

# captive insurance times

The primary source of global captive insurance news and analysis

ISSUE 169 20 March 2019

## Innovation, Innovation, Innovation

In a congested US captive market, Connecticut is looking to focus on innovation to separate itself from the field

### Fueled Growth

White Rock's expansion into DC

### Shaping The Future

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## Costco captive pays \$3.6 million in Washington state settlement

Costco's captive insurance company, NW Re limited, has become the second captive to settle with the Washington State insurance commissioner, Mike Kreidler.

NW Re settled with Kreidler on 8 March, paying \$2.4 million in unpaid premium taxes and \$1.2 million in fines, tax penalties, and interest, after self-reporting its 'unauthorised activity' in December 2018.

The captive insurance company provided deductible reimbursement for Costco's liability and workers' compensation from 2000 until 2019 without authorisation.

NW Re's self-reported after Kreidler's announcement in December 2018 that he was launching a project to identify all captives that "unlawfully insured any risk in the state" and would provide reduced fines and penalties to captives that self-reported.

Kreidler's office has now collected around \$4.4 million in settlements with captives. This follows a previous settlement between Kreidler and Microsoft's captive, Cypress, in August 2018.

Fines and penalties increase every six months for captive insurers that fail to self-report, starting 1 July 2019, after 30 June

2020, captives will face the maximum fines and tax penalties.

Washington state law requires that any risk insured in the state be done through an admitted insurer or through an unauthorised insurer placed through a licensed surplus line broker.

State law also requires insurance companies to pay a 2 percent tax based on their written premiums.

At the Captive Insurance Companies Association 2019 conference, panellists suggested there was no clear answer to whether other states would emulate Washington's stance on captives.

## captiveinsurance**times**

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Published by Black Knight Media Ltd

Company reg: 0719464

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# Malta

## flawless Structure Seamless Opportunities

Malta is host to a myriad of captive re/insurance companies, protected cell companies and cells that have come to enjoy the domicile's stable regulatory environment and EU membership benefits. Malta offers re/insurers and cells:

**European Union Membership** - Malta's status as an EU member allows companies and cells the ability to passport their services throughout the European Union and EEA states. Maltese insurance law and regulation implements all relevant EU directives.

**Redomiciliation Legislation** - Companies established in other countries can seamlessly transfer to Malta without any break in their corporate existence.

**Protected Cell Legislation** - Protected Cell Companies can be incorporated in Malta, enabling cell promoters to write insurance through a cell. The law ensures proper protection and insulation of cell assets and liabilities from those of other protected cells and the core of the protected cell company.

**A Stable Regulatory Framework** - The Malta Financial Services Authority (MFSA) is reputed to be "firm but flexible" - encouraging discussion with promoters at all stages of an application process and also on an ongoing basis.

**Extensive Double Taxation Treaty Network** - Malta has around 70 tax treaties with various EU and non EU countries.

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FinanceMalta is the public-private initiative set up to promote Malta as an International Financial Centre.

## Guernsey fulfils EU Council Code of Conduct Group substance reqs

Guernsey has satisfied the EU Council's Code of Conduct Group and the European Council of Finance Ministers (ECOFIN)'s legal substance requirements for entities operating in or through the jurisdiction.

The Code Group's findings, that Guernsey's approach is proportionate and requires companies that are tax residents in Guernsey and undertaking specific activities to demonstrate that they have sufficient substance in the island, was formally approved at the ECOFIN meeting in Brussels on 12 March.

According to Guernsey Finance, the island's government consulted with the industry to clarify the legislative and reporting requirements to meet the Code Group's standards and also worked closely with Jersey, the Isle of Man, and the EU Commission.

In 2017, Guernsey committed to address a number of issues raised by the Code Group on business taxation. Then, the island formally committed to maintaining economic substance.

In the same year, its government committed to the Organisation for Economic Cooperation and Development's anti-base erosion and profit shifting (BEPS) action plan and became a member of the BEPS Inclusion Framework.

The issue of the Code Group's legal substance requirements were a subject of discussion at 2018's Guernsey Insurance Forum.

Guernsey Finance chief executive, Dominic Wheatley, commented: "Guernsey has a history of more than 50 years as a specialist global finance centre and we were confident that we would be seen to be a jurisdiction of true substance."

"Our diversity, breadth and depth of expertise naturally creates a competitive global finance centre, based on the substance of the advice and services we deliver," he said.

"This is a real endorsement of Guernsey as a cooperative jurisdiction and further indication of our ongoing commitment to meeting international standards."

He explained: "In meeting those standards we are able to provide the certainty, stability and competitiveness that our clients demand."

"The commitment to being a mainstream competitive jurisdiction is at the heart of our offer."

"Our government has engaged actively on this issue in a short time frame, and industry has recognised the importance of this issue and engaged accordingly."

## MSU using captive following Nassar scandal

Michigan State University (MSU) has launched its own captive insurance company to cover general and auto liability, following the Larry Nassar sex abuse scandal.

Created in July 2018 and managed by USA Risk, the Lysander Series is a series of North Carolina-domiciled captive Aesir Series that provides coverage for general liability and automobile liability.

The captive has a \$10 million limit for each occurrence and a \$20 million general aggregate limit.

MSU has a \$5 million self-insured retention and the Lysander coverage is entirely reinsured.

Excess coverage of \$45 million is in place above the Lysander policy limits.

In April 2018, United Educators (UE), MSU's primary insurer for general liability between 2000 and 2018, issued written notice of policy cancellation to MSU.

The decision came in the fallout of the Nassar sex abuse scandal, one of the largest sexual abuse scandals in sports history in which more than 265 women accused Nassar, an osteopathic physician for both MSU and USA Gymnastics, of sexually abusing them.

In January 2018, he was sentenced to 40 to 175 years in prison.

UE later offered to renew the policy but with new conditions that would have narrowed the scope of the coverage and no longer provide the university with the coverage it had previously provided.

The coverage provided by MSU's captive excludes coverage for claims arising from abuse or molestation of any person while in the care, custody or control of MSU.

