captive insurance times

The primary source of global captive insurance news and analysis

Conference Special

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Reflections
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Pool Re places world's first terrorism catastrophe bond

Pool Re, the British government-backed terrorism reinsurer, has placed the world's first terrorism catastrophe bond.

The three-year cat bond, worth £75 million, has been issued through a special-purpose vehicle, Baltic PCC.

It is the first-ever insurance-linked securities (ILS) contract to exclusively cover terrorism risk and the second contract to be issued under the UK's new ILS regulatory system.

The cat bond provides retrocession protection of £75 million in excess of Pool Re members' net loss of £500 million, which brings new sources of capital to the terrorism risk market, returns additional premium to the private sector and moves UK taxpayers further from the risks that Pool Re mutualises on their behalf.

The bond covers physical damage arising from terrorist attacks on an indemnity basis, including chemical, biological, radiological, and nuclear attacks, as well as losses emanating from cyber trigger and risk was modelled using Pool Re's own model calibrated by Cranfield University using computational fluid dynamics.

GC Securities placed the bond, which provides cover on an annual aggregate basis and carries an initial interest spread of 5.9 percent per annum.

The bond is also the first London-domiciled cat bond to be listed on the Bermuda Stock Exchange, where it is sponsored by Estera Securities.

Julian Enoizi, Pool Re CEO, said the reinsurer had been working toward the placement for several years and was "excited to bring an entirely new source of capital to the terrorism risk market for the first time".

Enoizi added: "It diversifies the funding of our retrocession programme, complementing the capital of traditional reinsurers to spread terrorism risk even more broadly."

He explained: "In addition, it further protects HM Treasury, and helps us towards our ultimate goal of returning as much risk as possible to private markets."

GC Securities president Shiv Kumar commented: "Executing this successful placement whilst the ILS market is processing losses from 2017 and 2018, demonstrates the strength and quality of Pool Re's proposition and their market-leading risk analysis."

"This type of innovation is a great example of the major role the UK market can play in broadening the ILS asset class."

Katherine Coates, corporate partner and head of the global insurance group at Clifford Chance, who advised Pool Re on the transaction, described the deal as "another strong endorsement of the UK's new ILS regime".

She added: "Closing it would not have been possible without the effective support of the Prudential Regulation Authority."

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District of Columbia establishes financial regulatory sandbox and innovation council

The US District of Columbia (DC) has established a Financial Services Regulatory Sandbox and Innovation Council.

The council's main aims will be to analyse and report on the viability of implementing a financial services regulatory sandbox in DC, and to develop a blockchain and innovation regulatory framework to promote financial services innovation in the district.

It is hoped the sandbox could foster innovation and competition, as well as helping regulators understand how innovative firms are evolving and adapt regulatory rules to better suit the changing landscape.

If a sandbox is feasible, the council, which will be comprised of professionals from a range of financial services industries, including captive insurance, will provide legislative, programmatic and policy recommendations for the mayor's consideration.

The council will be chaired by Stephen Taylor, the commissioner for the Department of Insurance, Securities and Banking, and will be required to report on its findings in the first six months.

Taylor said DC wants to be on the "cutting edge" and utilise the "intersection of technology and financial services to benefit our residents and businesses".

He commented: "This initiative has the potential to provide new opportunities for consumers to create, build and protect wealth."

Taylor concluded: "With the department's regulatory authority of all three major financial industries, we are well positioned to provide a full-service and integrated regulatory sandbox."

MGAs should consider the benefits of captive insurance

Managing general agents (MGAs) should seriously consider the benefits that captive insurance companies can deliver to their business amid renewed pressure emanating from capacity providers, according to Michael Woodroffe, president of Kirkway International.

Speaking at an event hosted by Davies Group and the Managing General Agent Association in London, Woodroffe warned MGAs about capacity providers that were increasingly looking for the MGA to take a share of the risk.

He said: "After many years of growth and wide acceptance, MGAs are facing headwinds from insurance carriers and reinsurance markets."

Woodroffe suggested that the issue for the MGA was the continued "total reliance" on the carrier or reinsurer to provide risk transfer due to the absence of capital and licences.

He added that without any involvement in the provision of the risk capital, and without a tangible and financial involvement in the performance of the risks assumed, there was a suspicion by both carriers and reinsurers that MGAs only focus was on premium volume and the ceding commission.

Woodroffe continued: "MGAs also suffer from the inability to easily build capital and surplus from profitable business without diluting ownership. By raising outside capital there is also a difficulty when it comes to the ability to differentiate their product from the competition."

Additionally, he explained that against this background, the use of a captive could deliver real benefits for MGAs.

He said: "A captive is not only a very useful business tool for the management of an MGA but can be a lifeline as capacity starts to disappear and partners insist that the MGA take some form of the risk in the overall book of business."

Woodroffe concluded that a captive could and does deliver a range of benefits to an MGA in the current market.

He said: “A captive creates an alignment of interest between insurers, reinsurers and the MGA ownership.”

“It also gives the MGA a tactical advantage when negotiating renewals with their insurance carrier and reinsurance panel.”

“It allows the MGA to build up underwriting profits above and beyond those from a profit commission or sliding scale.”

EIOPA issues no-deal Brexit recommendations

The European Insurance and Occupational Pensions Authority (EIOPA) has called on European regulators to minimise the detriment to insurance policyholders and beneficiaries in the case of a no-deal Brexit.

On 19 February, EIOPA issued recommendations for the insurance sector for the potential scenario in which the UK withdraws from the EU without a withdrawal agreement.

The recommendations, which are addressed to National Competent Authorities (NCAs), provide guidance on the treatment of UK insurance undertakings and distributors with regard to cross-border services in the EU after a no-deal Brexit on the 29 March.

In a no-deal scenario the UK would become a third country and lose its right to conduct business across the EU27 member states.

In principle, insurance contracts concluded before Brexit by UK insurance undertakings in the EU27 are valid after that date, but the insurance undertakings would no longer be authorised to carry out insurance activities with regard to these cross-border insurance contracts.

EIOPA’s recommendations offer guidance to NCAs with the objective of minimising the detriment to policyholders with such cross-border insurance contracts.

They suggest that NCAs should ensure an orderly run-off of the insurance business, including the appropriate supervision, and that UK insurance undertakings without authorisation should not conclude new insurance contracts.

EIOPA also suggested that NCAs should allow portfolio transfer from UK insurance undertakings to EU27 insurance undertakings, provided that it was initiated before the withdrawal date.

Additionally, EIOPA recommended that NCAs foster supervisory convergence to ensure consistent supervisory practices.

Gabriel Bernardino, chairman of EIOPA, commented: "To ensure the protection of policyholders and beneficiaries concerned, national supervisors have to ensure consistent supervisory actions and to cooperate closely and effectively."

Nigel Feetham, partner at Hassans International Law Firm, added: "This is a much welcome statement by EIOPA on 'contract continuity' and the validity of portfolio transfers post-Brexit, in particular."

Feetham said: "While they are just 'recommendations' to EEA regulators, I think it is unlikely that the competent authorities will not act upon them."

He suggested that the recommendations provided very useful clarifications on Brexit contingency plans involving Gibraltar, which he has been a great advocate for.

He explained: "Importantly for Gibraltan companies, EIOPA makes clear that the recommendations are also applicable to insurance undertakings and intermediaries established in Gibraltar."

Feetham concluded: "A lot of work has gone into Brexit contingency planning over the last year and this statement by EIOPA provides very helpful clarification."

R&Q and entities' ratings affirmed

Accredited Surety and Casualty Company (ASCC) and Accredited Insurance (Europe) (AIEL), the wholly-owned entities of Randall & Quilter Investment Holdings (R&Q), have had their long-term issuer credit ratings of "a-" and financial strength ratings of A- affirmed by A.M. Best.

The long-term ICR of "bbb-" of R&Q has also been affirmed.

ASCC, a Florida-based US insurer, and AIEL, a Malta-based European insurer, are

Ratings of Apogee captive affirmed

A.M. Best has affirmed the financial strength rating of A- (Excellent) and the long-term issuer credit rating of "a-" of Prism Assurance, the single parent captive insurer of Apogee Enterprises.

The outlook of the credit ratings of the Vermont-based captive are stable.

The ratings are reflective of Prism's "very strong" balance sheet, it's adequate limited business profile and its appropriate enterprise risk management.

The ratings are also a product of the parental support and financial flexibility afforded to Prism as part of Apogee.

A.M. Best described Prism as an "integral tool for Apogee that increases the overall organisation's risk management capability and awareness" and "works cohesively with business units across the overall organisation to reduce claims severity and frequency".

Prism's degree of dependence on Apogee as captive, which results in a concentrated focus on products and geographic distribution, is a factor offsetting the ratings.

Another offsetting factor is Apogee's dependence on the US construction market and overall economy, which A.M. Best suggested "may lead to volatility in Prism's results".

The ratings agency concluded: "Despite these factors, Prism's ratings are supported by its balance sheet strength and operating performance."

regularly used by R&Q in its transactions and acquisitions in the loss portfolio transfer, workers' compensation assumption, captive insurance and self-insurance space.

The entities are also pivotal to the group's expanding programme business, providing insurance services to managing general agents and normal subordination of holding company creditors to operating company policyholders.

The ratings of ASCC and AIEL are reflective of R&Q's consolidated balance sheet, categorised as "strong", in addition to its adequate operating performance, neutral business profile and appropriate enterprise risk management.

A.M. Best noted that, as a non-operating insurance holding company, R&Q's rating "is determined by reference to the credit assessment of R&Q on a consolidated basis, and the normal subordination of holding company creditors to operating company policyholders".

AXA XL to cut 711 European jobs in integration strategy

AXA XL is planning to cut 711 European jobs as part of its organisational strategy to become a united division of the AXA Group.

The acquisition of XL Catlin by AXA was agreed in March 2018 and closed in September 2018.

AXA XL began transferring European employees into a single employing company at the start of February and commenced plans for merging certain legal entities, subject to regulatory approvals.

