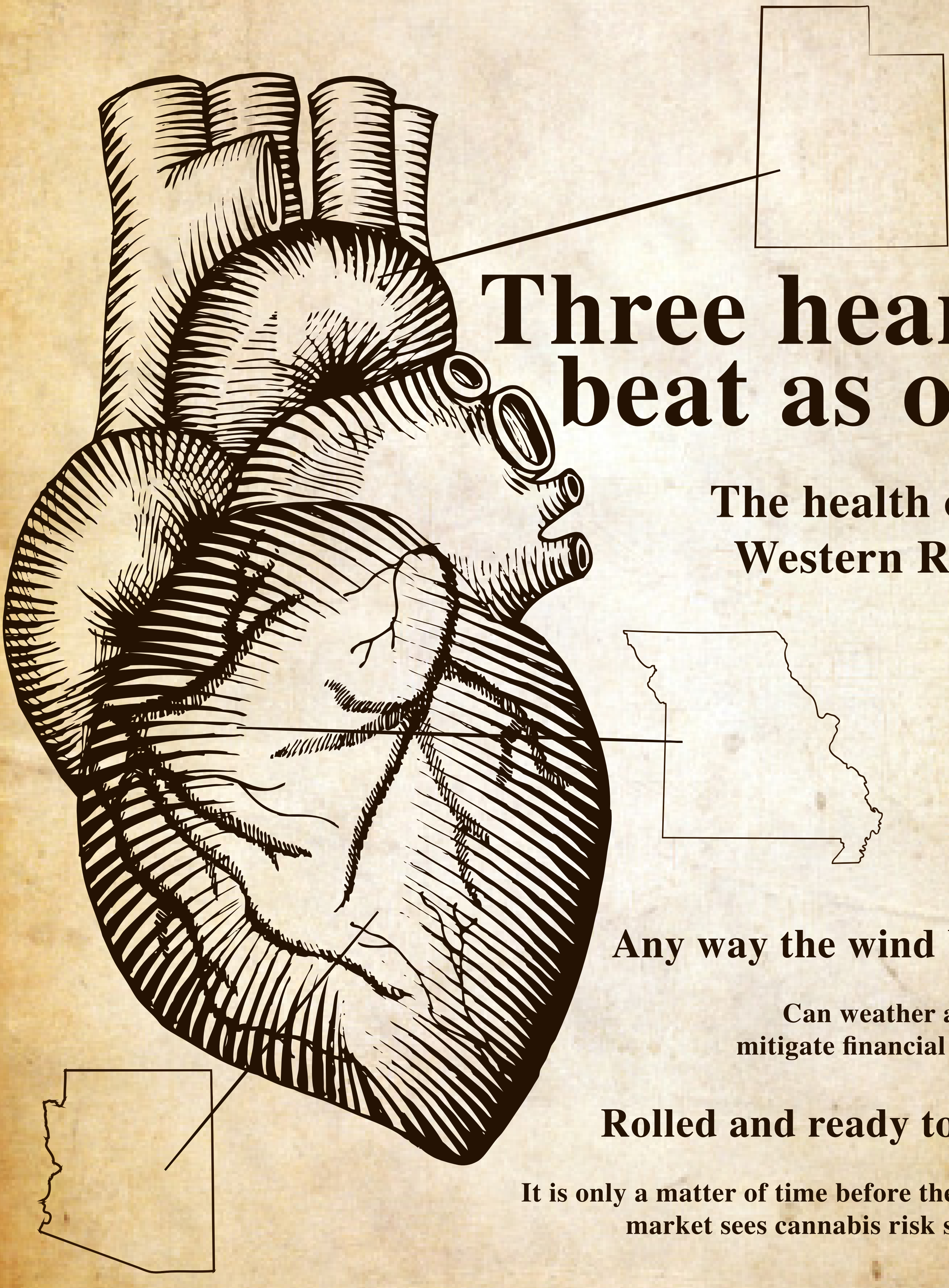
captive insurance times
The primary source of global captive insurance news and analysis
Conference Special



Three hearts beat as one

The health of the Western Region

Any way the wind blows

Can weather analytics mitigate financial impact?

