd form new double act

Offshore law firms Carey Olsen and Hempel and Boyd are entering into an association to provide their clients with British Virgin Islands (BVI), Cayman Islands, Guernsey and Jersey legal services.

Carey Olsen is an offshore law firm with offices in the Cayman Islands, Guernsey, Jersey and London, and Hempel and Boyd provides British Virgin Islands services from offices on the island and in Cape Town, South Africa.

The association between the two firms follows Carey Olsen's entry into the Cayman Islands legal market in 2012 and its launch of British Virgin Islands services through its Guernsey office in 2012.

Alex Ohlsson, Carey Olsen's managing partner, said that client interest in financial and legal services in the Cayman Islands and the British Virgin Islands has grown significantly over the last few years.

"Carey Olsen is committed to providing a truly client-focused service. Our clients are increasingly looking to us to provide services in multiple jurisdictions. We opened an office in the Cayman Islands in 2012 and have been delighted with the early success of that office.

"Hempel and Boyd caught our attention as a young and dynamic firm with a strong client orientated approach which matches our own ethos. Our association with Hempel and Boyd ensures that clients requiring British Virgin Islands legal advice will receive the highest standards of service and expertise from Hempel and Boyd's accomplished team of British Virgin Islands lawyers."

RRGs are stable for now, says Demotech

Risk retention groups (RRGs) continue to exhibit financial stability, according to Q3 2012 reported financial information.

In analysing the reported results of RRGs, ratings firm Demotech observed that assets and policyholders surplus have continued to increase at a quicker rate than liabilities. Since Q3 2008, short-term assets have increased 39.5 percent and total admitted assets have increased 31.1 percent.

Policyholders surplus has increased 73.4 percent during this time, while total liabilities have only increased 10.7 percent.

Collective RRG liquidity and leverage in Q3 2012 also showed increases, with the former, as measured by liabilities to cash and invested assets, showing an improvement of 74.6 percent over the previous year, and the latter, as measured by total liabilities to policyholders surplus, coming in at 155.2 percent better than Q3 2011.

Demotech also found that collectively RRGs reported a nearly $43.9 million net underwriting gain through Q3 2012. Also, RRGs collectively reported a $185.2 million net income for the first nine months of 2012.

"The financial ratios calculated based on the third quarter results of the various lines of business for RRGs appear to be reasonable," said a statement from the firm.

"It is typical for insurers' financial ratios to increase and decrease period over period. In looking further, RRGs have collectively reported an underwriting gain at each year-end since 2004."

"Equally as important, RRGs have collectively reported a net income at each year-end since 1996. The third quarter results of RRGs indicate that these specialty insurers continue to exhibit financial stability."

Insurance linked securities business pleases Bermuda

Bermuda is increasingly taking up global special purpose insurer (SPI) and insurance linked security (ILS) business, according to September 2012 insurer registrations.

For the first nine months of 2012, the Bermuda Monetary Authority registered SPI's with total premiums of $595 million—this includes four SPIs underwriting more than $1.2 billion of cat bonds.

Shelby Weldon, director of licensing and authorisations at the authority, said: "Registrations are sustaining similar levels from last year across all classes. Fifteen SPIs had registered in Bermuda by the end of September 2012—one registration higher than the same period last year. A total of 33 new insurers registered during the first three quarters of 2012, with 35 firms registered during the same period in 2011."

"We are seeing continued momentum and high levels of market interest in the SPI and ILS spaces. This supports reports from industry that Bermuda is emerging as an innovative centre for this type of business due to the wide variety of SPI uses we are starting to see develop."

So far, a total of 36 ILS deals have been listed on the Bermuda Stock Exchange (BSX), making up approximately one-third of global market issuance. The market capitalisation of Bermuda-listed ILS has jumped from $3 billion at the end of 2011 to $5 billion through the first half of 2012.

The world's largest cat bond deal took place in Bermuda in Q2 2012, when Everglades Re underwrote $750 million in cat bonds for Florida Citizens Property Insurance. And SPI's are starting to complement the traditional insurance models.

"As well as the much spoken of cat bond SPI's, we are seeing a wide range of SPI uses this year," added Weldon. "From property catastrophe reinsurance like European windstorm and Florida hurricane coverage, to excess of loss and industry loss warranty coverage, we are starting to see a lot of innovative uses in the SPI space."

Randall & Quilter cancels and rewrites

Randall & Quilter Investment Holdings has effected a novation of policies from SL Insurance Limited to R&Q Insurance (Guernsey).

SLI is a Guernsey-domiciled captive insurer that provided aviation hull and airline liability cover to airlines in the Virgin Group and has been in run-off since May 2011.

It is executing a number of novations that will remove these insurance liabilities from its book, and has been advised on the transaction by insurance broker and risk adviser Marsh in London.