Heather Young, a spokesperson from MSU, explained: "MSU continues to assess its insurance coverage and self-insurance programmes to best protect the university's interests going forward."

She added: "Using a captive insurance company is not uncommon for large universities. It is a cost-effective way to self-insure and gain access to reinsurance."

According to Young, many other US universities, including Brown, Columbia, Dartmouth, Princeton, Temple, and Butler, use captives in their risk management strategies.

## Lockton launches new global reinsurance business

Lockton has launched a new global reinsurance business, Lockton Global Re, with a leadership team of well-known executives from the insurance industry.

The new business will expand Lockton's reinsurance capabilities and incorporate its specialty team based in London.

The company's aim is to build a best-in-class global reinsurance practice that attracts the best global talent and develops top-level data analytics and technology platforms.

Lockton Global Re will be led by an elite leadership team made up of talent from across the industry, including three key hires from Marsh & McLennan Companies' subsidiaries.



The leadership team includes Tim Gardner, current CEO of North America operations for Guy Carpenter, Claude Yoder, current managing director and global chief innovation and product development officer for Guy Carpenter, and Nick Durant, current managing director of Guy Carpenter.

Gardner joins with more than 20 years of (re) insurance industry experience with Marsh & McLennan Companies, including roles with its subsidiaries Guy Carpenter, Marsh Risk Management, and Marsh.

Yoder is an insurance and risk management veteran with more than 25 years of experience.

He has held multiple roles at Marsh, Guy Carpenter, and several insurance carriers.

Durant has over 20 years of experience in reinsurance analytics, previously led Marsh's captive solutions business, and served as the company's global analytics sales leader.

This new leadership team will incorporate with Lockton's reinsurance capability, Lockton Re US and Lockton Re UK.

Ron Lockton, president and CEO of Lockton, said that by with the addition of the new leadership team, the company was "going all in on insurance".

He added: "We are filling a void in the marketplace, building our platform the right way by focusing on value creation for our clients."

"With encouragement from our key trading partners who hunger for choice and innovation, we make this commitment to the reinsurance space."

David Lockton, chairman of Lockton, commented: "With this team we aim to build a best of breed reinsurance brokerage business, creating for our reinsurance clients the unique customer experience that we've always created for our existing clients."

Lockton International Holdings CEO Neil



## Aon's White Rock opens DC business

Aon's has expanded its protected cell facilities under the White Rock Group with the launch of business in its seventh domicile, the District of Columbia.

White Rock set up the first protected cell company in Guernsey in 1997 and now operates protected cell companies in Bermuda, Gibraltar, Guernsey, Isle of Man, Malta and Vermont.

It now manages 250 cells, with \$730 million in gross written premium and over \$2.6 billion in assets.

Dermot Finnerty, White Rock managing director, commented: "I am delighted to announce the launch of our seventh domicile in the District of Columbia as White Rock and Aon build on the significant traction we have gained since first introducing protected cell companies. We now manage a total of 250 open cells, another significant

milestone for us, and a testament to the hard work, specialist insight and professionalism of the Aon and White Rock teams."

He added: "As reinsurance and capital markets continue to converge, we are seeing increasing demand for protected cell solutions for market access, fronting solutions, insurance-linked securities facilitator cells and warehousing solutions."

"Over the past twenty years since White Rock's establishment, we have delivered innovative solutions to our clients looking at alternative vehicles to manage their risks."

"Our laser focus on our clients, combined with the excellent potential for growth over the next 12 months, mean that 2019 is set to be another exciting year for White Rock."



### Bowers and ACIG receive CICA awards

The Captive Insurance Companies Association (CICA) has handed out awards to Gary Bowers and the American Contractors Insurance Group (ACIG) for their contributions to the captive industry.

Bowers, a recently retired tax partner at Johnson Lambert and Company, received the distinguished service award, while ACIG, which provides coverage and risk management services to the construction industry, received the outstanding captive award.

The distinguished service award is presented to a single individual or entity that has made a significant contribution to advancing the captive insurance industry.

Bowers served the financial services, not for profit, and employee benefits industries for the majority of his career, and worked for KPMG and Ernst & Young before joining Johnson Lambert in 2001.

He thanked the CICA board for the honour and added that he had “always thought of CICA as strengthening the future of the captive industry” and praised CICA for its “outstanding

education programmes, its advocacy in both the US and overseas, and for the friendships formed at conferences”.

Bowers concluded: “I would like to thank my Johnson Lambert colleagues for allowing me opportunity and inspiration to do what I truly loved, and thanks to all my friends here at the conference.”

The outstanding captive award is presented to captive insurance companies or risk retention groups that show creative uses for a captive, have prevailed over difficult times, and have gained acceptance, recognition, and a positive reputation among rating agencies, regulators and colleagues in the captive industry.

Michael O'Neill, ACIG president, commented: “Our success is the result of the unwavering support of our members and staff. We receive this on their behalf.”

Bill MacIntyre, ACIG CEO, praised O'Neill for his service to ACIG and thanked CICA for the award.

He added: “We have had very loyal members, great service providers, and great staff.”

Nimmo said the three new hires “give the market clear direction on the quality of the operation we want to build and who we want to build it with”.

Nimmo also stated: “As a major global retail broker we always saw the opportunity in building complimentary talent in reinsurance to support our carrier partners.”

### Tennessee written premium up 20 percent despite captive drop

Tennessee-domiciled captive insurance companies' written premiums rose by 20 percent to \$1.2 billion last year, despite the state seeing reduced growth in new captive licences and a rise in captive closures.

Statistics from the Tennessee Department of Commerce and Insurance (TDCI) revealed that 31 risk-bearing entities (RBEs), 16 new captives and 15 new captive cells, were licensed in the state in 2018, a reduction on the 48 RBEs, 10 captives and 38 cells, licensed the previous year.

The TDCI statistics also showed that 48 RBEs, 10 captives and 38 cells, closed in Tennessee last year, a rise from the 39 RBEs, 10 captives and 29 cells, that closed in 2017.