The company is now beginning the next phase of integration and presented a draft plan for the division's target operating model and organisational structure to employee representatives in applicable countries earlier this week.

The plan includes a new target operating model and organisational structure, in addition to proposing activities and synergies to support the division's combined operations.

AXA XL's proposed plan includes the potential reduction of 711 positions in Europe.

Doina Palici-Chehab, chief integration officer of AXA Group, said that every effort will be made to assist employees during the integration.

Palici-Chehab commented: "Consistent with AXA's long-term responsible employer strategy, AXA XL is committed


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to supporting its employees through the change period."

Greg Hendrick, CEO of AXA XL, described the integration as "a very important next step for AXA XL in its journey to become a united division".

Hendrick added: "This proposed target operating model and organisational structure will help us to deliver the best services to our customers and provide them with the innovative solutions they need to succeed."

A.M. Best withdraws ratings of Nestlé captive

A.M. Best has withdrawn the ratings of Intercona Re, the captive reinsurer of Nestlé, after the company requested to no longer partake in the ratings agency's interactive rating process.

The final rating received by Intercona was an affirmation of its financial strength rating of A+ (Superior) and its long-term issuer credit rating of "aa-".

The outlook of the credit ratings of the Switzerland-based captive were stable.

The ratings were reflective of Intercona's "very strong" balance sheet strength, its strong operating performance, neutral business profile, and appropriate enterprise risk management.

Additionally, the ratings factored in rating enhancement, reflecting the stronger credit profile of its parent company.

The business profile assessment of Intercona is a factor of its role as Nestlé's captive reinsurer, in which it provides the first layer of reinsurance protection on the group's global insurance programme, providing a diverse underwriting portfolio by geography and product.

A key part of its parent's overall risk management framework, Intercona assists with the mitigation of risk exposures and loss prevention.

The company's five-year average (2013 to 2017) combined ratio of 90 percent is evidence of its strong operating performance and ability to withstand volatility from large loss events.

The captive's disciplined underwriting enabled the company to report pre-tax profits of CHF 77.1 million (excluding movement of equalisation and fluctuation reserves), following a financial year loss of CHF 49.2 million the year before, primarily driven by a natural catastrophe loss.

A.M. Best's expectation for the company's audited 2018 results is for continued profit and improved underwriting performance.

Reinsurance Collateral Trusts

The limitations and costs associated with traditional collateral options such as Letters of Credit have dramatically fueled the growth of alternative risk transfer strategies amongst insurers, reinsurers, captives and corporations. Fluid regulatory, financial and risk management environments demand lower-cost collateral solutions – solutions that afford maximum flexibility with minimal effort to set-up and maintain.

It's a need that has given tremendous traction to the insurance-linked securities (ILS) market and in particular the emergence of reinsurance collateral trusts.

The SunTrust advantage

SunTrust has a long history of escrow, trust and risk management excellence and expertise, with both domestic and international coverage. We work with large and small carriers alike to help mitigate risk for their insurance business needs.

Our collateral trust product at SunTrust can help you with the following insurance needs:

- Reinsurance/Collateralized Reinsurance
- Regulation 114 Trusts
- Captives
- Surety Bonds
- State Statute Trusts
- Collateral/Depository Accounts

Our expertise, however, is only one aspect of what differentiates our reinsurance trust business from other firms. Additionally, we excel because of:

- **A Dedicated Single Point of Contact** – we steadfastly believe in the value of a dedicated client manager who knows the unique challenges of your business and quarterbacks your relationship with the bank.
- **Rapid Response Times** – while other banks can take weeks to respond, SunTrust can typically resolve covered loss requests in a matter of 24-48 hours; and because we're a custodian for the collateral that secured the contract, insurers get paid immediately.
- **Operational Efficiencies** – from pre-arranged agreements with major insurance carriers to streamlined onboarding and KYC processes, our knowledge of the reinsurance trust business helps ensure that things are done right and done fast.

To find out more about how SunTrust can support and enhance your reinsurance business, please contact:

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Why choose an Insurance Trust?

- **Improved Credit Availability** – an insurance trust has no adverse impact on your available credit.
- **Cost Effective** – insurance trusts generally save you in annual fees compared to other forms of collateral posting options.
- **Convenience** – insurance trusts are tri-party arrangements that require no annual renewals.
- **Reduced Liability Concerns** – insurance trusts may limit the range of acceptable investments; this is done to ensure adherence to all regulatory requirements.

SunTrust

eCaptiv to launch two group captives to combat Canadian auto trends

eCaptiv, the North American provider of captive insurance services affiliated to Energi Insurance Services, will form two group captives to combat commercial auto trends in Canada.

The captive programmes, which will be formed through an exclusive group of independent insurance brokers, are in the process of accepting submissions for prospective members and intend to commence in July 2019.

The first captive will be engineered for companies with HazMat exposure, while the second will be centred on more generic short to medium haul fleets.

Both will be designed for companies with more than $250,000 in primary casualty premiums. All members of the group captives will adopt risk management technology programmes that are key elements in combating litigation financial and adverse commercial auto trends, such as dash cameras, telematics, and online training.

eCaptiv's sister company, eTech Services' Telematics Exchange and eLive Connect will be used to compile telematics data from multiple telematics service providers and provide 24/7 loss prevention and safety training for drivers.

Tony Passarelli, general manager and vice president of distribution, Energi of Canada said the "eCaptiv programme allows members the ability to control their destiny".

He explained: "Members can exit the traditional insurance market to combat current commercial auto trends."

Marsh: Market for political risk insurance is growing

Increasing geopolitical tensions, protectionist sentiments, and ongoing trade disputes are leading to unprecedented uncertainty and risk ahead for multinationals with direct foreign investments, according to a report from Marsh.

The Political Risk Map 2019 rates over 200 countries and territories on the basis of short- and long-term political, economic, and operational stability, in addition to offering insight into where risks are most likely to emerge.

According to the report, the transition to an increasingly multi-polar world order of protectionism will increase in 2019, with the rising isolationist and protectionist sentiments and practices momentarily halting the process of globalisation.

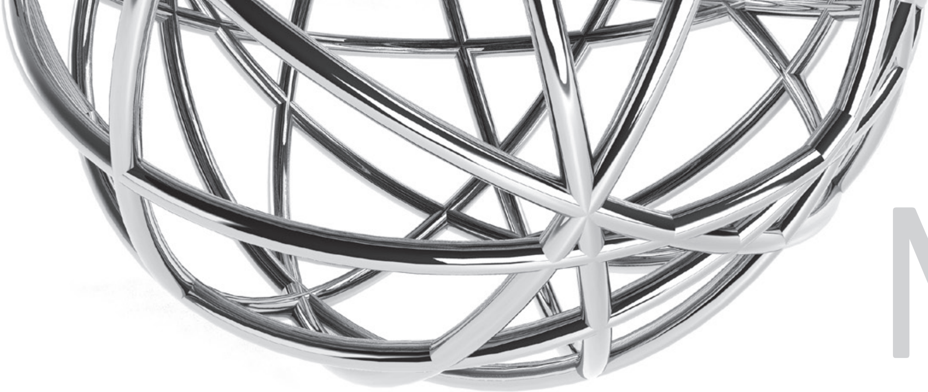
Brexit, Russia's relationship with the West, and trade tariff disputes between the US and China are all highlighted as important issues on the political risk landscape.

Additionally, the report suggests that the insurance market for political risks is growing, with the breadth of potentially catastrophic risks and the perception of what constitutes risk also rising.

It notes that businesses have "have arguably never faced such a breadth of challenges as they do today" and that it is vital for them to appreciate and assess the potential impact of these risks.

Evan Freely, global practice leader, credit specialties at Marsh, commented: "Businesses with direct foreign investments are facing an unprecedented breadth of challenges today from emerging economies to so-called developed economies."

"In uncertain times, vigilance and broad, systemic risk analysis coupled with political and trade credit insurance, will be vital to minimising these threats."



CAPTIVE FIGURES

Arizona welcomes eight new captives in ‘solid year of steady growth’

Arizona licensed eight new captive insurance companies last year, as the state’s captive programme experienced “a solid year of steady growth”.

Statistics from the Arizona Department of Insurance revealed that eight new captives were licensed in 2018, a drop in growth in comparison the previous year when 11 new captives were licensed.

As of year end 2018, there were 124 active captives licensed in the Grand Canyon State.

According to Vince Gosz, chief captive analyst at the state’s Department of Insurance, the Arizona captive programme experienced “another solid year of steady growth in 2018, licensing eight new captives including a risk retention group and a protected cell captive insurer.”

He added: “Overall, we’re seeing plenty of activity in the captive space and expect it to continue.”

DC sees significant growth and adds 17 new captives

The District of Columbia (DC) licensed 17 new captive insurance companies last year, the largest growth in terms of captive formations since 2015.

Statistics from the DC Department of Insurance, Securities and Banking also revealed that the captive growth was a significant rise on 2017 when there were just three new captives licensed.

As of 31 December 2018, there were 154 active captives in DC.

Sean O’Donnell, director of financial examination–risk finance bureau, DC Department of Insurance, Securities and Banking, commented: “The majority of new formations were protected cell companies (PCCs) or cells, which continues a trend over the last four to five years.”

“Of the 17 new risk-bearing entities, 15 were either PCCs or cells. We expect to see PCCs and cells continuing to be popular.”