In a statement, Ken Randall, chairman and CEO of Randall & Quilter, said: "This transaction evidences our continued success in providing exit solutions to captives. Having acquired five run-off captives in 2012 and another captive already in 2013, this latest transaction demonstrates an alternative exit solution whereby R&Q take on the liabilities by way of novation."

"This method is proving to be of great interest to captive owners who wish to continue using their captive but want to remove legacy or long tail liabilities. We are seeing a healthy pipeline of future opportunities as captive owners become increasingly aware of the exit solutions available."

Montana's captive intake surpasses Vermont's

The Montana Captive Insurance Association (MCIA) reported 34 new captive insurance company licences were issued in Montana during the past year, bringing the total number of licensed captives in the domicile to 114.

The Montana Office of the Commissioner of Securities and Insurance (CSI) provided the association with the data.

"We are obviously very pleased with these impressive growth numbers and this certainly reinforces Montana's position as the leading captive domicile in the Western US," said MCIA president Dick Goff.

"The association is very appreciative that we have a great captive regulatory team in place,

which has helped to ensure such steady and responsible growth."

The breakdown of licensed captives is as follows: 79 pure captive insurers, 16 risk retention groups, 10 captive reinsurance companies, 6 protected cell captives, two association reciprocal insurers and one special purpose captive.

In comparison, the State of Vermont licensed 32 new captives in 2012, but still has an overall number of 984 licences.

Montana's captive association is working with the CSI to pass legislation that would further improve the state's captive statute, including the addition of Series LLC captives.

Delaware declares best year ever for captive growth

Delaware's captive growth in 2012 could see the state overtake Hawaii in becoming the third largest US domicile in terms of active captives, behind Utah and Vermont.

The 2012 additions include 59 captives, one cell, and 179 series units. The total number of licences issued for risk bearing entities is 212 captive companies, 12 protected cells, and 364 series business units, with the total number of captive licences reaching 588.

Active licence numbers are 190 active companies, 11 protected cells, and 358 series business units. The total active captive entity count is 559.

The record figures come despite the captive bureau adding a $1800 series unit application fee and imposing more stringent regulatory standards in 2012. The total entity growth rate from 2011 to 2012 was 68 percent.

Steve Kinion, Delaware captive director, said: "This level of growth is unprecedented in the captive insurance world. Considering that when commissioner Stewart formed the captive bureau in July 2009, there were only 38 captive insurers, we have achieved a 558 percent growth rate in terms of licensing captive companies, and a 1500 percent growth rate in total licensing of captive entities."

Karen Weldin Stewart, Delaware's insurance commissioner, said that she is elated with the performance of the captive bureau.

"Based on the numbers we already have, I am very pleased with the success we have experienced in our captive division. I believe that we will continue to see steady growth in captives and I credit my team at the Department of Insurance for their successful efforts in making Delaware more competitive in this global arena of insurance."

A starry sky for Utah

The Utah Insurance Department's captive division licensed 68 new captive insurance companies in 2012, one less than the 69 new captives that were licensed in 2011. The state also licensed 14 new cell captives.

Insurance commissioner Todd Kiser said: "The flow of captives coming to Utah over the past four years is impressive."

"In 2007, we had 93 active captives; by the end of 2012 we had a total of 286. That is an annual growth rate of 26 percent making us one of the fastest growing captive domiciles in the world."

Captive division director Ross Elliott said: "Since the passage of the Captive Insurance Companies Act, the Utah legislature continues support of its implementation and record growth."

"They authorise and fund us to hire competent people to keep up with our phenomenal growth. Without our professional staff, we couldn't respond in a timely manner to the flow of information, client calls, or the required audits."

Almost 100 new insurers sign on to Guernsey

The Guernsey Financial Services Commission (GFSC) licensed 97 new international insurers during 2012, bringing its total number of international insurers up to 737 at the end of the year.

This comprises 242 limited companies, 68 protected cell companies (PCCs), 404 PCC cells, five incorporated cell companies (ICCs) and 18 ICC cells.

Fiona Le Poidevin, chief executive of Guernsey Finance, said: "These figures show that last year was very successful for Guernsey as an international insurance centre."

"The numbers are particularly impressive considering that general market conditions mean that organisations are not especially pre-disposed to seeking out alternatives to the commercial insurance world, such as captive insurance, which is a key part of the Guernsey offering. I am sure many other captive insurance domiciles would like to be able to report such levels of new licences and net growth that we have achieved during 2012."

A significant number of the licences that were issued last year relate to insurance products supporting mortgages being offered to purchasers of newly built homes in England, Scotland and Wales. They are backed by the respective governments in the UK and are managed by JLT in Guernsey.

Heritage in Guernsey is also managing a scheme established for UK housing associations.

Captives are the Caymans' golden ticket

The Cayman Islands Monetary Authority (CIMA) received 67 applications for new captive licences in 2012, with 52 licences granted and the remainder scheduled for approval in 2013.