Rolled and ready to light

It is only a matter of time before the captive market sees cannabis risk solutions

Tax Court rules in IRS's favour in Syzygy micro captive case

The Internal Revenue Service (IRS) has claimed another victory against micro captives in the US Tax Court after Judge Robert Ruwe ruled in its favour in Syzygy Insurance v Commissioner of Internal Revenue.

Judge Ruwe found that the arrangement between captive insurer Syzygy, its parent company High Tank and Manufacturing, and its fronting carriers, were not insurance transactions, meaning Syzygy's section 831(b) election is invalid and it must recognise the premiums it received as income.

Syzygy was licensed in Delaware in 2008 and was established by John Jacob, Highland Tank chairman of the board, secretary, treasurer, and vice president, and Michael VanLenten, Highland Tank president.

In the Tax Court decision, Judge Ruwe ruled that the captive's fronting carriers were not bona fide insurance companies and therefore Syzygy did not distribute risk and did not accomplish sufficient risk distribution for Federal income tax purposes through the fronting carriers.

He found that the arrangement between Syzygy and its fronting carriers "looks suspiciously like a circular flow of funds" and that the fact that the captive owner sought higher premiums led the court to believe "that the contracts were not arm's-length contracts but were aimed at increasing deductions".

Additionally, Judge Ruwe ruled that though the captive was "organised and regulated as an insurance company", this does not overcome its other failings and the fact that Syzygy was not operated like an insurance company.

The owners of the captive were found to have relied on the advice of their certified public accountant in good faith and Judge Ruwe determined they are not liable for the accuracy-related penalties imposed by the IRS.

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Published by Black Knight Media Ltd
Company reg: 0719464

Beecher Carlson creates risk optimisation group

Beecher Carlson has created a risk optimisation group to assist clients and prospective clients to identify, quantify, and mitigate their risks.

The group combines the alternative risk, captive management, actuarial, analytics, claims, risk control, and ZOOM teams and resources into one practice group.

Jay Sampson, who has been promoted to executive managing director, will lead the group and will be responsible for structuring it to provide the best service and most innovative solutions for clients.

Sampson was previously Beecher Carlson's managing director, a role which saw him manage the teams servicing some of the company's largest clients with the most complex risks.

He has more than 25 years of experience in corporate risk management and has gained expertise in primary and excess casualty insurance coverage and structures, property insurance, and captive utilisation.The leaders of the teams combined into the risk optimisation group, including Pete Kranz, executive managing director and captive practice leader, will now directly report to Sampson.

Sampson said he is "honoured" to lead the group, which he believes is an "important initiative" and will "drive strategies to reduce clients' exposure and, ultimately, their total cost of risk".

He added: "As we began discussing strengthening our integration and collaboration across our consulting practices, it was clear to me that Beecher Carlson had the opportunity to distinguish itself within the industry."

Joe Siech, Beecher Carlson CEO, commented: "Beecher Carlson has always been viewed as a consultative broker focused on client solutions rather than transactional insurance placements."

Siech added: "As our industry continues to progress to a more digital platform, clients will place a greater emphasis on their broker's ability to identify, quantify, mitigate, and creatively finance their ever-changing risk profile."

CIC Services opens door to captives for small and medium-sized companies

CIC Services, a risk management firm specialising in captive insurance, has launched a new programme designed to make captives a viable option for small to medium-sized companies that may otherwise be too small to consider using them in place of commercial insurance.

The CIC Services bundled programme allows an insured business to reinsure their current commercial insurance premiums and retain up to 40 percent of the premium or risk, while also retaining their existing insurance broker and not sacrificing coverage.

It makes captives a viable option for many mid-market companies that may not have previously been candidates by allowing them to own a captive without the high transactional costs and minimums that have typically closed the door to self-insurance for smaller companies.

Participating businesses will not be required to purchase a fractional share of an established group captive, rather they will control 100 percent of their individual captive.

As the captive is wholly owned by the business owner, they will also retain 100 percent of the underwriting profit, significantly reducing the net cost of the businesses' insurance programme.

The programme is designed to match rate, limits, and policy language for existing commercial insurance policies, and allow the insured business or captive owner to retain anywhere from 10 to 40 percent of the premiums and risk.

The policies are issued by the A+ rated carrier, who will also provide integrated reinsurance, supplying coverage and protecting the captive and business owner from catastrophic loss.