Georgia welcomes eight new captives

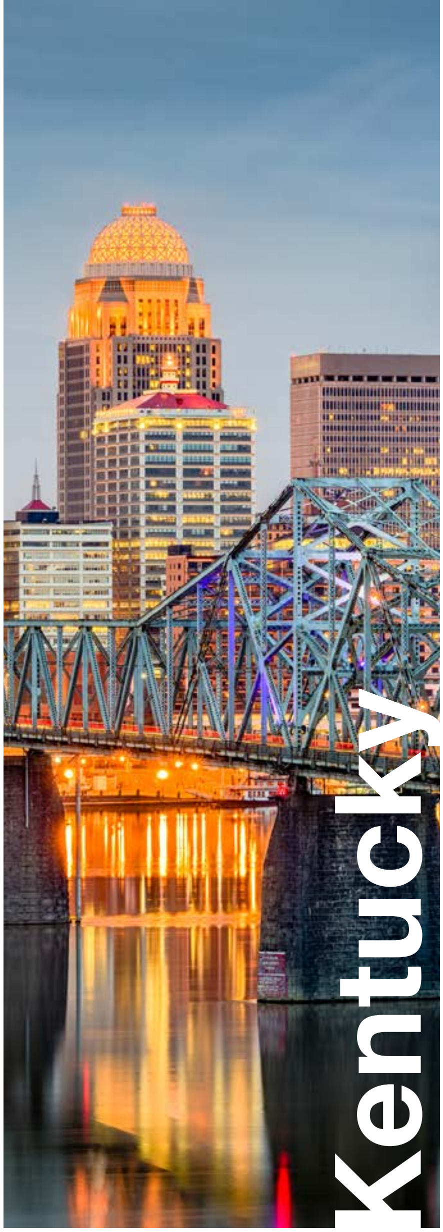
Georgia licensed eight new captive insurance companies in 2018, exhibiting reduced growth in comparison to the 18 captives licensed the year before.

Figures from the Georgia Department of Insurance also revealed that there were three captive closures last year.

The net growth of five captives meant that as of 31 December 2018, there were 49 active captives domiciled in the Peach State.

Jim Beck, Georgia insurance commissioner, indicated that plans were in place for legislation that could help the state see a growth in captive formations.

He said: "We have proposed legislation to make Georgia even more friendly towards captive formation. We are excited about the prospects for passage."



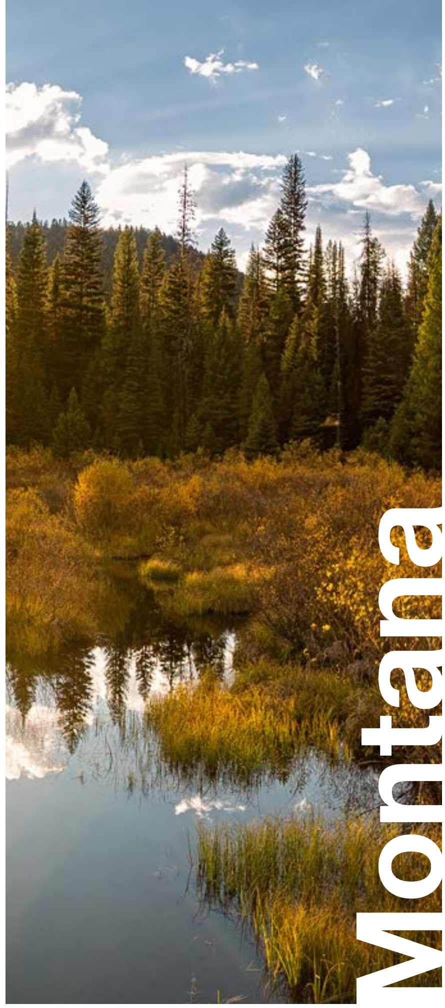
Kentucky adds seven new captives as formations rise and dissolutions fall

Kentucky licensed seven new captive insurance companies last year, an increase on the four new captives licensed in 2017.

Figures from the Kentucky Division of Insurance revealed that there were eight captive dissolutions in 2018, meaning that the number of dissolutions fell (from 23 in 2017) and the number of formations rose.

Aggregate premiums also rose last year, reaching approximately $108 million, up from $90 million the previous year.

A net reduction of one captive last year means at year-end 2018 there were 64 licensed and active captives in the Bluegrass State.



Montana adds 26 new captives as PCC and SBUs continue strength

Montana licensed 26 new captives last year, as formations of protected cell and series captives outpaced standalone captive formations by a ratio of at least two-to-one for the third consecutive year.

Figures from the Office of the Montana State Auditor revealed that the 26 new captive licenses in 2018 were a reduction in growth in comparison to the 42 captives licensed the previous year.

At year-end 2018, there were 288 captives licensed in Montana, 279 of which have active licenses.

Tal Redpath, captive insurance examiner, Commissioner of Securities and Insurance, Office of the Montana State Auditor, commented: "Overall, the Department felt good about 26 new formations in 2018, especially given the general decline in micro-captive formations and the rising number of closures in recent years.'

USVI outlook 'brighter than ever' after adding new captive

The outlook of the US Virgin Islands (USVI) captive market is "brighter than ever" after licensing one new branch exempt captive insurance company in 2018.

Statistics from the USVI Division of Banking, Insurance and Financial Regulation revealed that one new captive was licensed in the domicile last year, a change from 2017 and 2016, where there were no new captives licensed.

At year-end 2018, there were five captives licensed in the domicile, all single-parent, with gross written premium of $17.9 million.

Ashton Bertrand, chief of other financial services and superintendent of alternative markets, office of the Lieutenant Governor, USVI Division of Banking, Insurance and Financial Regulation, commented: "With the addition of a new branch exempt captive in August 2018, the outlook for the Virgin Islands captive domicile is brighter than ever."

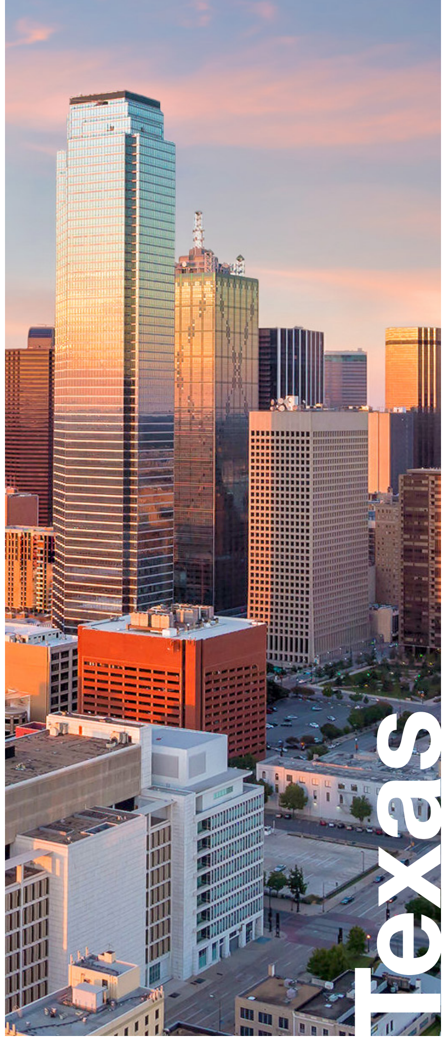
Cayman welcomes 33 new captives

The Cayman Islands licensed 33 new captive insurance companies in 2018, equalling the same number of captives licensed in the domicile the year before, according to figures from the Cayman Islands Monetary Authority (CIMA).

Following a net growth of seven captives in 2018, there were 703 total active captives in the Cayman Islands as of 31 December 2018.

Erin Brosnihan, chair of the Insurance Managers Association Cayman, commented: "Strong figures in 2018 reinforce our move to the global communication platform 'Cayman International Insurance' last year."

"As our domicile continues to evolve as a multi-pronged insurance industry, we too will continue to promote the Cayman Islands as the better alternative."



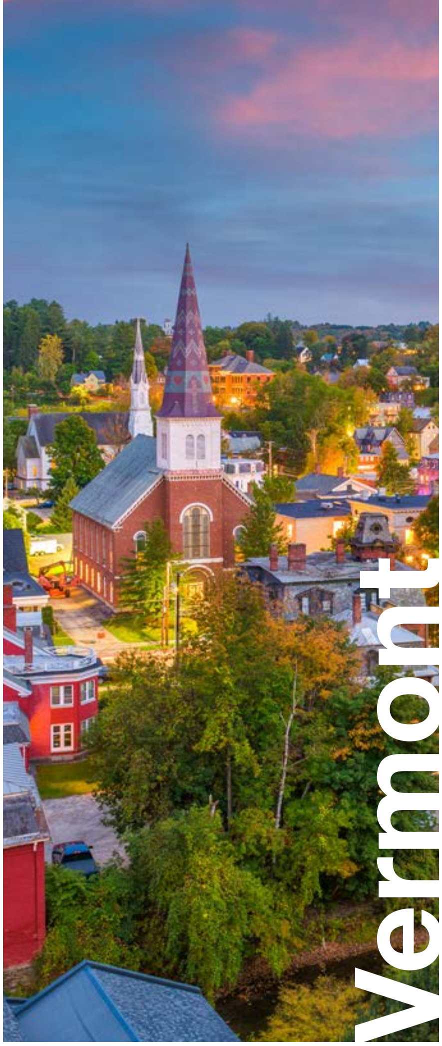
'Outlook positive for Texas' after it adds four new captives

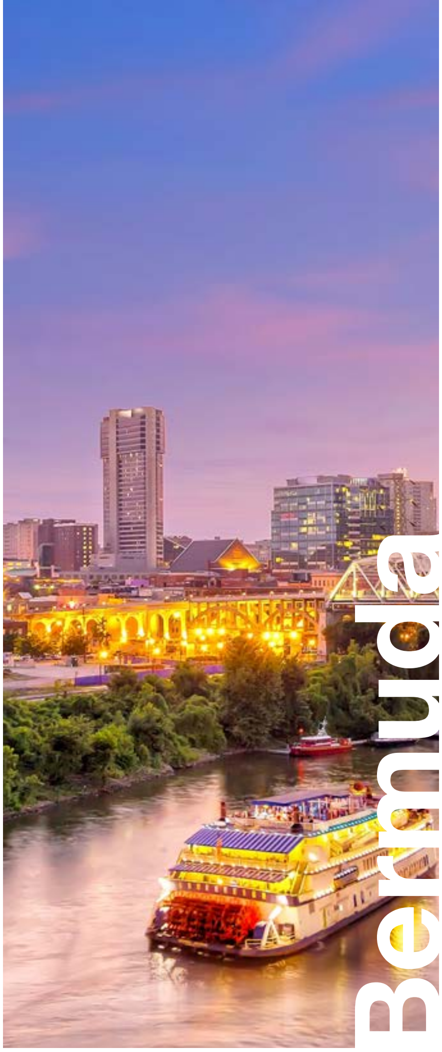
Texas licensed four new captive insurance companies in 2018, but despite reduced growth in comparison to previous years, the outlook is "only positive", according to Andrew Marson, director at Strategic Risk Solutions and Texas Captive Insurance Association board member.