Since 1 January, one licence has been approved and another 11 have been approved in principle. The total number of new licences accounts for an increase of more than 58 percent compared to 2011, and is the biggest year for captives since 2004.

Primarily known as a healthcare captive domicile, the 52 new formations came from various sectors including healthcare, life reinsurance, property and casualty reinsurance, manufacturing, and technology. A number of group captives were also formed as segregated portfolio companies.

Existing Cayman captives also dramatically grew their assets. Total premiums written were reported at $11.8 billion and total AUM climbed to $88.1 billion, their highest ever levels, which grew 24 percent and 51 percent respectively.

"Cayman understands the captive insurance business and the role it plays in the risk management space, and when I say Cayman, I mean the industry together with the regulator," said Rob Leadbetter, chairman of the Insurance Managers Association of Cayman.

"These statistics are not surprising to us, because we have been building our core competencies over decades to make Cayman the go to domicile in the insurance industry."

Bahamas to talk captive tactics

The insurance session at the next International Business and Finance Summit is set to focus on the factors involved in becoming a captive domicile.

A separate session will also cover the subject of insurance as a wealth management tool.

Presenters will be Bob Colvin of Robert D. Colvin & Associate and Nicholas Leighton and Lesley Thompson of Atlas Insurance Management.

Leighton said: "Captives have been used for over 40 years, assisting companies in their risk management and strategic planning. From the entrepreneur to the multinational corporation, captives have a place within any organisational structure and can provide multiple benefits."

"The Bahamas has updated its External Insurance Act, reinforcing the commitment to the captive insurance industry and promoting the Bahamas as a domicile of choice; yet, the growth in the industry has been relatively slow compared to other domiciles."

Captive satisfaction

Keeping the client at the heart of all decisions, plus impeccable compliance, could equal success for Anguilla, as CIT finds out

JENNA JONES REPORTS

Since establishing itself as a captive domicile in 2004, the British overseas territory of Anguilla has grown into an attractive offshore option.

Steve Garlick, CEO of Anguilla Finance, which is the promotional agency for the island's finance industry internationally, says that a number of factors can be attributed to Anguilla's growth, particularly its approach to legislation.

"While other jurisdictions have been implementing significant and sometimes overwhelming legislative and regulatory changes, Anguilla has simply made necessary amendments and enhancements, allowing the regulators to keep the legislation current, whilst remaining focused on maintaining the service and application turnaround levels that have helped build its reputation."

Garlick believes that as a result of this, Anguilla continues to enjoy both natural growth and an influx of existing captives migrating from other domiciles.

Anguilla's reputable status has been further enhanced by the Caribbean Financial Action Task Force, which recently placed Anguilla alongside the Cayman Islands and the British Virgin Islands as a centre of excellence for compliance in the region.

"With stringent due diligence requirements for new business and many monitoring procedures in place, the myth that offshore domiciles are an easy target for money laundering can be firmly dispelled," says Garlick.

Stewart Feldman, CEO of Capstone Associated Services, believes that Anguilla's growth over the last few years—which has been evident through high standards of formation and licensing—has made Anguilla a popular choice for smaller captives.

The recent influx of middle-market companies forming captives in Anguilla is due to application turnaround on behalf of the regulators and a relatively relaxed regulatory framework, according to Garlick.

He says: "Anguilla is unburdened by the restrictive regulations of other jurisdictions. For example, unlike other domiciles, there are no requirements to appoint local directors; there are no requirements to hold annual general meetings in Anguilla; nor is it mandatory to establish bank accounts here. Therefore, if a proposed captive's parent has an existing banking relationship in place, albeit offshore or onshore, the commission will permit further accounts to be opened in the newly licensed entity's name."

"Furthermore, due to Anguilla's moderate and flat fee system, its captives are not subjected to fee increases of other jurisdictions that are directly linked to the success of the business and, therefore, can only be described as punitive. This forms part of the reason Anguilla has firmly established itself as a leading choice for prospective captive owners, especially for smaller, family owned structures which need to ensure cost-efficiency and stability to remain viable."

Offshore advantages

The benefits to forming a captive in an offshore location such as Anguilla are, according to Garlick, primarily related to cost, low or zero local taxes and favourable legislation.

He says: "Generally speaking, offshore regulations relating to initial capital requirements and the required margin of solvency are far less stringent when compared to many onshore counterparts, as well as offering a wider range of investment opportunities."

"It is obviously important for the regulators and the insurance managers in any jurisdiction to ensure that capitalisation is sufficient to support the net written premium and anticipated exposure levels, particularly when third parties are exposed. However, for small to medium-sized single parent captives, the non-discriminatory requirements of offshore domiciles can have a significant impact on a risk manager's feasibility assessment."

Anguilla prides itself on having an approachable and responsive Financial Services Commission (FSC), which is predominantly responsible for the domiciles healthy growth figures, according to Garlick.

He describes the commission as approachable and responsive, with staff that "[work] extremely hard to combine the increasing standards and demands of international regulatory oversight with a commercial outlook".