The programme is operated together with experienced underwriters and third-party actuaries.


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According to CIC Services, the bundled programme can be an ideal fit for businesses that; have a proactive risk management and loss control programme; continue to pay increasing commercial insurance premiums with a low claims experience; and pay a total of at least $250,000 in combined property and casualty premiums.

Nate Reznicek, director of operations at CIC Services, commented: “The bundled programme is a revolutionary opportunity for both insured businesses and their insurance brokers to look to replace coverages from the traditional insurance market.”

“Business owners and their trusted brokers now have a proven method in which to participate in their risk and recoup significant amounts of underwriting profit without sacrificing coverage, limits, or the credibility of carrier rating.”

AM Best affirms ratings of renewable energy captive Palms

A.M Best has affirmed the financial strength rating of A (Excellent) and the long-term issuer credit rating of “a” of Cayman Islands-based captive Palms Insurance.

The outlook of these ratings remains stable.

Palms is the single parent captive of NextEra Energy Capital Holdings (NEECH), which is wholly-owned by NextEra Energy (NEE), a renewable energy company that is the world’s largest producer of solar and wind energy.

The captive only accepts insurance risks from NEE and its affiliates, and provides specialised direct and assumed property and casualty coverages, workers’ compensation, automobile liability, employers’ liability, and property risk.

Palms’ ratings are reflective of its “strongest” balance sheet, adequate operating performance, neutral business profile, and appropriate enterprise risk management.

Additionally, they reflect the captive’s solid risk-adjusted capitalisation, history of consistently positive operating performance, and conservative balance sheet strategies.

A.M. Best also takes into consideration Palms’ “significant role” within the risk management structure of NEECH and its history of maintaining sufficient capital and financial resources to support its ongoing obligations.

The captive participates in a range of coverages for very large risks, however, these are underwritten with tight guidelines and significant loss control measures by the insurance affiliates–as evidenced by favourable loss ratios over the past five years.

The ratings agency noted: “Nonetheless, prospective underwriting performance remains subject to volatility, due to exposure to low frequency, high severity claims in its property programme, as the renewable energy industry that it operates within is fundamentally volatile.”

The positive rating factors are offset partially by Palms’ limited market scope and high net loss potential stemming from a single, severe occurrence relative to surplus.

This is somewhat mitigated by the company’s excellent loss history, favourable geographic spread of risk and the captive’s history of strong surplus position.

While Palms depends on third parties for processing, servicing and administration, the senior management of its ultimate parent, NEE, is closely involved in these operations.

Reinsurance capital weathering storm of prior catastrophes

Reinsurers continue to offer coverage and terms to insurers that show reinsurance capital is weathering the storm of the prior few years’ catastrophe events, despite total global reinsurance capital falling by 3 percent from year-end 2017 to 2018, according to an Aon report.

The April 2019 edition of ‘Reinsurance Market Outlook: Supply Weathering the Storm’, published by Aon’s Reinsurance Solutions, provides a comprehensive assessment of the key market dynamics of the recent renewals period.

The report estimates that at year-end 2018, global reinsurer capital was $585 billion, a year-on-year reduction of 3 percent.

However, the market continues to see additional accretive buying opportunities for insurers, and the macro picture still shows that capital has seen an increase of almost 30 percent since 2011 across traditional and non-traditional capital sources and remains adequate for demand in all markets.

It also notes that 1 April, which was dominated globally by Japanese renewals, saw continued responsiveness from reinsurers who remained committed to the region despite ceded loss activity in 2018.

Supply continued to cover demand, and terms and conditions remain balanced for buyers against the backdrop of desired continuity with longer-term relationships.

In 2017 and 2018, catastrophe losses totalled more than $240 billion and the industry experienced two significant catastrophe loss years and has responded positively to the needs of insureds.

The first quarter of 2019 has seen total catastrophe losses 47 percent lower than the recent 15-year average and 26 percent below the median.

These losses are the slowest start to a year the industry has experienced since 2013.

Looking ahead to June and July renewals, with heavy concentration in Florida and Australia Aon expects the industry “will continue to find adequate supply in the aggregate with individual companies seeing renewals directly in response to exposure change, general loss experience, and a continued focus on loss estimation and creep from the 2017 and 2018 events”.