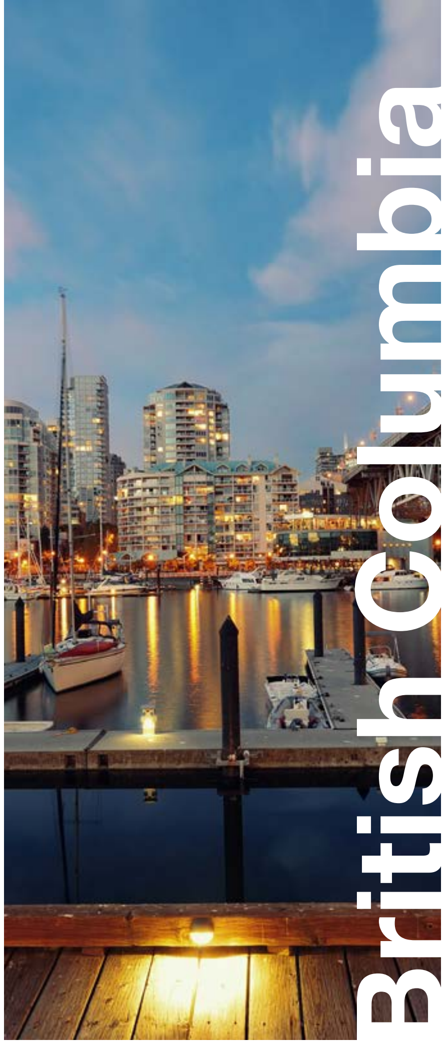
Statistics from the Texas Department of Insurance revealed that four new captives were licensed last year, a drop in growth in comparison to 2017 (eight new captives) and 2016 (13 new captives).

At 31 December 2018, there were 42 captive insurance companies in the state, all of which were pure captives.

Marson stated: "Last year was fairly quiet but I think that would jive with a lot of the other states as well. I think the outlook is only positive and it is going to go from strength to strength."







Vermont adds 25 new captives in 'very solid' year

Vermont licensed 25 new captives last year, an increase on the 24 new captives licensed in 2017.

Figures from the Department of Financial Regulation (DFR) revealed that Vermont now has 1,137 total captive licenses overall, with 558 active captives–making it the largest US domicile and the third largest domicile in the world.

Ian Davis, DFR director of financial services, commented: "Our licensing activity for 2018 was very solid, particularly given the soft market conditions and some of the headwinds currently facing the industry."

Dave Provost, DFR deputy commissioner of captive insurance, added: "The regulatory enhancements we were able to introduce last year highlight our state's ability to adapt quickly in support of the captive insurance industry."

Bermuda welcomes 19 new captives

Bermuda licensed 19 new captive (re) insurance companies last year, an increase on the 17 captives licensed in 2017, according to figures from the Bermuda Monetary Authority (BMA).

BMA statistics also revealed that as of 31 December 2018 there was a total of 711 active captive (re)insurance companies.

Craig Swan, managing director, supervision (insurance), said the new captives licensed were diverse in their country of origination, captive structure, and lines of business.

He explained: "The majority of the new captives originated from the US, but they also came from Europe, Canada, Latin America and Africa."

"The new captives covered a diverse range of company structure, including pure captives, association captives and long-term captives."

British Columbia growth consistent as one new captive licensed

British Columbia (BC) licensed one new captive insurance company last year, according to statistics from the BC Financial Institutions Commission.

The Financial Institutions Commission's statistics also revealed that the number of formations in 2018 were consistent with 2017 when one captive was also licensed in the domicile. The figures also showed that one captive was closed in the jurisdiction last year.

Canada's only domicile with captive legislation, BC was established in 1988, and at year-end 2018 had 21 active captives licensed in the state.

The 21 captives in BC, are made up of 16 pure captives and five association captives.

More figures can be found in 2019's Domicile Guidebook

Solving an existential supply chain crisis

As the industry faces a deepening talent crisis, educators and industry professionals must come together to avoid calamity

It appears the insurance industry may have misdiagnosed its talent crisis.

Many talk about the talent crisis in terms of demand, explains Zach Finn, professor and director of the Davey risk management and insurance (RMI) programme at Butler University, who instead pins it as a "supply chain crisis".

"The whole economy is not aware that the insurance industry needs 500,000 new jobs," he says.

"The insurance industry needs to take the same medicine that they give to businesses—manage your supply chain. The industry has to come together and build its own educational infrastructure from the ground up."

The impending insurance industry talent crisis is a threat that is becoming impossible to ignore. There are expected to be 400,000 job openings in the insurance industry by 2020, while approximately 25 percent of of the current workforce were predicted to be at 'retirement age' by the end of last year.

It is an issue that has been extensively discussed in the industry over the past few years. At the Bermuda Captive Conference in 2017, panelists emphasised the dangers it presented, while last year, Anne Marie Towle, captive practice leader at JLT Insurance Management, told delegates at the Vermont Captive Insurance Association (VCIA) Conference the industry needed to be more active in inspiring the next generation. At the Captive Insurance Companies Association (CICA) Conference in 2019, Temple University professor Michael Zuckerman told delegates that offering millennials "adventure" was key to solving it.

The industry has not been without action; CICA has launched a mentorship programme, a college essay contest for RMI students, and formed a professional development partnership with Butler University; the Institutes Griffith Foundation launched an RMI scholarship in January; and Strategic Risk Solutions sponsored students to attend the VCIA Conference last year. But is it enough?

A supply chain crisis

Finn has passionately advocated that more needs to be done and that the crisis extends further than just an issue of demand.

"It is an existential crisis," he says, "95 percent of our professionals for an entire pillar of the industry are underprepared and untrained compared to where they used to be."

Statistics provided by Finn at last year's CICA Conference estimated that there would be 15,072 US RMI graduates between 2017 and 2020, barely a scratch on the predicted 400,000 insurance industry job openings.

Finn acquired an RMI degree in the 1990s, and held risk management roles at NCR Corporation, Hill-Rom, and the J.M. Smucker Company, rising to the position of director of risk management at the age of 27. As his career developed, he served on the student advisory committee for the Risk and Insurance Management Society (RIMS), where he tried to get universities to understand the opportunity RMI programmes offered.

He explains: "You've got a recession with millennials living in their parents' basements and a whole industry starving for talent. Geez academia, wouldn't it really benefit you all to setup more RMI programmes to create opportunities for millennials, and viable degree programmes for yourselves? It is a triple win situation. The problem was I couldn't get anyone to engage."

The cradle of RMI education innovation?

Eight years ago, Finn decided to take action into his own hands. He joined Butler University and had the opportunity to set up their RMI programme. The undergraduate degree was constructed to help students choose a path into the industry and was built around experiential learning.

Indiana, the state that houses Butler, has become somewhat of a specialist area of RMI education, with Butler, Indiana State University and Ball State University boasting three of the top 10 RMI programmes in the US. Ball State offers an undergraduate major and minor in RMI, a masters level RMI course, and an undergraduate and graduate programme in actuarial science. Steve Avila, professor finance and insurance at Ball State University, explains that at the school there are over 400 students taking "principles of RMI" each year and over 50 majors and minors in RMI.

Finn helped the Butler RMI students launch their own captive two years ago.

He says this was done for two key reasons: the first, giving the students a chance to learn through experience, and the second, and perhaps most important, was to prove to the industry exactly what RMI students can do.

He explains: "Butler's a proof of concept, a way to show the insurance industry. Once we set up a captive with 20 year olds, the proof of concept has been proven. What we [Butler, Indiana State and Ball State] are trying to do is unite our powers and influence the industry. Explain to them what students with these degrees can do, so that it starts to become more expensive not to have one. We're trying to make it more expensive to be ignorant."

The Centre for Insurance Education

The beginning of that process is the Centre for Insurance Education, a way to scale what has been done at Butler into the US Midwest.

Housed out of the currently under construction new building at Butler's Lacy School of Business, the Centre's target is to support RMI programmes in Indiana, Ohio, Illinois, and Kentucky, in two key ways.

Firstly, by creating a high school outreach programme to inform high school guidance counselors, children, and parents that insurance is a viable career option, the same as finance and accounting.

Secondly, to provide support to Gamma Iota Sigma, the US RMI and actuarial science fraternity, which supports the creation and development of proper RMI programmes and the students themselves.

The number of RMI programmes is growing and according to Finn: “Gamma Iota Sigma’s resources are taxed, with many of the programmes on the US East Coast. What we’d like to do is reorganise Gamma Iota Sigma by regional conferences. We’ll have an Eastern Conference and a Western Conference.”

Currently, the centre is not in a position to discuss potential partners, but it is accepting gifts and donations, and has had serious interest from some blue chip carriers and brokers.

An educational restructure

The centre is the beginning of a new educational structure that Finn believes the industry needs to build to avoid the talent crisis.

“My proposition is it’s a supply chain crisis,” reiterates Finn, “the industry needs to stop sponsoring race cars and golf tournaments and start investing in undergraduate and graduate RMI programmes so that we have properly trained talent.”

“We need to come together and finally admit that the education system for RMI education is vastly underdeveloped.”

“I think this is one of those rare opportunities. An opportunity to not only address this talent crisis risk once and for all but to turn it into an opportunity. We basically need to redesign and develop from the ground up the educational infrastructure around insurance and risk management.”

“That investment, as long and as arduous as it may be, has a huge opportunity curve on the other end of it. Once insurance becomes a required class in every business school, all of a sudden, you have a whole new class of buyers who understand products in a way they never could before, which creates more opportunity for the industry.”