"The commission is cognisant of the ever-changing demands of the international business community, and has responded by expanding into new premises and employing new experienced staff to maintain the high standards to which both licensed captive managers and owners have become accustomed."

Feldman also recognises the important role that the island's financial structure plays in the creation of a successful domicile.

He says: "In cases where there are time-sensitive filings, there is willingness on the part of the Anguillan Registrar and the FSC to accommodate reasonable deadlines and to put its onsite regulators on task to handle the extra work to meet these deadlines. Its department of insurance is both committed to the regulation of captives and is well versed in such."

"The Anguilla Insurance Act and the insurance regulations also provide a sound regulatory framework for the operation of captives. Anguilla excels in fairly and consistently enforcing its captive framework. The FSC's focus has been on providing a secure, practical regulatory framework for the safe and sound operation of captive insurance companies."

Feldman explains that the FSC's rules are a balance between good regulation and a recognition that coverage is being written to affiliates of the captive's owners.

Alongside captives, the island also caters for the formation of protect cell companies through Anguilla's Commercial Online Registration Network system (ACORN), which uses the latest technology.

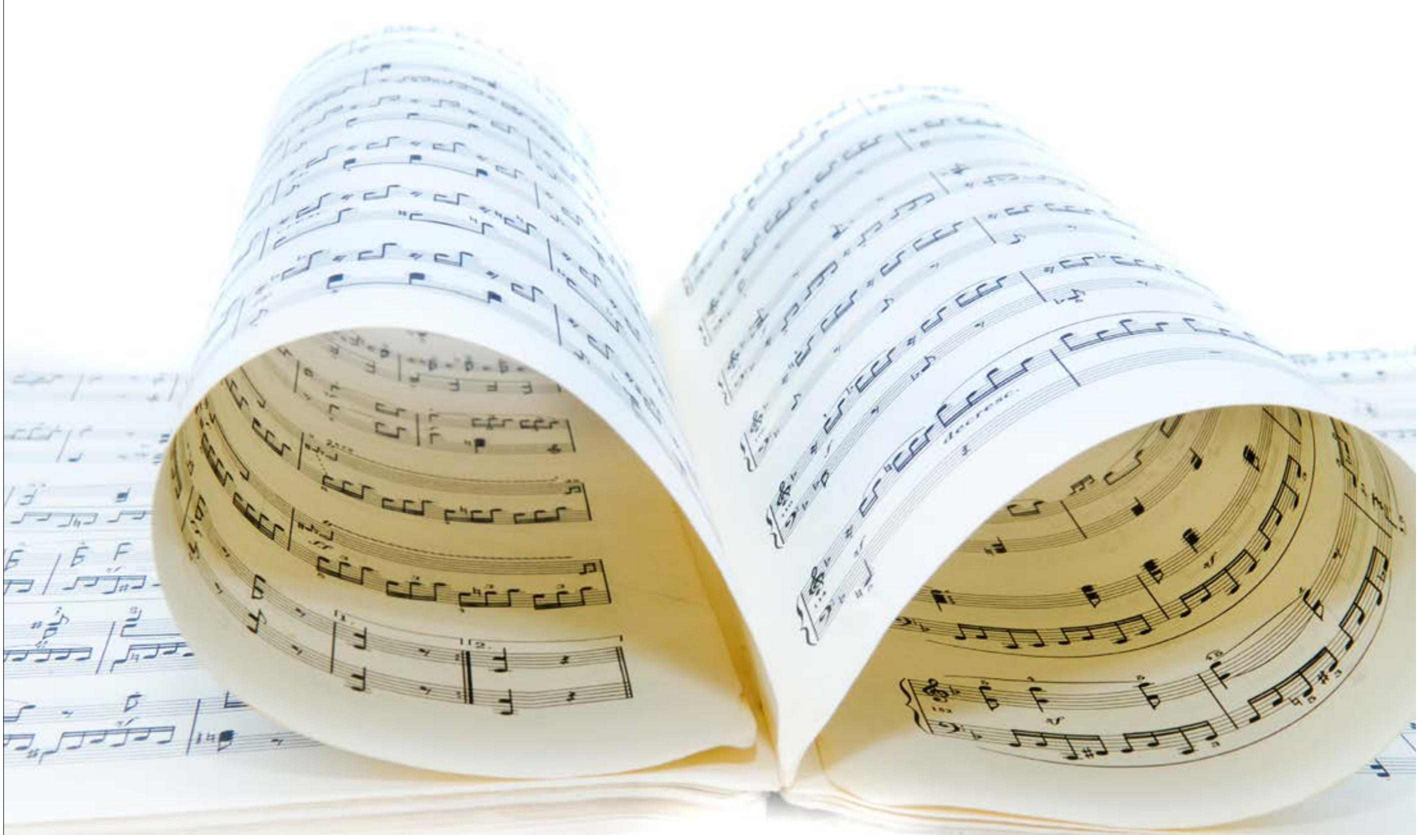
Garlick says: "ACORN allows companies to be incorporated instantly from anywhere in the world 24-hours a day, 365 days a year. ACORN also enables all other corporate registration activities permitted under the relevant legislation to be undertaken online."