Ratings of BNY Mellon’s captives affirmed

The single-parent captives of global financial services company BNY Mellon, BNY Trade Insurance and The Hamilton Insurance Corporation, have had their

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.

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- **Reduced Liability Concerns** – insurance trusts may limit the range of acceptable investments; this is done to ensure adherence to all regulatory requirements.

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Employee benefits blockchain solution debuted by Accenture and Generali

Accenture and Generali Employee Benefits (GEB) have debuted a first-of-its-kind blockchain solution for employee benefits (EB) aimed at transforming the reinsurance process for captive insurance services.

The solution will allow participants in the reinsurance process for captive or pooling services to access the same data and reduces processing errors through smart contracts and automated reconciliation.

GEB expects the solution to streamline its EB operating model for captive services, which provides a comprehensive range of local admitted EB solutions to customers around the globe, including life, short and long-term disability, accident and health-care insurance.

These local offerings are completed with reinsurance from Generali to captive or pooling services to best serve multinational corporations that require centrally managed insurance schemes and financials.

Blockchain is a distributed ledger technology that functions as a database, which maintains and records data in a way that allows multiple stakeholders to confidently and securely share access to the same data and information.

The solution has been launched on the back of successful demonstrations of a prototype last year.

The prototype included two global clients, one of which is leading agriculture company Syngenta, and local insurers in Spain, Switzerland, and Serbia.

The prototype, which was aimed at disrupting the market by integrating systems, data and processes to all stakeholders in the EB sector, demonstrated significant results by reducing costs, saving time, and improving data quality for all stakeholders.

Sergio Di Caro, GEB CEO said the prototype represents "a step forward" for both GEB and the insurance industry.

He explained: "The use of blockchain technology allows for a truly connected ecosystem and a seamless partnership between clients, advisers, local insurers and Generali."

"Blockchain will change not only our network but the EB industry as we know it."

financial strength ratings of A (Excellent) and their long-term issuer credit ratings of "a+" affirmed by A.M. Best.

The outlook of the two Bermuda-domiciled captives' credit ratings remains stable.

In their roles as single-parent captives, both companies provide comprehensive reinsurance coverage and products to BNY Mellon.

The ratings of BNY Trade reflect the captive's "strongest" balance sheet strength, its strong operating performance, neutral business profile, and appropriate enterprise risk management (ERM).

BNY Trade's ratings also mirror its steady growth in surplus, which is driven by its consistent premium growth and favourable profitability over the past several years.

Hamilton's ratings are reflective of its "strongest" balance sheet strength, its adequate operating performance, neutral business profile, and appropriate ERM.

Additionally, Hamilton's ratings are due to its adequate liquidity and operating performance and the contribution that its consistent level of investment income has made to its growth in surplus.

Both captives benefit from BNY Mellon's robust, enterprise-wide policies, and procedures in the areas of risk management, corporate governance, compliance, and ethics.

CCIA conference blends 'cutting edge' content with 'relaxed networking'

The Connecticut Captive Insurance Association (CCIA) 2019 Collaborative will offer delegates "a blend of state-of-the-art content on cutting edge topics with a more relaxed networking environment", according to Steve DiCenso, CCIA president.

The conference, which is being held all in one day this year, takes place on 21 May in Hartford, Connecticut, and centres around


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how captive owners can obtain the most value from their service providers.

DiCenso explained that the decision to host the conference all on one day in May was to make the event more convenient for delegates.

He said: “Changing to a one-day event was conducive to the agenda and we just wanted to make it more convenient for people, rather than potentially having to incur the time and cost of a hotel and overnight stay.”

The schedule highlights include a welcome address from newly-appointed Connecticut insurance commissioner Andrew Mais; a keynote speech and a blockchain workshop from Walid Al Saqqaf, founder of Insureblocks; and a tax session with Bruce Wright, partner at Eversheds Sutherland.

Additionally, it features sessions on a range of topics including medical stop-loss, runoff, reinsurance structures, and emerging risks.

The day concludes with a networking event and baseball game at the Hartford Yard Goats’ Dunkin Donuts Stadium.

DiCenso noted that this is part of the increased emphasis on networking at the 2019 event.

DiCenso stated: “A key point of differentiation this year is the addition of a fun networking event, the baseball game.”