What the industry can do now

Clearly, redesigning the educational structure of RMI education will be no easy feat and may require industry-wide cooperation and collaboration, but there are more direct steps that companies can take which may have a positive impact in counteracting the talent crisis.

The first is to reach out to the students and make their presence felt, both to those already interested in RMI and those that are not.

Avila explains: “The industry need to show all the great things that insurance does. Show how it helps others and the advantages through technology that are happening.”

An opportunity for such outreach is the Gamma Iota Sigma conference, where Finn suggests that by being present at the conference, companies can put themselves in front of the top 10 percent of RMI graduates in the US.

Further than just attending the conference, Finn emphasises that backing Gamma Iota Sigma is the biggest thing companies can do to help address the issue of the talent crisis.

He expands: “Every dollar or every minute of time or talent that goes into Gamma Iota Sigma is a dollar or a minute well spent.”

“It supports the actuarial science and RMI programmes that exist and are doing things the right way, and has a mandate of trying to increase the number of those programmes. Quit trying to work out how to turn a philosophy major or an economics major into an insurance professional. Put the money in Gamma Iota Sigma and let us do it, we have got it covered.”

Another avenue where the industry’s funding can have a vital impact is the Centre for Insurance Education.

“We have a space, we have a mission, we have a vision,” says Finn. “We need capital to scale what we’ve done at Butler into the Midwest and beyond.”

“Funding it not only allows the industry to do what is right for its own existence but also to develop the kind of talent it likes and to help support where the new RMI programmes are created.”

Mindset change

William Davey put $5 million of backing into the initial Davey RMI programme at Butler University, which has now put more than 200 graduates into the industry, with 75 students currently in the programme and 80 on the actuarial science programme.

“He has created a sustainable pipeline of talent,” notes Finn, “a pipeline thats value far exceeds that $5 million by a greater amount than I could ever hope to calculate. I wonder how much money spent on sponsoring race cars and golf tournaments could have been better spent in similar investments to the investment Davey made at Butler.”

However, the impact of any extra investment is almost irrelevant without a mindset change.

Finn concludes: “I am purposely trying to disrupt the industry by giving students the skills to do more things themselves that the industry currently charges for. The industry need to open up their minds to what these students can do.” **CIT**

US captives:
weather the storm for a bright future

Bill Hodson of Gulfstream Risk Advisors and John Talley of the Missouri Department of Insurance give their views on recent developments, including regulatory changes and the IRS's position on micro captives

How has the US captive industry been affected by recent economic and legislative developments?

Bill Hodson: In the past three years or so, the US economy has been very robust. The stock market and jobs market have been on a very positive trend. Federal banking policy has been stable, with only slight increases in interest rates and knock-on inflation. In this environment, the effect on the captive insurance marketplace has been positive, with the most popular and well-regulated US domiciles enjoying a steady number of new formations and net active captive numbers. Whether the root causes of challenges are political or ignorance of industry needs, the better regulated domiciles with a strong and active captive insurance association, and solid service provider infrastructure will continue to weather those challenges well.

John Talley: With the soft commercial insurance market, the Internal Revenue Service (IRS)'s position on micro captives and the corporate merger/acquisition activity, the formation of new captives has slowed but not stopped. Evidence of that is Missouri adding ten new captives in 2018, with only four companies closing or redomesticating.

With recent issues like the IRS crackdown on micro captives and the ruling in the Microsoft case, would you say captives are currently under fire in the US?

Hodson: Five or six years ago, the IRS woke up to the fact that the captive insurance industry was the new 'soft target' du jour. I believe that the targeting was/is mostly due to abuses of certain sections of the IRS code by captives that were formed for what I consider the wrong reasons. As a reinsurance and risk management professional, it just doesn't make sense to me for a corporation, group or individual to form an insurance company for reasons other than risk management. Our industry is one of the most highly regulated in the US, so I never really understood the mindset of those who followed the advice and templates constructed by financial advisors, tax advisors and certain captive managers for making tax efficiency and/or tax avoidance the main driver of a captive insurance company, rather than risk management and risk financing. Once those captives that skirted or crossed the line popped up on the IRS's radar, it was only natural that the IRS declared their version of 'Whac-A-Mole' on our industry.

The Microsoft case, is, in my opinion, nothing more than regulatory overreach. The Washington Office of the Insurance Commissioner employs some pretty intelligent people. I'm certain that they have one or two lawyers on staff who know how to read and interpret their own insurance law, as well as other states' laws.

In the Microsoft case, I believe that, again, a soft target was found and the Washington Department of Insurance's prime motivation was to hold Microsoft up for whatever ransom they could collect and it worked. So, given these two examples, I do believe that our industry in the US is under fire.

However, I also believe that in Microsoft's case their domiciliary regulators and captive association dropped the ball when it came to defending Microsoft's captive against the attack.

In those US domiciles where the captive insurance industry is working closely with their state governments—both legislature and Governor's office—and that are competently and consistently regulated by captive experts at the DOI, I believe that attacks of this kind will be fewer and better defended.

I also believe that as a natural consequence of state captive associations growing and becoming more powerful in their lobbying efforts, and other state DOI's and captive regulators emulating their peers in Vermont, South Carolina, Tennessee, etc, the targeting will ease.

Talley: If 'under fire' means enhanced IRS scrutiny, the short answer is yes. The IRS sees small captives, many of whom have elected section 831 (b) treatment, as problematic for several reasons (for example, non-risk bearing entities, no transfer of risk, circular reinsurance financing). The IRS believes that owners of these companies are 'scamming the system'.

The concern with the Microsoft case is that other non-captive domicile states may begin to use their laws to levy taxes or fees on captives insuring owner facilities or employees within borders.

Whether this will happen remains to be seen.

What is the future of US-based captive insurance companies? Are there any new opportunities cropping up?

Hodson: I think the future of the US captive insurance industry is very bright. The captive industry began as a response to a lack of proper coverage, not to cover risks that were new, but to cover risks that were volatile. As the industry has evolved, it has responded to covering risks that are new and cutting edge. Cyber, blockchain, autonomous vehicles/mobility, the Internet of Things and the pervasive integration of artificial intelligence into our everyday lives will keep the challenges to our industry fresh. Being inherently forward-thinking and responsive, the US captive industry will meet any future challenges and opportunities.

Talley: I believe the future remains bright for new captive formations in the US, especially in Missouri. Missouri's captive laws and regulatory processes are designed to work with the captive owner to further their company's development. We have already had several recent inquiries this year regarding the formation of new captives. I see this trend continuing in all US domiciles as businesses evaluate their insurance needs and how to best meet them. If the recent rise in commercial insurance rates is any indication, the onset of a hardening market will spur more businesses to investigate the captive alternative. CIT

Bill Hodson
Managing member
Gulfstream Risk Advisors

John Talley
Captive programme manager, department of insurance company regulation
Missouri Department of Insurance

High morale

Jonathan Pope and Pierre Paul discuss how their cash management team has evolved since it was acquired by Ravenscroft last year

Barney Dixon reports

With the acquisition of Royal London Asset Management and Custody Services by Ravenscroft, what is new for your team?

Jonathan Pope: In terms of what a client would see, nothing has really changed. The same people are doing the same job using the same systems. When we attend client meetings we really are able to demonstrate that the proof really is in the pudding: the investment report they are reading is exactly the same format, style and substance as the previous one. The only real difference is that the branding has changed.

We think that being able to demonstrate this level of continuity is vital. What has been strengthened though is the level of on-island support. We don't want to be seen as predominantly Guernsey based because we've got extremely valued clients in the UK, Jersey and Malta as well, but it's very important that we have a strong headquarters, previously this was in London but now it is in Guernsey; which obviously helps enormously with the immediacy of response.

What sort of support does Ravenscroft offer the team and how has that affected your day-to-day operations?

Pierre Paul: One of the first things that happened was that roles of compliance officer, money laundering reporting officer and company secretary became centralised functions in the existing Ravenscroft compliance team. Before, we did those roles between the four of us—I was both compliance officer and money laundering reporting officer. This change has freed up my time to focus more on the day-to-day running of the business, looking after clients and bringing on new clients.

If you're talking about investment support, then again continuity is the key word. We have ensured that the same level of investment advice is available under the Ravenscroft framework that we had under Royal London.

Pope: That is one question that comes up, often around the investment support we received from Royal London, which is a very big well known name and we had to assure clients that there were similarly well qualified people in Ravenscroft to ensure we wouldn't be acting in a vacuum, and while we both have over 20 years of experience of running cash portfolios in the money market, the support we have received from Ravenscroft has been fantastic. We are being integrated into their monthly investment management meeting and now we are all in one office we will be setting up a more specialised cash asset committee.

Did any clients have concerns? What is their feedback now?

Paul: We worked very hard to identify what we thought would be key concerns from our clients. One of the key things is the ring fencing of their assets—ensuring they are kept safe and secure at all times. That was one area we worked hard on. The custodian we used to ring fence clients assets was HSBC. It is still the custodian, in keeping with that continuity. Client assets were held by HSBC before the acquisition and post-acquisition they're still held by HSBC in exactly the same way.

Pope: A crucial part of what we've always set out to achieve is that if anyone has any questions, they can ring our telephone number and someone in the office will know the answer. This situation remains the same and client reaction has been positive that the service levels remain the same.

There has never been a call centre or client services team to deal with before. Now, it's the same thing, the same telephone number and the same people answering the phone. That continuity was crucial.

Paul: Royal London didn't use the Guernsey business as a conduit for placing business offshore, they let us get on with winning our own mandates for businesses in Guernsey and businesses in the UK. All the business was independent of Royal London, effectively. Now, we are receiving a portion of Ravenscroft previous clients in this space, as well as new business.

When Ravenscroft's acquisition went public, we had funds under management of just over £2 billon. In the last three months, our funds under management have increased again through new business and referrals from Ravenscroft.

How much of that increase is from new businesses, and how much is from Ravenscroft's own clients?

Paul: Yes, some of that is internal. That was the reason Ravenscroft acquired us, the system that we use is really excellent for reporting so Ravenscroft clients, who already had a cash allocation as part of their diverse portfolio, are now seeing those benefits. In terms of where we position and source our business from, we've got plenty of irons in the fire and a good pipeline of new business prospects.