To stay successful in the competitive captive market, "Anguilla has striven to continuously review this key sector and how attractive the jurisdiction can be for good business," says Garlick.

"If potential drawbacks arise then all in the industry, both practitioners and the regulators, communicate actively to ensure that Anguilla remains the jurisdiction of choice for captive owners worldwide." CIT

Singing to the same tune

CIT's experts from the Cayman islands find that—collectively—Caribbean domiciles are outmanoeuvring their US counterparts



How did captive insurance markets fare in the Caribbean in 2012?

Kevin Poole: From the Cayman Islands's perspective, 2012 has been a strong year for the domicile, with 52 new licences issued during the 12-month period. Last year was also positive for other Caribbean domiciles, such as Bermuda, which reported 53 new licences.

Gordon Rowell: The fundamentals of the insurance sector remain sound and the industry in general has been relatively resilient in a very challenging market environment. Last year was a year of tremendous growth for Cayman, with a total of 67 applications received during the year, 52 licences granted as at 31 December 2012 and the remainder scheduled for approval in 2013. To put this in perspective, in 2012 Cayman received the highest number of captive applications since the hard market of 2004.

As of 31 December 2012, there were a total of 741 Class "B" and "C" companies under the supervision of the insurance supervision division. Total premiums were reported at $11.8 billion and total assets at $88.1 billion, their highest ever level, compared to $11.7 billion (1 percent increase) and $68.5 billion (28 percent increase), respectively, as at 31 December 2011. Pure captives and segregated portfolio companies represent the two main categories, with 408 and 133 companies respectively.

The captive insurance market is quite varied, with prominent risk types including healthcare, workers' compensation, property and general liability. Cayman has developed particular expertise in medical insurance, and with healthcare captives representing 45 percent of all Cayman captives, Cayman is the number one domicile for healthcare captives. As at 31 December 2012, medical malpractice liability continues to be the largest primary line of business with 253 companies, and workers' compensation the second largest with 156 companies.

It is internationally recognised as a growth market for financial services activities for the insurance industry, and beyond. This is evidenced by the growth in the hedge fund market, where Cayman now accounts for approximately 80 percent of the world's offshore hedge funds. This influx of capital helps provide increased confidence in Cayman as a domicile. It also maintains an extremely broad base of financial services as evidenced by its strong banking, fiduciary and funds services.

Its regulatory framework reflects recognised international standards, as set by the International Association of Insurance Supervisors (IAIS), and unlike some other regulatory bodies, open communication is encouraged as part of the regulatory process to cultivate, and maintain, positive relationships with licensees, service providers and international agencies that are associated with the domicile. Enhanced international cooperation and collaboration has undoubtedly contributed to safeguarding the interest of the jurisdictions which fall within the international sectors, and as this is of paramount importance to Cayman, the Cayman Islands Monetary Authority (CIMA) consistently commits both time and resources to actively participate in international initiatives with the IAIS, OECD, FATF (Financial Action Task Force) and IMF, including the various subcommittees of these.

Rob Leadbetter: If recent stats are any indication, it seems pretty well. Cayman had 67 license applications in 2012. We haven't seen that level of volume since 2006, and considering we are still experiencing a relatively soft market and increased competition from onshore domiciles, we are quite happy with those results. Not only are we seeing interest in our niche market of medical malpractice, but we are also seeing growth across a broad range of classes of business including workers' compensation, life, property, general and professional liability.

Many of the world's captives are domiciled in the Caribbean—why does this continue to be the case?

Leadbetter: We have the fundamentals down—sensible legislative frameworks are in place, there is consistency in regulatory environments, and there is a plethora of expert service providers that emanate from these jurisdictions. It takes time to build a reputation as a world class domicile for captive insurance and absolutely the Caribbean marketplace has a head start on its US competitors.

Poole: The Caribbean is the traditional home to many captives as this is where the concept first really took hold. From an overall perspective, the region benefits from extensive experience and expertise in the captive market, well-structured regulatory frameworks coupled with a business-oriented regulatory approach, robust and effective infrastructure, as well as playing host to a broad range of captive-focused service providers.

On a domicile-by-domicile basis, Cayman and Bermuda (if included as Caribbean) are the two largest in the region and have stood the test of time in the captive arena. They are recognised as well regulated global financial centres, as is Barbados.

The British Virgin Islands and the Bahamas have also been relatively successful. Through niche markets they have been able to cultivate captive growth, although the British Virgin Islands has seen a steady decline in captive numbers since it amended its insurance regulations in 2007, while Barbados's traditional Canadian niche is seeing increased competition from both Cayman and Bermuda, following the tax information exchange agreements these domiciles signed with Canada.