This net reduction in terms of total RBEs means that at year-end 2018, there were 476 active RBEs, 145 captives and 331 cells, licensed in the state.

The 145 active captives were made up of 102 pure captives, 33 protected cell captives, eight risk retention groups, and two association captives.

Despite the drop in the total number of active licenses, written premium, which exceeded \$1 billion for the first time in 2017, rose by 20 percent to \$1.2 billion last year.

Michael Corbett, director of captive insurance at the TDCI, commented: “The captive section ended the year having opened a grand total of 180 captives and 435 cells (615 RBEs) since the statute was revised in 2011.”



"At December 31, 2018, 133 captives and 320 cells (453 RBEs) are still in operation."

"We anticipate 2019 being another strong year for Tennessee Captives."

## Guernsey providing captive solution for pension scheme risks

Guernsey is providing a captive-based solution that will offer an alternative method to manage defined benefit pension scheme risks.

It has been predicted that up to 40 FTSE 100 companies will have opted for full pension buyouts by 2028, however, a limited number have offloaded their schemes in full to insurers, with the buyout volume of FTSE 100 companies' pension plans only totalling £5 billion out of almost £800 billion in liabilities.

Mike Johns, director of Willis Towers Watson Guernsey, noted that Guernsey's captive-based solutions provide an alternative to buy-ins/outs.

He explained: "A Guernsey captive-based solution puts greater operational oversight and control in the hands of pensions trustees and their advisers than any other while allowing the scheme to retain investment risk."

"Guernsey is the only proven centre for captive-based longevity risk solutions, all recent captive-based pension longevity swaps have chosen the island as a domicile for the special purpose insurer."

These longevity shifts include both British Airways and Marsh & McLennan Companies in 2017, the Merchant Navy in 2015, and BT in 2014.

Artex Risk Solutions client services director Eddie Ballard said that Guernsey's pedigree in pensions began in longevity de-risking due to it being increasingly affordable and providing access to the reinsurance market.

He continued: "Guernsey provides a flexible, responsive regulatory regime outside of the EU."

"Its regime distinguishes between different classes of insurer, between commercial and captive insurers for example, and applies the regulatory regime to each in a proportionate manner."

"This allows captive owners to gain a direct relationship with the reinsurance market in an increasingly time and cost-efficient manner."

Dominic Wheatley, Guernsey Finance chief executive, added: "While pension trustees and their advisers have been focusing on longevity risk in recent years, a captive insurance company can do far more."

Wheatley explained: "There is a great appetite for reinsurance as it is a suitable solution for many types of risk."

Guernsey's pension solutions will be discussed at an event in London on 21 March 2019.

## World's first blockchain exchange for (re)insurance to launch in Bermuda

The (re)insurance industry's first distributed ledger technology (DLT) driven risk and capital exchange, called the Bermuda Insurance Exchange, is set to launch in Bermuda later this year.

Created by ChainThat, a specialist provider blockchain solutions for the (re)insurance industry, the exchange will allow broker, reinsurance and insurance companies access to the capital markets using blockchain.

The exchange will allow the transfer risk and capital between direct insureds, brokers, cedants and captive insurers and insurance, reinsurance, industry loss warranties and insurance-linked securities (ILS).

It is expected to go live with a production trial in July 2019.

The exchange will be implemented in stages, first providing the framework for a traditional

reinsurance market, including placement, accounting, settlement and claims.

New capital will then be introduced, supporting the same processes for ILS, and following that, ChainThat will add the ability to support securities and warranties, and ultimately provide trading of these instruments.

David Edwards, CEO of ChainThat, said the exchange was an opportunity for Bermuda to establish its place as "the most advanced insurance market in the world".

Edwards added: "We are delighted to be unveiling this exchange that will cut frictional costs and allow brokers, reinsurance and insurance companies access to the capital markets using blockchain."

ChainThat business development director Rebecca Oliver commented: "The exchange will enable the existing market participant businesses, brokers and risk carriers, to develop and market new competitive products and extend their distribution reach like never before."

"Cost control and innovation are the two big issues that are being discussed in insurance board rooms around the world."

She continued: "By automating the current operational framework, we believe the Bermuda Insurance Exchange provides the insurance and reinsurance market with the opportunity to both maintain margins while reducing pricing to the insured."

"In turn, this will increase business performance and global competitiveness."

## Singapore issues first cat bond under ILS regime

The first catastrophe bond has been issued under Singapore's insurance-linked securities (ILS) regulatory regime.

The bond provides the Insurance Australia Group with AUD 75 million of annual aggregate catastrophe protection for three years and is part of its aggregate sideways



### Uber and Lyft utilising Hawaiian captives

Two giants of the ridesharing industry, Uber and Lyft, appear to be using Hawaiian-based captive insurance companies as part of their risk management strategy.

Hawaiian public records show that Pacific Valley Insurance, a captive registered in September 2013 and managed by Marsh, has Lyft co-founder and CEO Logan Green and co-founder, president and vice chairman John Zimmer listed as its directors.

While the records also show Alexa Insurance, registered March 2014 and managed by Aon, has Uber's ex-head of finance Gautam Gupta and former Uber lawyer Yoo Salle listed as directors.

Lyft's initial public offering (IPO) filing with the US Securities and Exchange Commission (SEC) revealed that the company utilises its "wholly owned captive insurance subsidiary" to "insure or reinsure costs including auto liability, uninsured and underinsured motorist, auto physical damage and general business liabilities up to certain limits".

The possibility of ridesharing companies utilising captives was discussed at the Vermont Captive Insurance Association Conference in 2018.

Speaking at the conference, Peter Tomopoulos, senior manager of Deloitte Consulting's actuarial, rewards and analytics, suggested there was an opportunity for could be an opportunity for captives.

Tomopoulos said: "Large companies like Uber, Lyft and car manufacturers themselves own very big fleets and will be large enough that they can self-insure, only going to the commercial market for reinsurance."

He added: "Any company along the supply chain may benefit from captives or other risk management options, and we may see car manufacturers pooling their risks together."