Has the acquisition had a positive impact on staff?

Paul: We're still the same team of four, but there's the greater team at Ravenscroft to provide support if we need it. We've recently had an office move, to a much more modern new office which has brought all of Ravenscroft's services into one place for the first time. Morale is high.

How has the integration of Ravenscroft's own cash management clients gone? Were there any hurdles that had to be overcome?

Pope: We think that we are able to add some value with the additional reporting that we can generate and the additional reach of our counterparties.

Paul: One of the functions we perform is the ability to provide our clients with banks and counterparties that they previously didn't have access to. Those counterparties—the banks that we deal with—without exceptions are happy to deal with us at Ravenscroft. There may have been some concern from clients that once the acquisition went through, we might not be working with these banks anymore, but that hasn't been the case.

What does the future hold for your team?

Paul: We've always believed that what we do—segregated cash management—adds value for our clients in terms of the diversification we can offer them. We were firm believers that segregated cash management has a strong future. Our biggest competitors are the banks themselves and money market funds. But what they don't offer clients is defined investment parameters suited to the clients own needs. With our service you negotiate the maximum maturity the counterparties use and get a bespoke, tailored fit for you. That differentiates us in amongst a range of fairly bland money market funds. Hopefully that differentiation means we can grow the business even further.

Pope: Ravenscroft is very supportive of our plans to grow the cash business; we will be attending various events this year including AIRMIC in June and hope to see people there! CIT

Jonathan Pope
Director of cash management
Ravenscroft

Pierre Paul
Head of cash management
Ravenscroft

Emerging Talent: Reflections

Nine months after the debut of Emerging Talent, we go back to some of our early participants to delve deeper into their roles and discuss what needs to be done to attract more young professionals to the captive insurance industry

Work began on our Emerging Talent series almost a year ago. After hearing the many concerns of industry stakeholders at the 2018 World Captive Forum, at Captive Insurance Times we decided we wanted to take a more proactive approach to the insurance industry talent crisis.

Statistics revealed that some 400,000 insurance professionals are expected to retire by 2020, and approximately 25 percent of the current workforce were predicted to be at 'retirement age' by the end of last year.

Clearly, the fear of a huge talent shortage in the insurance industry remains, and—as part of the industry—rather than just report on it, we wanted to try to become a positive force and have a positive impact in helping the industry to find a solution.

The Emerging Talent feature series is a vehicle that we launched in an attempt to do just that. It's aims were threefold; we wanted to emphasise and showcase some of the outstanding young talent in the captive industry; to discuss the current paths into the industry in order open conversations about how to attract more talent; and perhaps most importantly, to provide a platform for young professionals, who may otherwise not get a great deal of coverage, to speak about the industry in a relaxed environment.

Twelve months on from the birth of the feature series, and nine months on from its debut in the magazine—our profile of Joseph McDonald, licensing coordinator and consumer liaison at the South Carolina Department of Insurance, in our Bermuda Captive Conference edition—we decided it would be a good opportunity to check in our some of our earliest participants, look deeper into their professional roles, and to ask them about their views on the talent crisis.

'The talent'

As with so many of the captive industry's workforce, McDonald's current role requires him to be multifaceted, as he is responsible for marketing South Carolina as a captive domicile, developing industry relations, reviewing captive applications, and keeping the licensing process efficient.

He highlights the importance of balance in his role: "Striking the right balance between the constraints of regulation in the public service sector and the pressures of the private sector is a subtle art that requires both a firm stance and an appropriate degree of flexibility."

"In this regard, it is always helpful to focus on the risk–which could be financial risk, structural risk, counterparty risk, or even reputational risk to our domicile."

We spoke to Pam Sanchez, an auditor for the Utah Insurance Department's captive division, in July last year. The daughter of first generation Mexican immigrants, Sanchez said she felt honoured to represent not only an emerging generation of talent, but also women and the Latino group that are underrepresented in the finance and captive industry.

As an auditor in Utah, she analyses annual statements and audits to review for compliance, processes licensing applications and reviews transaction requests. As a regulator, a key part of what she does is analysing a captive company's liquidity and solvency.

She highlights understanding when a transaction that seems effective for the parent company is also a sustainable deal for the captive company as a key challenge she faces, and notes: "When evaluating transaction requests that affect the captive's assets I try to always remind myself to consider all the factors at play: liquidity for the captive company, the limitations set forth by our code, and how the captive can ultimately add value to the parent company".

Sanchez completed her Associate in Captive Insurance designation shortly after to speaking to Captive Insurance Times last year, and aims to continue to develop her understanding through webinars, conferences and in day-to-day interactions with the industry.

> "Striking the right balance between the constraints of regulation in the public service sector and the pressures of the private sector is a subtle art that requires both a firm stance and an appropriate degree of flexibility"


Pam Sanchez

While Sanchez began in the private sector and moved into the public sector, Jonathan Stark, took the opposite route. Stark began his career at the North Carolina Department of Insurance, before moving to Strategic Risk Solutions (SRS) as a consultant in 2016.

At SRS, his main responsibilities are consulting on new formations, which consists of feasibility studies and implementing captive insurance companies, and consulting on existing captives, which includes strategic reviews, underwriting, policy development and a number of other insurance company operational tasks.

Stark describes his shift from the public sector as "pretty smooth" and emphasises that the private sector "allows for more creativity". He adds: "A client comes to the firm with a problem and we get to develop a solution that is supported by quantitative and qualitative analysis. Each client has a different set of priorities and no two projects are the same."


Jonathan Stark

Patrick Womac is another Emerging Talent participant to have made the public to private switch. In fact, soon after his profile was published in May, he moved from his role as captive insurance admissions coordinator for the State of Tennessee to Caterpillar Financial Services Corporation, where he is a regulatory compliance analyst.

Echoing Stark, Womac says the transition was “very smooth”, adding that he is “proud” of his public sector service, which he feels has and will continue to influence his work in his new role. At Caterpillar, his key duties are to ensure that insurance professionals within the organisation obtain and maintain the proper licences, according to both state and federal regulations; filing documentation for new and current lines of business; and drafting and amending policies to increase the efficiency of these processes.

> “Insurance, especially the captive industry, is full of innovation and entrepreneurial spirit.
>
> We just need to get this message out there. There are so many roles in the insurance industry that young professionals don’t even know exist”

Also changing roles soon after being profiled in Emerging Talent is Michael Archangel, who was promoted to senior financial analyst at the North Carolina Department of Insurance. His major responsibilities are reviewing and evaluating new applications and business plan changes, and conducting ongoing financial reviews of licensed captives.

Archangel relishes the pressure of delivering high quality work and the challenges that juggling multiple projects that are all at different stages of completion bring. He explains: “It’s almost like cooking Thanksgiving dinner; you do your prep work and have lots of things cooking at once that all require your attention. Sometimes you have to move on to the next step, but you can’t forget about what you left in the oven.”

‘The talent’ on ‘the crisis’

A common theme amongst Emerging Talent participants is the variety of ways in which they found their way into the captive industry, something which appears to be true of the industry in general. Unlike other professions, there is no distinct path into the captive industry, and Zach Finn, professor and director of the Davey risk management and insurance programme at Butler University, says solving this “supply chain issue” is key to ending the talent crisis.

That view reflected by many of the Emerging Talent participants, young professionals who are themselves recent arrivals to the industry. Womac suggests that the industry has to “actively seek” young professionals and prove that it “recognises our talents, values and hard work, and will continue to give us opportunity to grow”.

McDonald emphasises that exposure is key: “exposure to the creative and strategic approach to risk management and financing that a captive, as a tool, can facilitate. Ultimately, every attractive industry provides the context for professionals to be challenged and find meaning in their pursuits.”

Sanchez says college recruitment can play a vital role in molding successful captive insurance talent of the future and emphasises the importance of exposing young professionals to captive insurance early. In speaking to the participants about attracting new talent, the importance of better informing the next generation about captives was prevalent.

Arcangel explains: “I imagine the next generation of young professionals are currently viewing the insurance industry as stagnant and lacklustre. This is not true, insurance, especially the captive industry, is full of innovation and entrepreneurial spirit.We just need to get this message out there. There are so many roles in the insurance industry that young professionals don’t even know exist.”