In addition, other Caribbean domiciles such as Antigua, Anguilla, Nevis and Turks & Caicos have also been successful over recent years. For example, Anguilla at 31 December 2012 is estimated to have in excess of 300 captives. Given the lower financial barriers to entry, these emerging Caribbean domiciles have also been able to attract smaller companies to the captive sector.

Rowell: There are some 5000 captives globally and since 1980, 3095 captives have been licensed in Cayman. It remains a very popular jurisdiction for captive formations, which including the 780 segregated portfolios, is close to 1500 entities. This popularity is attributable to a combination of sensible legislative framework, top-quality service providers, and the relationship between IMAC and CIMA, together with a harmonised regulatory environment.

With the new insurance law now in place, Cayman expects to welcome even more insurance business to its shores. The new law is designed to clearly differentiate between the domestic and international insurance markets in Cayman and to regulate each in accordance with its own requirements. It strengthens legislation to protect Cayman entities and brings the law formally into line with international standards. And finally, it sets out a framework to develop the reinsurance market and to create a clearer understanding for the insurance linked securities (ILS) market. Most importantly, it embraces the concept of 'proportionality' and addresses entities based on the nature, scale and scope of risk.

is not typically the case for Caribbean jurisdictions, which are in this industry for the long haul.

What are some of the emerging risks that the Caribbean is seeing written and what is attracting these risks to the region's domiciles?

Rowell: Specialised groups have always had a good representation in Cayman thanks to a good understanding by the regulators and insurance managers of the unique risks facing each specialty. Also, contemporary medical breakthroughs are also closely followed and the biggest interest in 2012 has been the potential usage of medical stop-loss coverage in the captive in support of internal medicine.

> It takes time to build a reputation as a world class domicile for captive insurance and absolutely the Caribbean marketplace has a head start on its US competitors

Rob Leadbetter
Vice president and chairman
USA Risk Group and IMAC

Cayman has fared well because of a number of advantages. Feedback from captive participants and IMAC shows that in addition to the expertise of local service providers that have built up specialisation, especially in the area of healthcare captive structuring, the jurisdiction is very cost competitive, the process for establishment of the captive is efficient, and the legislative and regulatory framework is stable and robust.

Politically, Caribbean domiciles are separate—how does this help/hinder them when compared to the US?

Poole: I think each domicile, whether it is onshore or offshore, seeks to distinguish itself from the competition. From a political perspective, one area where the Caribbean differs from some onshore domiciles is that the position of the insurance regulator is not a politically appointed one. In most cases, the insurance regulator is a highly experienced practitioner from the captive arena who has a thorough understanding of all aspects of the sector and has played a significant role in helping to develop it.

Leadbetter: From a political standpoint, this industry is vitally important to many Caribbean domiciles and the leaders in these countries understand that. So, whereas you may see this industry as the flavour of the month in some US jurisdictions, gaining and losing popularity based on the incumbent political statesmen, this

Poole: Responding quickly and effectively to new or emerging risks where traditional insurers may be unwilling or unable to provide cover has long been a key capability of the captive market. The ability of Caribbean domiciles and their regulatory authorities to respond decisively to market developments that have changed the risk landscape has long been recognised.

Recently, healthcare reform in the US has been a driver for many of these emerging risks. Given the predominance of healthcare captives in Cayman, it has been quick to develop the market to meet these developments. Some of the new exposures seen include: systemic loss or common cause coverage arising from things such as miscalibrated equipment, unnecessary treatment or billing errors, and cyber liability, while newly-formed accountable care organisations (ACOs) will need to manage their financial risks associated with healthcare delivery.

Leadbetter: I am not sure whether or not it is specific to the Caribbean, but we are definitely seeing a lot of interest in health benefits in the last six months or so. I believe with the rising costs of providing these benefits to employees, as well as the uncertainty that has stemmed from the US Patient Protection and Affordable Care Act (PPACA), this trend will continue into the future both in the Caribbean and abroad. This is one of the advantages that many of the Caribbean domiciles bring to the table—sufficient flexibility at the regulatory level and the ability to foreshadow these emerging trends, so as to be equipped to have meaningful discussions with clients, and allow sensible and systematic solutions. We are not handcuffed by inflexible regulation and hard and fast rules on the types of risk and structures permitted.

The market for certain lines of business such as workers' compensation has started to experience some hardening

Kevin Poole
Manager
Kane (Cayman)

How are captive laws in the Caribbean changing to accommodate new risks?

Leadbetter: We are definitely seeing a trend towards risk-based regulation and I think Cayman's latest enacted law is a testament to this. Cayman spent a lot of time examining the pros and cons of existing regulatory frameworks and in particular, how they affect captive owners. After a long period of consultation with all stakeholders, we feel that our law is the most appropriate standard for both present and future captives, whether in the areas of solvency, governance or industry best practices.