Tomopoulos concluded that the new risks would also create new opportunities for captives.

cover, which in total provides protection of AUD 475 million excess of AUD 375 million.

The bond is sponsored by IAG, while GC Securities, a division of Marsh and McLennan Companies, acted as the sole structuring and placement agent.

The issuance follows the introduction of an ILS grant scheme by the Monetary Authority of Singapore (MAS) in February 2018, which funds upfront ILS bond issuance cost.

The scheme was developed in consultation with industry experts and is designed to catalyse the development of Singapore's ILS market.

Ng Yao Loong, assistant managing director, development and international group, MAS, described the issuance as a "significant milestone in the development of Singapore's ILS market".

He expanded: "It demonstrates the growing capabilities of the Singapore financial sector in delivering such innovative capital market solutions."

Loong said: "The (re)insurance industry, multilateral organisations and sovereigns are now able to tap additional risk transfer mechanisms to better address Asia's disaster protection needs."

Guy Carpenter vice chairman David Priebe added: "Singapore's ILS grant scheme is an excellent initiative that has played an important part in enabling this transaction to take place."

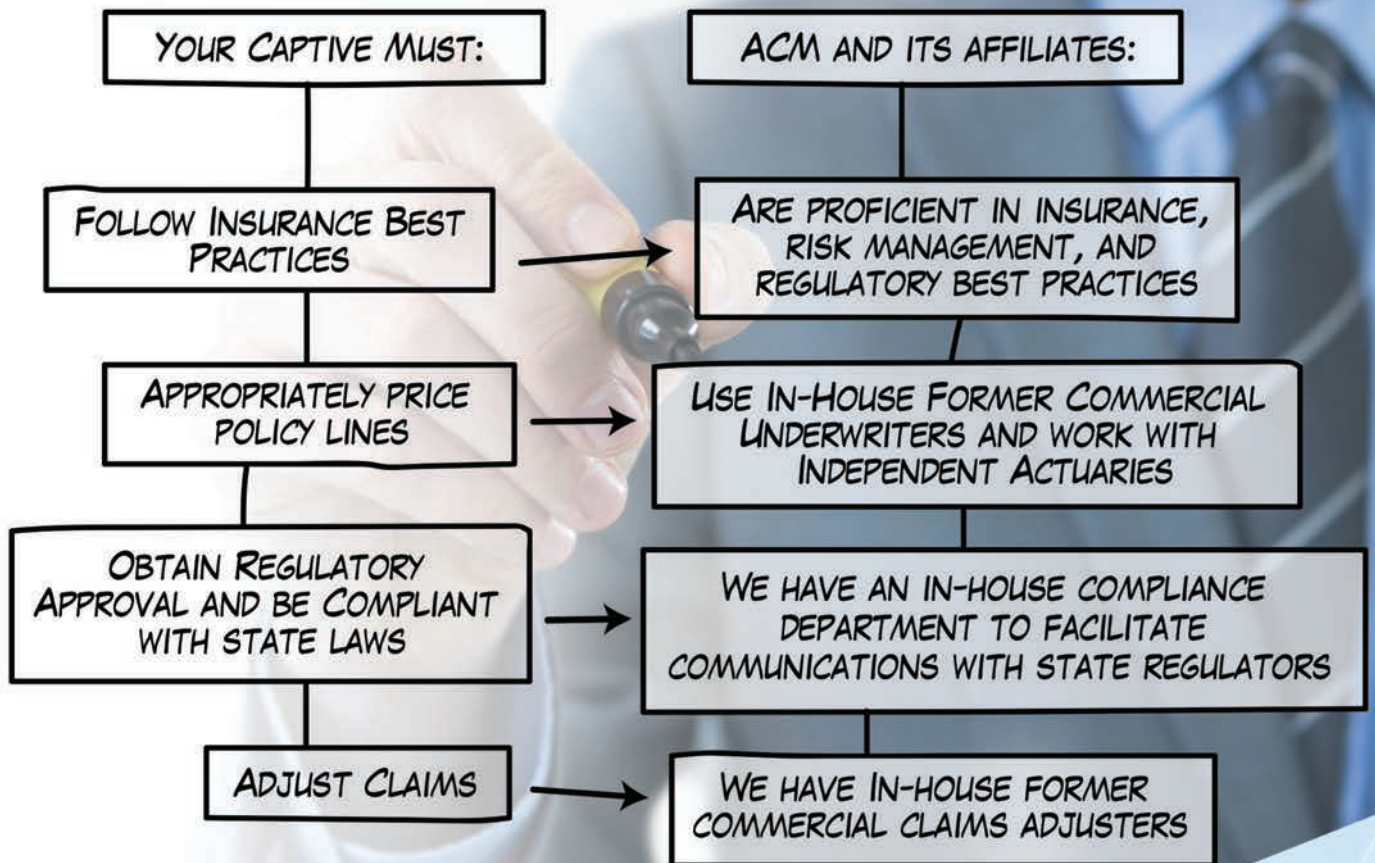
"We hope the pioneering work of IAG, MAS, and GC Securities provides a springboard for greater use of ILS to close the protection gap in Asia and promote sustainable economic development in one of the most dynamic regions of the world." **CIT**

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# Innovation Innovation Innovation

In a congested US captive market, Connecticut is looking to focus on innovation to separate itself from the field

*Ned Holmes reports*



Connecticut is a state with insurance running through its veins. It has the highest ratio of insurance professionals of any US state, and its insurance hub, the city of Hartford, is known as the 'insurance capital of the world'.

In recent years, there has been a focus on innovation and emerging technology, with Hartford developing a strong ecosystem as it strives to become an 'insurtech capital'.

This push for innovation is reflected in the domicile's captive industry. In a congested US captive market, Connecticut is not concerned by huge growth in formations, but is trying to differentiate itself by focusing on innovation.

Michael Serricchio, managing director of Marsh Captive Solutions, and member of Connecticut Captive Insurance Association (CCIA) board, explains: "We'd like to think there are some differentiators in our captive market, but in reality everybody is doing similar things."