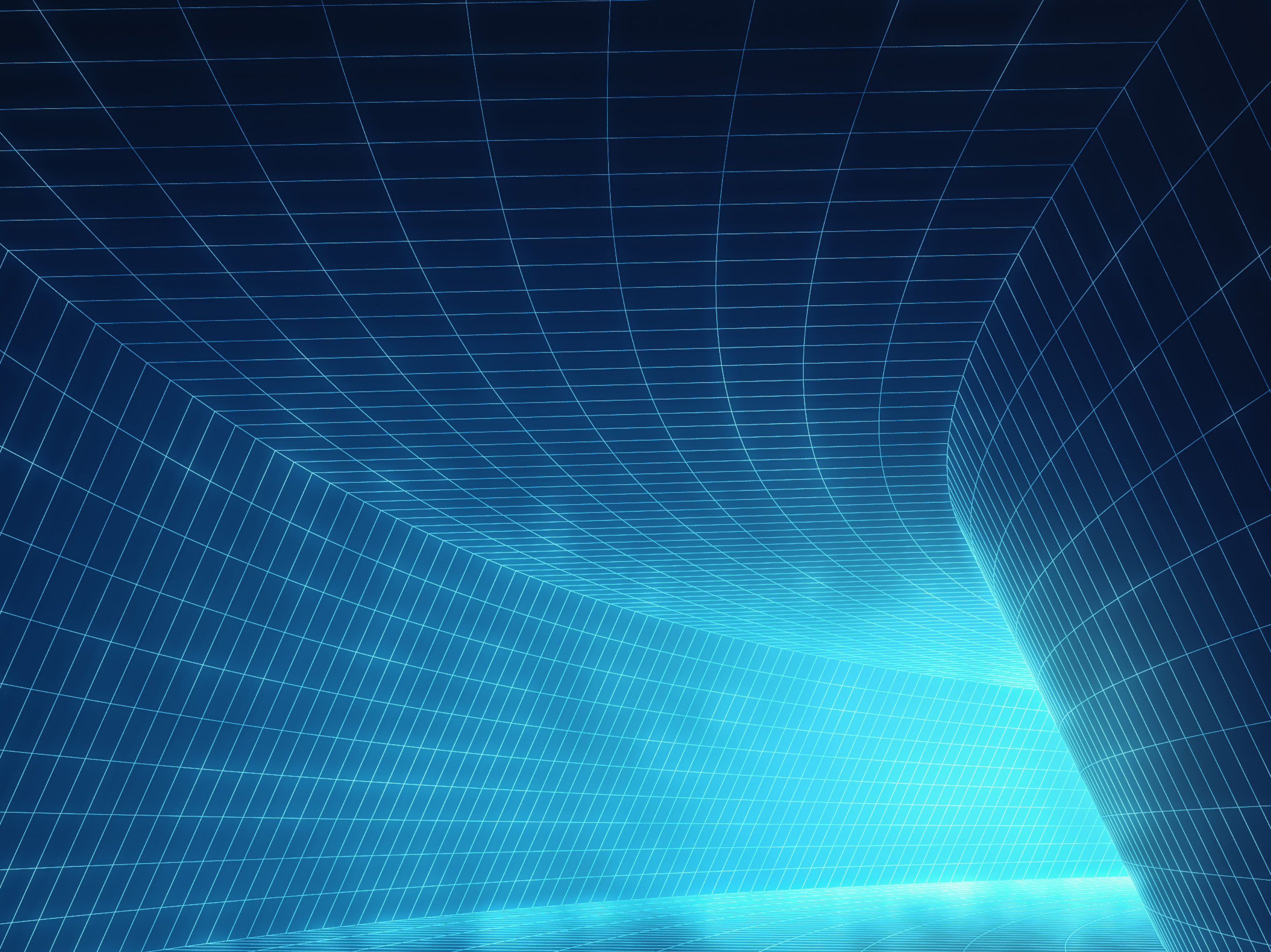
Stark adds: “The bottom line is we need to do a better job of educating young professionals on what the captive industry is all about.”

”The key is to help young people understand that the captive insurance industry allows for cutting edge solutions to problems that are facing companies in today’s economy.” **CIT**

Know young professionals in the captive industry that deserve to be showcased? Contact nedholmes@blackknightmedialtd.com

Joseph McDonald

“ The bottom line is we need to do a better job of educating young professionals on what the captive industry is all about. The key is to help young people understand that the captive insurance industry allows for cutting edge solutions to problems that are facing companies today ”



A light at the end of the tunnel

The OECD BEPS initiative was not developed specifically for captives, but they are a target of interest. Adrien Collovray of Willis Towers Watson explains that while captives remain under the OECD's spotlight, BEPS could be positive in the long term

Can you give a brief description of the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) initiative?

The OECD BEPS initiative (in conjunction with the G20) has in excess of 80 signatories and parties (87 at 12 February 2019) to the multilateral convention to implement tax treaty related measures to prevent BEPS; where BEPS relate to the practice of international profit shifting from higher tax to lower tax jurisdictions.

Captive insurance companies are specifically referenced by the OECD as an instrument through which profit shifting could be achieved. For this reason captives are a distinct area of focus and as such it is incumbent upon captive owners to prepare and ensure that they have a comprehensive response to BEPS scrutiny.

What is its impact on the global captive market?

While not developed specifically for the captives, they have been directly referenced and are a target of interest. Initially this has created hype regarding the legitimate utilisation of captives. Those of us in the industry know that the vast majority of captives today are not created for tax reasons, with corporations benefiting from the control and flexibility of a regulated insurance vehicle over a commercially driven insurance market, or unregulated balance sheet retentions. It is our duty as captive professionals and captive owners to demonstrate the non-tax value and controls a captive provides. This uncertainty has led to some concern regarding new formations. Increased interest and formation activity for new captives demonstrate that the dust is settling regarding the expectations on our industry. Nevertheless, it is imperative that we remain actively involved in developments as the OECD seeks to refine what their initiative means in practice.

Should it be viewed as negative or positive by the captive market?

In the long term, I believe this could be positive for our industry, from the perspective of public perception and formalisation of processes and procedures. In the short term however, it creates a number of areas for concern. Not least is the opportunity for persons and institutions with limited knowledge of our industry to influence regulatory frameworks to the detriment of the real non-tax value which captive structures provide. As an Industry we need to assume responsibility to ensure we have an active place at the discussion table and are able to clearly articulate the captive value proposition and the wide-spread detriment which could be caused through misguided control mechanisms.

What is the current status of the OECD's BEPS initiative?

The OECD and revenue authorities are very much in a learning and development phase. Expert advisors, such as Willis Towers Watson, have been monitoring developments and providing focused support for reviewing and evidencing compliance. Captive parent companies should see this as an opportunity to assess and document the value of their captive.

Have there been any recent developments?

The most recent paper is the 3 July to 7 September 2018 public discussion draft–BEPS Actions 8 to 10–financial transactions. This discussion paper primarily targets, from a captive perspective, transfer pricing of premiums. This paper appears to branch into defining what may constitute insurance for a captive. I believe we should be concerned by the potential for persons with limited knowledge of our industry, seeking to change or restrict it to suit political headlines rather than substance based motivation.

What developments should we expect to see moving forward?

We can expect further consultation and refinement. Revenue authority interest will increase, as they learn from audits of larger captives and seek to apply this increased knowledge to small companies. In this regard; preparation is key. The lack of structured supporting documentation, regardless of the true value drivers intention or methodology, will lead to increased scrutiny and additional defense expense.

Do captive insurance companies need to stay aware of these developments?

Yes, it's imperative that captives not only stay aware but review and document processes and procedures with a particular focus on substance (why is the captive located where it is and what substance does the company have in that location?), economic rationale (at an arm's length basis, why would the parent buy from the captive and why would the captive assume risk from the parent?), finally, transfer pricing (simplistically, justifying the pricing in relation to the risks retained and reasonable costs).

There has been a lot of concern from within the industry about the OECD's stance on captives, do you think this is something we might see a change in soon?

I expect the OECD will continue to keep captives under the spotlight. As an industry we need to be prepared defend the non-tax value and long term functionality of captives. **CIT**

> "As an industry we need to be prepared defend the non-tax value and long term functionality of captives"

Adrien Collovray
Associate director, international captive consulting
Willis Towers Watson

Nate Reznicek
Director of operations
CIC Services

Wall to wall loss

With the US Government's longest ever shutdown still fresh in the minds of many Americans, could captives offer a solution to cover an estimated loss of more than $10 million per hour?

When the US federal government shutdown finally came to an end after 35 days on 25 January 2019, it marked the end of the longest shutdown in US history. Caused by on-running disagreements between president Donald Trump and Congress over budgets, the shutdown saw federal agencies cease all operations and left hundreds of thousands of workers without pay.

We spoke to Nate Reznicek, director of operations of CIC Services, who says that captives have a key role to play in covering these types of risks and explains that a government shutdown doesn't have to be catastrophic to cause a ripple effect of loss.

What is government shutdown insurance?

Generally speaking, 'government shutdown' insurance would protect an insured from adverse action from a regulatory body (such as state, local, or federal government) that causes business interruption resulting in a loss of income or extra expense.

For the government shutdown that we just experienced, thousands of employers experienced a total stoppage of work as it relates to government contract. A lack of access to job sites, the issuance of 'stop work' orders, the inability to process licensing reviews/approval, can all result in a potential business crushing loss. Government shutdown doesn't have to be catastrophic (Standard & Poor's estimates that the 2013 shutdown cost the US economy $24 billion) to cause a ripple effect of loss. You don't have to look far to find the examples of losses during the most recent shutdown: The Small Business Administration stopped processing loans–stifling the opening of new business and expansion of current business; the federal E-verify system shut was inaccessible–hindering the vetting and hiring process of new employees; the Internal Revenue Service shutdown stopped the issuance of new Federal Employer Identification Numbers–halting the opening of new bank accounts and formation of new businesses. The ultimate impact of the most recent shutdown may not yet be known for years.

What role can captives play?

Business owners continue to do their best to and account for and mitigate future loss, most often through a set-aside of funds.

> "Captives continue to be the arguably the largest driving force of innovation in the insurance marketplace. The synergy created between the shared ownership of captive and insureds allows for unparalleled flexibility in coverage"

Although better than nothing, this method is not as efficient as it is when achieved through an insurance transaction for a number of reasons. A business owner might have miscalculated the amount necessary and not have set aside enough reserves, may have underestimated the frequency of a loss event, and could experience tax erosion of their hard-earned loss funds. As with many other types of cover, captives are the ideal vehicle for the formal transfer of risk that the commercial market isn't willing or able to address quickly.

What sort of captive structures is this coverage usually put through?

Due to the complexities and inner workings of group captives (mainly the comfort and adaptability of fronting and reinsurance carriers) these coverages are typically direct written by single-parent captives. Although certainly possible, the writing of manuscript policies can over complicate, confuse and increase the expense load of a group arrangement.

What sort of companies do you see taking out this sort of coverage currently and in the future?

Currently, we have a lot of contracting companies as clients, providing services in anything from janitorial services, to maintenance and repair services, and transportation divisions. Businesses that need or rely upon government contracts for service/product or require access to regulated worksites are strongly encouraged to consider adding this coverage to cover this risk. For some businesses the significance of a potential loss related to this coverage is great enough that they should consider forming a captive specifically for protecting against these events.

Why is captive insurance so well suited to this type of coverage?

Captives continue to be the arguably the largest driving force of innovation in the insurance marketplace. The synergy created between the shared ownership of captive and insureds allows for unparalleled flexibility in coverage. Captives are able and encouraged to draft coverage that mirrors the exposures of the underlying insureds. Cover that is drafted appropriately can also eliminate gaps and exclusions that may exist in coverage obtained through the guaranteed cost market. Unlike in the commercial market, this approach can remove the 'square peg round hole' struggle that currently exists when evaluating commercial cover.