Poole: In line with the core principles, standards and guidance from the IAIS, all domicile laws and regulations are under constant review, while any new concepts, such as incorporated cells, are being passed into law in many jurisdictions. Captive regulation is now largely risk-based and therefore what we have seen in Cayman is the formalisation of existing practice into law following the implementation of the Insurance Law 2010. The law includes license classes depending on the amount of non-related business being written and also includes specific classes to cover the SPV/ILS sector and open market commercial reinsurers.

How has the securitisation of insurance risks developed in the Caribbean since the financial crises?

Poole: Securitisation in the form of catastrophe bonds, sidecars and transformers are not new, however, 2012 saw issuances of around $6.3 billion—a 35 percent increase over 2011—which means the volume of cat bonds outstanding at the end of 2012 stood at just over $16.5 billion. Cayman and Bermuda have both benefited from the increase in issuances as they are the primary domiciles for this business and accounted for all but one of the cat bond issuances during 2012. This trend is expected to continue into 2013.

While issuances were interrupted during the global financial crisis, primarily as a result of the demise of Lehman Brothers, which resulted in a number of investors withdrawing from the market, a number of initiatives and changes in deal structures and investment restrictions resulted in the market rebounding.

Rowell: As you would be aware, Cayman was the first jurisdiction to license insurance linked securities in 1997 and is still today the global leader in this market. Since the financial crisis, securitisations are still quite bullish, which is a testament to the confidence of the equity markets in these products as well as their economic importance in providing indemnification against recent catastrophic events. In fact, I would see securitisations growing in size, scope and nature as the hedge fund markets and reinsurance markets converge in future years.

Rowell: The US healthcare reform, and in particular the creation of ACOs, may have a positive impact on captive formations in healthcare for two reasons: (i) hospitals will be incentivised to hire employed surgeons rather than outsource, so this will lead to an expansion of existing liability programmes; and (ii) successful hospitals and their ACOs may be encouraged to market their ACO programmes to other hospitals, using captives to provide indemnity for stop-loss, medical malpractice and other programme coverage.

A number of factors on the immediate horizon could affect global captive growth in the foreseeable future, including the potential impact of the US Dodd-Frank Act, PPACA, the Foreign Account Tax Compliance Act, and the threat of further global economic weakening in the EU and the US. However, the immediate threat to captives is the prolonged soft market, which, given the positive first half-year US commercial market results, doesn't look like tailing off.

Despite global economic conditions, Cayman remains a very popular jurisdiction for captive formations, which we attribute to a combination of our open international dialogue and skilled workforce, together with a harmonised regulatory environment. Although these have been factors for the last several years, CIMA is now reaping the benefits of effective strategies in the form of captive growth and an increase in the size of the existing captive licensees.

The immediate threat to captives is the prolonged soft market, which, given the positive first half-year US commercial market results, doesn't look like tailing off

Gordon Rowell
Head of insurance supervision division
CIMA

What is on the horizon in 2013?

Leadbetter: If the first 30 days of the year are any indication, then a lot more of what we experienced in 2012. Cayman has already issued one licence and has 11 others approved in principle to date. With an expected hardening market just around the corner, business looks good regardless of where you are sitting, but especially in the Caribbean domiciles that have built a reputation based on their solid legislative foundations and regulatory environments.

Poole: This year is expected to be a good year from a captive and SPV/ILS formation perspective. The market for certain lines of business such as workers' compensation and property has started to experience some hardening, which traditionally translates into captive formations. Given the positive 2012 results, the Caribbean captive market can look forward to further growth in 2013.

One of the strategies that makes our regulatory body unique is the combination of private sector experience and specifically, a number of our staff have worked in insurance companies. This knowledge really helps when dealing with business plan development and even with distressed situations. We feel that this is a value-added incentive to set up in Cayman.

Balancing the commercial needs of the captive market, and the need to ensure sound, constructive regulation, CIMA will continue to leverage its positive relationship with local and international insurance associations and agencies, as well as leverage the new law complementing an already proportional form of regulation. In conclusion, we are highly optimistic that Cayman will surpass its current status as one of the global leaders in captive formations to become the premiere captive domicile. CIT

Industry appointments

Former Nebraska senator **Ben Nelson** has been named CEO of the National Association of Insurance Commissioners (NAIC).

Nelson will lead the NAIC's efforts to meet the needs of its members and represent their interests as the primary advocate and chief spokesperson in Washington DC.

His responsibilities will include outreach to federal and international governmental entities, as well as state government associations, consumers and insurance industry representatives.

"Senator Nelson's impressive credentials and deep knowledge of state insurance regulation are simply unmatched," said Jim Donelon, NAIC president and Louisiana insurance commissioner.

"As a former regulator and executive vice president of the NAIC, senator Nelson has a keen understanding of the insurance marketplace, which will make him an effective advocate for the preservation of our state-based system of regulation."