"So, as a board we are trying to do things outside the box. We are trying to disrupt the market, through things like blockchain and insurtech."

## CFSIC

One of the ways Connecticut has differentiated itself is through the Connecticut Foundations Solutions Indemnity Company (CFSIC), a non profit captive set up to assist homeowners affected by the 'crumbling foundations' issue. There could be some 30,000 homes in the state impacted by the forming of web-like cracks in their foundations, which can do irreversible damage.

Commercial insurers generally denied coverage responsibility for the issue and, so, with residents in desperate need of a solution, the state government launched the Crumbling Foundations Assistance Fund to help impacted homeowners and launched CFSIC to distribute the remediation funds.

CFSIC launched officially on 10 January 2019 and had 174 applications within the first 55 minutes. Michael Maglaras, superintendent of CFSIC and principal of Michael Maglaras & Company, notes that the captive is "very well launched and has paid out almost \$2 million dollars in claims".

He adds: "When you think about captive insurance companies, this is in many respects the most unique captive ever created because it is delivering coverage to homeowners who never paid it a premium."

CFSIC hopes to begin the process of lifting houses and replacing foundations in April. Maglaras said that, as of early March, the captive had \$56 million in incurred claim liabilities, and expects to have nearly \$90 million by the end of June. The captive currently faces an issue of funding, with Maglaras suggesting that at its current rate, it will run out of all expected funding by May 2020, even though its mandate extends through 30 June 2022.

He notes: "I am working with US senators and a number of key congressmen from Connecticut and we are actively actively engaged with the federal government for additional financial assistance."

Further than just providing life changing aid to thousands of local homeowners, the crumbling foundations captive may also be extremely beneficial for the captive market itself.

CCIA president Steve DiCenso says: "It will certainly be an education for folks to better understand captives. Others will see the benefit of it and eventually that will trickle into the commercial space more than it has, the general awareness of captives will continue."

He continues: "To the wider captive market I think it shows that we're creative, we're flexible, and we're willing to work with captives like this, especially in the non profit space."

## 2018

Away from CFSIC, 2018 was a slow year for Connecticut in terms of formations, as it was for many captive domiciles. The state added just one new captive last year, while one captive redomiciled to another jurisdiction.

At year-end 2018, there were 15 captives licensed in the state, underwriting more than \$300 million of captive premium, across a range of both traditional and non-traditional risks including casualty, property, medical stop loss, professional liability, flood, and custom coverage.



# Domicile Profile

While there are many positives of having a large insurance sector, according to Serricchio, Connecticut is more focused on the next best thing, which might be hospitals, not for profits, innovation and technology companies, biotech companies, and hedge funds”.

Janet Grace, captive programme manager, Connecticut Department of Insurance, explains that the state has its sights set on “second movers to the captive market including middle market manufacturers and health care centres, key sectors of Connecticut’s markets”.

DiCenso says despite a “slower than expected year” in terms of formations, the state and the association have got “a lot of momentum”.

He adds: “Our outreach in the community is getting better and better. The insurtech community in the Hartford area we think is an area that has a lot of potential and we are actively involved there. We continue to try and reach out to other areas of entrepreneurialism in the community.”

## Regulation & relationship

The association has also been working with the Connecticut Department of Insurance to craft new legislation in order to make a number of amendments to the captive law. The proposed legislation has two main focuses, the first is to clean up and clarify parts of the existing law, some of it relating to agency captives, while the second is related to the issue of self-procurement tax.

DiCenso explains: “We are looking to establish the ability for an existing Connecticut company with a captive in another state to form a branch in Connecticut for its own Connecticut risks.”

“What that would do is provide a Connecticut company with an avenue to have a very clean structure for their tax liability as opposed to the uncertainty that exists now in the industry about this issue.”

The state benefits from an efficient working relationship with the Department of Insurance and DiCenso says that the regulator’s position as an ex-officio member of the CCIA board makes the relationship “very productive” and allows them to communicate “very, very well”.

Serricchio adds: “They’re approachable, they advise the CCIA board, they speak at events, they’re very friendly, and they want to get business done.”

## Strengths

The close working relationship with the regulator is undoubtedly a byproduct of the thriving insurance presence in the state. Another advantage that presence offers is the strong pool of industry talent available.

Maglaras says the depth of talent in Connecticut has helped it to “come to the attention of the worldwide captive industry” and provide some “huge business opportunities”.

He expands: “Connecticut is already an insurance state. Underwriting talent, accounting talent, audit talent, actuarial talent—there’s a ton of it in Connecticut. I think that helps Connecticut stand out and all indications are that Connecticut is poised for a captive boom.”

DiCenso says the depth of talent gives Connecticut the unique advantage of having strong commercial insurance, captive insurance, and insurtech communities.

“This combination is unique,” he says, “no one has all three of those.”

It is this combination, which DiCenso believes allows them to stay on the “cutting edge of insurance trends”.

## Outlook

Staying on the cutting edge of trends will allow the state to continue to differentiate itself in the captive market. Insurtech seems a surefire way to do just that but DiCenso believes the rewards of that movement may still be a little while off.

“These things take time,” he says, “we would all like immediate benefits, but we think we will see them longer term.”

Serricchio adds: “Insurtech, blockchain, cryptocurrencies, and the digital third party space, that is where captives are headed, and the states like Connecticut that get onboard faster I think will really do well.”

Aside from technology, the early success of CFSIC may mean that becomes a trailblazer in the unusual coverage space.

“I could see Connecticut gaining a reputation for more unique and non profit captives,” notes Serricchio, “there are a couple of captives in that space.”

“There is CFSIC, CREC, and a handful of other not for profit captives that are not technically insurance taking vehicles but they are a regulated formalised way of solving a business need. To an extent we can become that.”

“It would be interesting to see in the future if captives got into writing things like workers’ compensation on a direct basis, or more taboo-like subjects such as cannabis, or in coverage for the sharing economy and gig workers.”

“I think that is where captives are going and the states that get on board quicker are going to be the ones that succeed longer.”