Do you expect to see a rise in companies taking out this sort of coverage with the extended government shutdown we have seen in 2019?

Certainly. Following the implementation and evolution of other commercial coverage (such as reputational damages and cyber liability) the commercial market will eventually be able to respond. If recent history is any indication we would expect to eventually see some modifications to commercial coverage forms to allow for endorsements, and eventually new policy forms, to close this gap on a guaranteed cost basis.

Captives will continue to have numerous advantages over the commercial market (including retention of underwriting profit, claims control and policy innovation) so we would expect this line of cover to expand amongst captives as well. **CIT**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Got EU covered

Stephanie Dobecki, partner at Sidley Austin, discusses the current status of the US-EU bilateral covered agreement, the impact of a US-UK agreement, and the tensions they are causing

A year and a half after the signing of the US-EU bilateral covered agreement, what is its current status and what is its potential impact?

The US-EU covered agreement has to be implemented by US states within 60 months of the date that it became provisionally effective. So, US states have to amend their laws to bring the credit for reinsurance laws, in particular, into compliance with the requirements of the covered agreement by Autumn 2022 or risk federal preemption of state law.

The National Association of Insurance Commissioners (NAIC) is working on revisions to the credit for reinsurance model law and model regulation, which would bring those models into compliance with the requirements of the covered agreement.

With respect to reinsurance, the significance of the US-EU covered agreement and the revisions to the credit for reinsurance model law and model regulation is that a US ceding insurer will be able to take credit for reinsurance in a transaction with a qualifying non-US reinsurer, without the non-US reinsurer being required to post collateral.

Have you got a prediction of when that process might be completed?

The NAIC recently provided an update on the status of their revisions. They started working on the revisions in February 2018 and had a public hearing and exposed a couple of drafts of amendments to the credit for reinsurance model law and model regulation. There was a very public process and two different comment periods around those proposed revisions for industry and other interested parties to weigh in on the impact of those proposed amendments.

In November 2018, the task force and the parent committee at the NAIC that were in charge of developing these amendments adopted them, and it was expected that the amendments would be adopted by the NAIC as an organisation in December 2018. That vote to adopt the amendments was delayed following the receipt of additional comments from the US Treasury and the US Trade Representative. Around the same time, the US-UK covered agreement was announced. In light of these developments, the amendments are still subject to some further revision.

In February, the parent committee at the NAIC issued a memorandum recommending that the task force consider certain additional revisions, which are really intended to address certain issues that were raised by the US Treasury, the European Commission, other regulators and certain interested parties.

The parent committee has set a fairly aggressive timetable to complete these revisions. The drafting subgroup is supposed to release draft proposed revisions in advance of the NAIC's Spring 2019 national meeting, which is scheduled for the first weekend in April. The goal is for the task force and the parent committee to adopt the proposed amendments by May 2019. The amendments would then have to be adopted by the NAIC executive and plenary committees before they are considered formally adopted by the NAIC.

What is the importance of the US-UK bilateral covered agreement and how is it related to the US-EU agreement?

Because the UK would have otherwise been covered by the EU-US covered agreement, but will not be covered by it once it leaves the EU following Brexit, the intent of the US-UK covered agreement was to allow those jurisdictions to continue to receive the benefit of the US-EU covered agreement following Brexit. The NAIC issued a statement that so long as the terms of the US-UK covered agreement are substantially equivalent to the US-EU covered agreement, the NAIC doesn't have any objection to extending the equivalent treatment to the UK after Brexit.

In fact, the proposed amendments to the credit for reinsurance model law and model regulation would have picked this up anyway. Under the amendments, reinsurers headquartered in a new category of jurisdictions called 'reciprocal jurisdictions', which include jurisdictions that become party to a covered agreement similar to the US-EU covered agreement in the future, would qualify for the reduced collateral treatment. So, if the NAIC had adopted the credit for reinsurance model law amendment before the US-UK covered agreement was entered into, upon entry into the US-UK covered agreement, those amendments would have extended the reduced collateral treatment to the UK anyway as a jurisdiction that has entered into a covered agreement with the US.

Before the US-UK covered agreement is signed in the US, it is awaiting the expiration of a 90-day notice period to Congress.

What are the main impacts or benefits that the covered agreements are providing?

With respect to reinsurance, the significance of the covered agreements and the revisions to the credit for reinsurance model law and model regulation is that these provisions will prohibit a state from imposing reinsurance collateral requirements upon a qualifying non-US reinsurer that assumes business from a US ceding insurer that would result in the non-US reinsurer receiving less favourable treatment than assuming reinsurers domiciled in the state. This means that qualifying non-US reinsurers would not have to post any collateral in order for the US ceding insurer to receive credit for reinsurance when they enter into reinsurance agreements with such qualifying non-US reinsurers.

Have the amendments caused any tensions?

There are certain places within the last round of proposed amendments which were adopted by the NAIC task force and the parent committee where there was some discretion provided to the state insurance commissioner. There's a question as to whether or not the amendments truly conform state laws with the requirements of the covered agreements if that level of discretion is permitted. This issue highlights the tension between state and federal regulation of insurance, which is a theme that has run throughout this process. In the US, insurance is regulated on a state basis. The states have built this discretion into the amendments because they want to preserve as much jurisdiction and authority as possible over the credit for reinsurance laws that apply in their states. But, given the provisions of the covered agreements, the states risk preemption if they don't conform the state laws within the 60 months. So, I think it will be interesting to see whether that discretion is retained in this next round of drafting.

Could these tensions slow the progress of the implementation of the amendment?

The NAIC has moved pretty quickly on this issue up until this point. To go from February to November of last year and basically have the amendments ready to be adopted, that is pretty quick. Given that the 60-month deadline doesn't expire until 2022, there is still some time for the NAIC to work with. However, there's been a lot of interest in these amendments, a lot of interested parties have already weighed in, and at the last national NAIC meeting in November, the scope of comments from the interested parties was fairly narrowly focused. That is to say, the issues overall have been narrowed, and so it's unlikely that this is going to take a significantly longer period of time to resolve at the NAIC level. Of course, the NAIC has to adopt the amendments, and then the individual states have to go through their legislative process and actually adopt the revisions to their individual state laws that reflect the changes to the NAIC models. All of that will have to occur prior to Autumn 2022 deadline in order to avoid federal preemption of state credit for reinsurance laws. CIT

Captive industry dates for your diary

LendIt Fintech USA 2019 Moscone Center, San Francisco	RIMS 2019 Annual Conference & Exhibition Boston
April 8-9 lendit.com/usa/2019	April-May 28-1 rims.org/RIMS2019
Bermuda Captive Conference Bermuda	**VCIA Annual Conference** Vermont
June 10-12 bermudacaptiveconference.com	August 5-8 vcia.com

Moves at Pinnacle, London & Capital and more

Pinnacle Actuarial Resources has promoted Aaron Hillebrandt to director and consulting actuary and Christopher Cortner to consulting actuary.

Hillebrandt joined Pinnacle in 2013 and has more than 11 years of experience in the property and casualty industry.

Based in the Bloomington, Illinois, office, his main responsibilities at the firm have been loss reserving, funding studies, loss cost projections, captive feasibility studies, and personal and commercial lines ratemaking.

Cortner, who is based in the San Francisco office, has over a decade of experience in the property and casualty industry.

Having joined Pinnacle in 2017, he has specialised in loss reserve analyses, ratemaking, rate filing, financial reporting, competitive analysis, captives, reinsurance, and commutations.

Joe Herbes, managing principal of Pinnacle, commented: “Aaron Hillebrandt and Christopher Cortner bring a depth and breadth of actuarial expertise to the firm.”

“Pinnacle is well-poised to grow our practice and to continue providing solutions for our client’s business needs.”

London & Capital, the wealth and asset manager, has appointed Shadrack Kwasa as executive director.

Kwasa will be responsible for helping to build the company’s growing institutional business, which has over $1 billion in assets, managed on behalf of captive insurers, reinsurers, and supranational organisations.

His particular focus will be on developing investment solutions for UK and European institutions, as well as developing relationships with offshore institutions.

Kwasa’s previous role was as insurance and pension solutions specialist at Lombard Odier.

Prior to that role, he held positions at P-Solve Investments and Willis Towers Watson. Kwasa will be based in London and report to Kate Miller, partner and head of institutional business at London & Capital.

Miller said the company was delighted to welcome Kwasa to the team.

She commented: “At London & Capital we pride ourselves on our transparent approach and in providing in-depth insight into the technicalities of our clients’ businesses.”

“I have no doubt that Shadrack Kwasa will make a great addition to the institutional team, bringing with him extensive experience of financial mutual and insurance clients.”

Kwasa said he was “extremely excited to be joining this thriving team and contributing to London & Capital’s continued growth”.

He added: “I have long been impressed by the scope of London & Capital, particularly when servicing the captive insurance market and smaller insurers who are so frequently overlooked.”

Bauknight Pietras & Stormer (BPS) has appointed Benjamin Glenn to the firm’s leadership team as a shareholder.

The lead tax professional on the firm’s captive insurance team, Glenn serves captives and their parent companies throughout the US.

A tax consultant with almost 20 years of experience, Glenn has experience successfully defending captives in Internal Revenue Service (IRS) examinations and submitting private letter ruling requests to the IRS.

Additionally, he regularly provides consultation on the formation of new captives, specifically the risk transfer and risk distribution matters key to the successful formation of a captive.

BPS managing shareholder Russell Bauknight described Glenn as “an asset to our clients and our firm”.

He added: “What makes the addition of Benjamin Glenn to the BPS leadership team and board of directors so gratifying is that he joined BPS 14 years ago and has focused his energy on client service and developing his leadership skills.”

“Today, Glenn is a highly sought after consultant in the areas of captive insurance and telecommunications, which in turn has contributed to BPS’ growth.” **CIT**