Prior to retiring from the Senate in 2012 after two terms, Nelson served as governor of Nebraska from 1990 to 1998. He also served as executive vice president for the NAIC from 1982 to 1985.

Nelson replaces NAIC acting CEO Andrew Beal, who stepped into the role after Dr Therese Vaughan left the association in November. Beal now returns to his roles as COO and chief legal officer.

NAIC has also named its 2013 committee chairs and vice chairs and assigned members to the organisation's standing committees.

Donelon said: "This year's committee leadership brings invaluable expertise and insight that will be critical to advancing issues important to our regulatory framework."

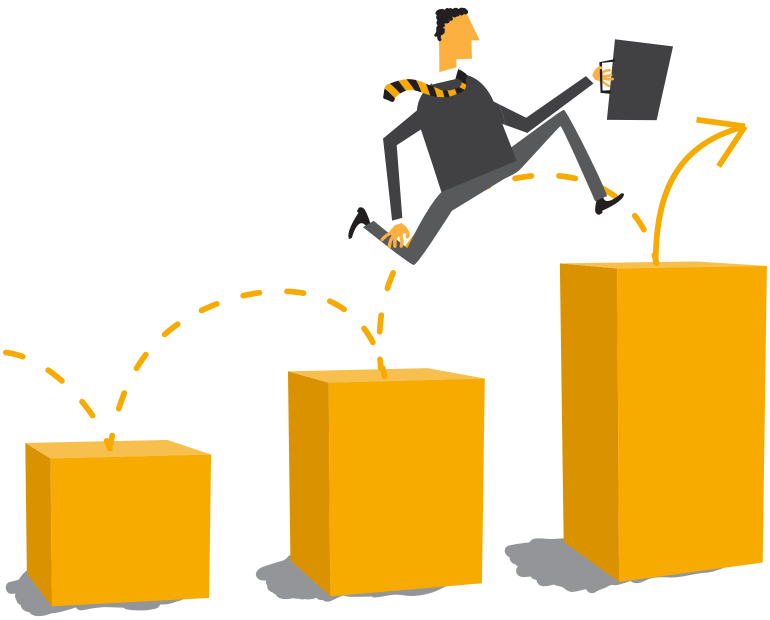
"Our greatest assets are the deep bench of the membership and the commitment to working together to enhance the national system of state-based regulation. This year's leadership team represents one of the NAIC's strongest yet."

The 2013 NAIC committee leadership appointments include:
Julie Mix McPeak, commissioner of the Tennessee Department of Commerce and Insurance, has been named chair of the life insurance and annuities committee

Sandy Praeger, commissioner of Kansas Insurance Department, has been appointed as chair of the health insurance and managed care committee

Mike Chaney, commissioner of Mississippi Insurance Department, has been named chair of the property and casualty insurance committee

Thomas Leonardi, commissioner of the Texas Department of Insurance, has been made chair of the international insurance relations committee.



Hylant, a privately owned insurance brokerage firm, has hired **William Irle** as its captive risk practice leader.

CEO Michael Hylant said: "A 20-year industry veteran, Irle is recognised nationally for his expertise in captive and alternative risk programmes along with his creative and strategic approach to plan development and execution."

"This announcement represents our continued commitment to hiring and retaining the very best talent in support of our great clients in this evolving industry."

He will drive the captive risk practice group's strategic and operational initiatives as well as provide high-level support to the company's 14 offices.

His areas of expertise include large casualty, loss sensitive programme design, programme collateral analysis, credit and alternative risk finance structuring, M&A due diligence, cash flow analysis, and private equity industry sales leadership.

Industry areas of specialisation include real estate and technology.

Bedell Cristin in Guernsey has recruited Kerrie Le Tissier as senior associate.

She has offshore legal experience, specialising in non-contentious private client and trust matters, funds and general corporate and regulatory work.

Bedell Cristin managing partner in Guernsey, Mark Helyar said: "Le Tissier's experience and excellent reputation will help strengthen the team further and ensure that we go on providing the highest levels of service for our clients here and further afield."

Le Tissier joins Bedell Cristin having worked for another leading Channel Islands firm for the past seven years.

She was seconded to a boutique trust company in Geneva in 2008, where she gained practical experience of administering trusts and other private structures. **CIT**

CIT CAPTIVEINSURANCETIMES

Editor: Mark Dugdale
markdugdale@captiveinsurancetimes.com
Tel: +44 (0)20 8289 2405

Journalist: Georgina Lavers
georginalavers@captiveinsurancetimes.com
Tel: +44 (0)20 3006 2888

Editorial assistant: Jenna Jones
jennajones@captiveinsurancetimes.com
Tel: +44 (0)20 8289 6873

Account manager: Joe Farrell
joefarrell@captiveinsurancetimes.com
Tel: +44 (0)20 3006 2859

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com
Tel: +44 (0)20 8249 2615

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

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