Grace says the department “anticipates more innovative, ‘out-of-the-box’ solutions to come forward in 2019 and beyond.”

However both the global and state’s captives markets fare and evolve in the next few years, one thing appears to be for certain, Connecticut’s primary focus will be innovation, innovation, innovation. **CIT**



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## Fueled growth

Nancy Gray of Aon discusses the expansion of Aon's White Rock Group into the District of Columbia

### ***Ned Holmes reports***

On 11 March, Aon announced that it was expanding its protected cell company (PCC) facilities under White Rock Group into the District of Columbia (DC). The expansion into DC means White Rock now

operates PCCs in seven domiciles, managing 250 cells, with \$730 million in gross written premium and over \$2.6 billion in assets.

During the Captive Insurance Companies Association 2019 conference in Tucson, Arizona, we spoke to Nancy Gray, regional

managing director, captive and insurance management, commercial risk solutions at Aon, about the expansion, the motivation behind it, and the trends in the PCC market.

## What was the motivation behind expanding White Rock into the DC?

We are quite excited about expanding White Rock into DC. In the US we have White Rock USA, domiciled in Vermont, and we have White Rock Bermuda for the Americas. It was a strategic decision to expand White Rock into the DC market. It is recognising the geographic preference of our clients and that there was a need for us to be forming a sponsored captive in DC. We are responding to that need and are able to offer that as an additional choice for our clients.

There are different opportunities for White Rock, as there are different solutions that it offers, depending on the clients needs. In the Americas and the US, a lot of the White Rock cells are formed more as either retention or a pass through. A typical corporation wants to set up a captive, instead of a standalone captive they're using the cell to respond to that unique need that they have, whether that is retention or access to reinsurance.

## Should we expect to see more expansion?

It is one of those things I think when you look at, in terms of the US, how the captive domiciles have really expanded beyond just Vermont and Hawaii. There are now close to 40 states with captive laws, so it has become a lot more strategic from a geographic standpoint, compared to domiciling a captive closer to where you are headquartered or in your home state.

That has been fuelling a lot of growth in the US, in terms of new formations, but very similarly to White Rock it is a strategic decision based on needs of clients to be in DC. If we do have another opportunity, absolutely we will continue to expand to meet the changing needs of our clients.

## Do you have any plans for significant additions to the White Rock staff?

We are continuing to grow from a talent perspective just because we are growing in terms of the number of captives. It is the same with White Rock, it will add in terms of additional work we will need to do for the expansion but we don't expect necessarily that we will be adding colleagues in DC, we will just be adding to some of our existing teams in South Carolina or in Vermont.

## What trends are you seeing in the PCC market?

The PCC space is somewhere we have seen quite a bit of growth because you have a lot of companies not necessarily looking to form a new captive but this provides a much easier streamline approach or solution if they have a need.

For instance, the wildfires out in California created a need for a client for the reinsurance access. So, rather than set up a standalone captive, we are utilising the cell to provide that insurance coverage to allow them to access the reinsurance market just for that specific coverage.

The PCC space is more unique in terms of addressing specific needs and requirements from the clients.

## Are you expecting this to continue or do you forecast any new trends in the PCC space?

It will be impacted by any changes in the market. It is one of those things that it has been difficult to predict where we are going to see some hardening in the market. But I think that whole market cycle where you had a soft market and then hardening of the market and then a return to a soft market, the market has changed, it doesn't respond that way any longer. You still have specific lines of coverage or specific industries that have more hardening and that is where White Rock is a unique solution for those clients or for those unique lines of business.

## What targets does White Rock have over the next 12 to 14 months?

We think 5 percent growth is very achievable looking at this segment of the business. White Rock has been growing significantly for us over the last few years and we think that it will continue to generate at least 5 percent annual growth in the foreseeable future for us.

## What do you see impacting the PCC market?

I think it is a very favourable marketplace for PCC legislation. All the various US states have been updating their laws and regulations as it deals with this. If anything the marketplace is very attractive for a PCC marketplace. Just in general, there is always certain regulatory changes or tax changes that might impact captives but those aren't specific to PCCs, they're industry-wide, such as the Washington state issue with Microsoft.

In that case, Washington state is trying to tax the captive that is writing coverage for risks located in the state. That potentially increased costs for insureds. Microsoft didn't fight it, they just settled, but if they continue to pursue other companies and no one is willing to fight that battle with Washington state, potentially that is going to increase the cost of doing business for captive insurance companies, and PCCs wouldn't be isolated from that, they're also potentially impacted by that.

The US market continues to be an active marketplace for captives and when you look at the number of captive formations across the domiciles in the Americas they continue to add captives, so, it is a useful tool that is being used by captive owners, as sophisticated risk buyers. They're using captives as a risk management tool that they use to manage the volatility of risk in their organisation. I don't think that this will be impacted by changing market conditions, regardless of whether it is a soft or hard market, captives continue to have a useful purpose. **CIT**



# Shaping the future

This year's CICA conference in Tucson, Arizona, focused on the opportunities and challenges ahead for captives and the role they can play in the future

## Ned Holmes reports

The Captive Insurance Companies Association (CICA)'s 2019 conference, saw Tucson, Arizona, play host to 563 delegates, from 39 states and 17 countries. CICA's 47th annual conference focused on how captives could play a role in 'shaping the future'.

Providing the opening address for the second consecutive year, CICA president Dan Towle, said the theme reflected the "powerful opportunity we have today with new technologies, new types of business; and new risks to address".

"Risk managers need to anticipate opportunities and collaborate to have the risk management solutions ready for future business needs," Towle assessed.

Towle said the past year has been "exciting, challenging and rewarding" and has held a few surprises, but he emphasised that

the industry continues to be misunderstood, which offers both challenges and opportunities.

According to Towle: "The challenges come from addressing increased scrutiny on several fronts, whether it is the Internal Revenue Service in the US or the global impacts of the Organisation for Economic Co-operation and Development (OECD)."

He added: "Misunderstanding of how captives operate continues to proliferate, and CICA continues to take a leadership role in increasing the understanding of the responsible and correct use of captives and the importance of best practices."

Towle added that CICA continued to act and advise according to the mantra "do captives right, or don't do them at all".

Two examples of doing captives right, Gary Bowers and the American Contractors Insurance Group (ACIG) were handed awards





by CICA at the conference, with Bowers receiving the distinguished service award and ACIG receiving the outstanding captive award for its contributions to the industry.

The winner of the CICA 'Next Generation Captive Insurance Solutions for New Risk Challenges' essay contest for college risk management and insurance (RMI) students was also announced.

Temple students Angel Song and Alana Vicalé took first place their essay titled "Captive Solution: Opioid epidemic in the US". The essay contest is one of a number of ways CICA are trying to support young professionals in the captive industry and Towle said the contest had been as "exciting" as it had "confirmed that students do consider careers in captive insurance interesting and on the cutting edge in the insurance industry".

He added: "We need the next generation to be our best advocates."

## Focus on youth

An increased focus on the importance of young professionals was reflected in the programme schedule at this year's conference, with six of the 34 public sessions focusing on the issue, including three with current students on the panels.

Speaking on the 'shaping the captive leaders' panel, Sandra Springer, senior vice president at Captive Resources, said the talent crisis is here and is hitting the insurance industry hard.

Referencing the statistics that are regularly quoted on the talent crisis, that 400,000 employees will be exiting the insurance industry in a very short period of time, Springer said: "We all know that we have a shortage of talent, it's been predicted, it's been discussed but it's here now and it's hitting the insurance industry particularly hard."

Springer added that this issue meant that growing organisations were "dually challenged".

She explained: "They're looking both for young professionals to fill the holes created by retirements and to attract new talent as part of their growth. We need to be proactively engaging these young people and selling captive insurance. We work in a very interesting field and we need to make sure we can describe exactly what that is."

Providing evidence that many young professionals are well prepared to fill those holes, Sammy Szames, a student at Butler University, and Kevin Thompson, CEO of the student run captive and professor at Butler, presented a session on the Butler student captive.

Thompson, said the MJ Student-run Insurance Company, which was licensed in Bermuda in 2017 and works with big name service

providers including Aon, KPMG, Conyers Dill & Pearman, and HSBC, was part of an education programme through which they were "trying to make students ready for the industry and to help solve the talent crisis".

He added: "The 400,000 jobs represents an amazing opportunity for students with risk management experience and that is exactly what this captive is giving our students."

Szames said his experience had driven his aspirations to join the captive industry. He commented: "The industry is starving for talent right now and I'm just excited to enter that workforce and keep learning. I know that is the track I want to go on, and that is how I'm going to get where I want to go."

The importance of effective succession planning was emphasised in the session on 'shaping the captive leaders'. One of the speakers, John Prescott, managing partner, Johnson Lambert and Company, said succession planning and recruitment did not come without significant effort.

He explained: "It is a day in, day out task developing leaders that you are confident will be in place five or 10 years down the road."

Prescott also suggested that poorly executed succession planning is a primary driving force behind the increase in merger and acquisition (M&A) activity. He said there have been "a wave of retirements that have been happening and will be expected to continue" and "not coincidentally, there has also been a wave of M&A activity in our industry and that too is not expected to let up anytime soon".

"I don't want to oversimplify the reasons behind that M&A activity but certainly, a reason and a primary driving force is that the lack of ability to execute an effective succession plan has led to companies looking to sell to the next tier of firms above them. Every single week we see medium and small firms being gobbled up in our industry."

## Focus on challenges

There was an optimistic atmosphere throughout the conference, and even when the numerous challenges facing the captive industry were discussed, often a pragmatic stance was taken, focusing not on the issues but on solutions.

On the "perennial challenge" of finding experienced and qualified captive regulators, Steve Kinion, director, Bureau of Captive and Financial Insurance Products, Delaware Insurance Department, said that International Center for Captive Insurance Education (ICCIE) training could provide a solution.

He said that the proliferation of US captive domiciles, of which there are now nearly 40, was creating "strains in regulatory departments".



Kinion noted: "It is a perennial challenge to find regulators with captive insurance experience because it is a relatively new facet of the insurance industry. In Delaware, we have attempted to address that with the ICCIE training designation. This is one way to address the issue of finding qualified captive regulators."

Another regulator speaking at CICA 2019, Dana Sheppard, associate commissioner, Risk Finance Bureau at District of Columbia Department of Insurance, Securities and Banking, called for the industry to work together to police bad actor risk retention groups (RRGs) or the National Association of Insurance Commissioners (NAIC) might look to alter the way they operate.

He said: "Anything is fair game for the NAIC if we don't do a good job of policing RRGs properly. It is important."

The aggressive stance taken by Washington state insurance commissioner Mike Kreidler on captives was a hot topic, especially following Costco's recent settlement, which means the Washington commissioner has now collected around \$4.4 million in settlements from captives, with the captive insurers of Costco and Microsoft having settled.

Mikhail Raybshteyn, Americas captive services deputy leader, EY Global Captive Network, suggested there was no clear answer to whether more US states will emulate Washington's stance. He said: "I don't think there is a clear cut answer. We haven't had an indication from states outside Washington that don't have captive laws that they're going to follow suit."

In another session, David Provost, deputy commissioner for captive insurance at the Vermont Department of Financial Regulation, took a different stance, arguing that Washington is a unique case.

Provost commented: "There are large corporations and no income tax for businesses. The large corporations like Microsoft are paying a relatively small amount of tax, so it is hard for them to stand up. I don't know if it will bleed over because Washington is unique."

Paul Owens, CEO of global captive practice at Willis Towers Watson, was tasked with summarising BEPS and Brexit on the 'political climate and the future of captives' panel. In opposition to the views of some other industry experts on Brexit, Owens warned it was a major problem for the industry due to the issue of passporting.

He explained: "For our industry, this is a major problem, without guidance from the government or authorities, on the 30 March, no one knows if insurance policies are going to be valid."

On BEPS, he served a stern warning to the North American captive industry, saying that the whole captive industry "is under a direct attack through this" and that "this isn't scaremongering, this is coming".

He added: "OECD BEPS applies to the US as much as any European country."

## Focus on emerging risks

Emphasising the theme of shaping the future, emerging risks also featured in the conference programme, with cyber, blockchain, and cannabis all discussed.

Michael O'Malley, managing director at Strategic Risk Solutions, highlighted the increasing trend in captives being used to cover cyber liability. He noted that driving that trend was that captives offered "control, capacity, and cost, and, like most coverage lines, those are traditionally the three forces that lead to captive use".

"People think that of the perception of cyber as a low-frequency high severity risk a captive isn't a good fit," noted O'Malley, "in our opinion, it is worth looking at the captive to access reinsurance capacity to solve that because you can manage retentions through reinsurance and exert some more control in that structure."

Another panellist, Fred Eslami, associate director at A.M. Best, suggested that a large part of the growth in the cyber captive market space was through smaller companies.

He said: "The expansion of the market into small businesses will increase and will continue to increase over the next few years. Big companies already have coverages."

There were mixed opinions on the potential opportunities that cannabis could provide for the captive market.

Sheppard, speaking on the 'regulatory hot topics' panel, suggested that if the current Schedule I classification was lifted on cannabis, captives could be perfectly suited for the risk.

He noted: "Captives have always led the way in terms of new risks, so this is perfect."

However, Provost suggested the window for captives to provide coverage for cannabis risks may be short.

"If there is a need it might be a short window," stated Provost. "My bet is that once cannabis becomes legal or is no longer a Schedule I prohibited substance the commercial market will step in and maybe there won't be a need for captives."

## The prospect of future change

Whether it be a new wave of captive insurance professionals, emerging risks, or the continued regulatory and reputational challenges facing captives, what was clear at CICA 2019 was that the captive industry was excited by the prospect of future change, and what that could mean for the market. **CIT**



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# Comings and goings at Marsh, Artex, and Maxis GBN

### **Marsh has appointed Robert Bauer as head of its US sharing economy and mobility practice.**

Bauer joins from AIG, where he spent more than seven years, most recently as general insurance head of innovation and its sharing economy group.

In his new role, Bauer will focus on developing and delivering industry-leading products and services to companies operating in the new economy, working closely with experts across Marsh.

He will work closely with experts within Marsh Captive Solutions in developing innovative solutions that meet the needs of clients.

Based out of San Francisco, Bauer will report to Jeffrey Alpaugh, growth and industry leader for Marsh's US and Canada division.

Alpaugh said the arrival of Bauer would better position Marsh to "advise clients on solutions and strategies needed to address this dynamic sector's evolving risk landscape".

He added: "Marsh continues to invest in top talent to help clients proactively address emerging risks from participating in the sharing economy and autonomous mobility industry."

Bauer commented: "I'm looking forward to working with Marsh's industry-leading team of experts to deliver innovative solutions to our clients."

"For the founders, funders, and participants in the new economy, good risk management and well-structured insurance are critical to their long-term success."

### **Artex Risk Solutions has promoted Laura Hurlston to client services manager.**

Hurlston has more than 10 years' experience working in captive insurance, with expertise in single parents, group captives and insurance-linked securities.

Based in Artex's Cayman Islands office, she previously held the role of account manager,

having joined Artex in 2016 when the company acquired her previous employer, Kane.

She began her career in captives at HSBC in 2009 and moved over to Kane when the company acquired HSBC's captive division in 2011.

Hurlston holds an associate in captive insurance designation and is currently vice chairperson of the Cayman International Insurance, Education and Local Events committee and a member of the Cayman Islands Institute of Professional Accountants.

John Pitcairn, managing director of Artex (Cayman), commented: "Laura Hurlston has been a valued member of our staff for some time now and fully deserves her promotion."

"She is not only excellent technically but has built up strong client relationships over the past few years."

### **MAXIS Global Benefits Network (MAXIS GBN), Metlife and AXA's international employee benefits (EB) joint venture, has appointed Ricardo Almeida as head of distribution.**

Almeida has almost 20 years of experience working in the EB industry and has been with MAXIS GBN since 2016, serving as its Americas distribution leader.

In that role, he was responsible for MAXIS GBN's strategy for the Americas and managed a team of EB experts that worked with strategic partners and clients to deliver EB solutions.

Prior to joining MAXIS GBN, Almeida held roles at AIG, ALICO, and Metlife.

Mauro Dugulin, CEO of MAXIS GBN, said he was confident that, in his new role, Almeida would continue the impressive growth the company has seen in recent years.

He added: "Under Ricardo Almeida's leadership as distribution leader for the Americas, MAXIS GBN has seen excellent growth in the region and we have been very

successful in developing new business with US-based multinational companies."

"Almeida has established relationships with both clients and brokers and brings with him a comprehensive knowledge of the business."

### **Marsh Ireland has made a number of changes to its leadership, appointing Joe Grogan as executive chairman and Patrick Howett as CEO.**

Howett, who is currently managing director of Jardine Lloyd Thompson (JLT) Ireland, will become CEO upon the completion of Marsh & McLennan Companies acquisition of JLT Group, which remains subject the receipt of antitrust and regulatory approvals.

He joined JLT in 1983 and after serving in a number of senior positions was appointed as managing director in 1995.

Prior to joining JLT, Howett held roles at PwC and has served as a council member of Brokers Ireland, the country's leading representative body for insurance brokers.

Grogan is a Marsh veteran, with almost three decades of experience with the company, and was appointed to his previous role of chairman of Marsh Ireland in September 2018.

Prior to that, he was CEO of the company's corporate division in the UK and Ireland.

Both Grogan and Howett will be based in Dublin and report to Chris Lay, CEO of Marsh UK and Ireland.

Grogan said he looks forward to working with Howett and the "highly-regarded JLT team".

He added: "Marsh is committed to providing our clients with a high-quality and seamless service."

"By strengthening our Irish operations, we will ensure we have the resources and talents required to support our clients as they navigate an increasingly complex risk landscape." **CIT**