“In the past, we’ve had some potent sessions crammed full of a lot of information and this is a bit of a step back to include some of that, but also focus on allowing delegates to network and socialise.”

According to DiCenso, the conference was a “great opportunity for delegates” as it offered “a blend of state-of-the-art content on cutting edge topics with a more relaxed networking environment”.

He added: “Delegates get a bit of it all without having to take too much time out of their schedule.”

Guernsey meets with MGA Association to develop sector

Guernsey has met with the Managing General Agents Association (MGAA) as the domicile looks to develop its MGA sector.

MGAA managing director Peter Staddon and founder David Coupe travelled to Guernsey to meet the MGA steering group formed from the Island’s industry body, the Guernsey International Insurance Association.

The MGAA representatives were impressed with the domicile’s insurance infrastructure, which is home to Guernsey’s specialist captive insurance, reinsurance, insurance-linked securities and longevity risk transfer sectors.

Staddon and Coupe highlighted Guernsey’s use of technology, insurance expertise and understanding, access to alternative capital markets, and approach to regulation as key factors providing opportunities for MGAs.

MGAs are classed as intermediaries and provide professional delegated underwriting for insurers who want to access niche markets without the cost and resources needed to underwrite these lines of business themselves.

The MGAA, formed in 2011, represents and supports three-quarters of the UK MGA market, which is made up of more than 300 MGAs and underwrites about 10 percent of the UK general insurance market’s £47 billion in premium income.

In comparison, there are currently only a handful of MGAs active in Guernsey.

Staddon said he had taken a number of positives from the meeting.

He explained: “I liked the approach we heard about and the ambition Guernsey is showing in this space.”

“Guernsey clearly gets what MGAs are all about.”

Dominic Wheatley, chief executive of Guernsey Finance, said the meeting was timely as the Island looks to develop its “already-significant international insurance offering”.

He added: “We see MGAs as a natural fit for us as we already have everything the MGAs need.”

“Entrepreneurial underwriters with capital lined up and a market position to leverage can come to Guernsey and find a high-quality insurance environment ideally placed to help develop an MGA, combined with a welcoming community and great quality of life.”

Aon: Captives being utilised more effectively and strategically

Captive insurance companies are being utilised more effectively and more strategically to serve their parent companies’ needs, according to a report from Aon.

The 2019 edition of the ‘Global Risk Management Survey’, which surveys thousands of risk managers from 60 countries and 33 industries every two years, reveals that 17 percent of respondents currently have a captive or active in a cell protected cell company (PCC), a 3 percent increase from 2017.

However, the number of respondents planning to create a new or additional one in the next three years fell, down to 4 percent from 6 percent in 2017.

Additionally, the survey notes that overall captive numbers are decreasing worldwide but the companies with active captives write more premiums and cover an increasingly broader range of risks as part of their risk management.

Aon described this as a positive indicator because captives are being utilised “more effectively and more strategically to serve the needs of their parent organisations”.

The survey also shows a significant growth in the usage of captives and PCCs by companies with less than $1 billion in revenues (9 percent up from 5 percent in 2017) and with revenues in the $1 billion to $4.9 billion range (26 percent up from 20 percent).

According to Aon, this is a result of mid-sized companies adopting a more sophisticated approach to risk financing and suggests that the "proliferation of PCC structures and formalised risk financing vehicle alternatives scale is becoming less of a barrier to access".

Additionally, the report notes a significant shift in captive utilisation within industry sectors, with the top five industries with a captive being energy, banking, chemicals, healthcare, and pharmaceuticals and biotechnology.

However, this may be due to the 2019 report's respondent profile, which differs slightly from the previous survey.

For the 2019 survey, respondents were also given the option to simultaneously select multiple reasons for owning captives, which led to a marked change in responses.

Cost efficiencies, reduction of insurance premiums, and control of insurance programmes were the top three reasons.

Aon suggests this focus on the cost of risk management programmes is not surprising given the fact that economic slowdown/slow recovery was identified as the number one risk by respondents.

Property and casualty remained the dominant lines currently underwritten by captives or cells, however, the report reveals an array of other lines, which suggests captives are increasingly being used to cover industry-specific risks.

Aon commented that the increased focus on industry-specific solutions is influencing the business written by captives, making them more relevant to the organisations they support.

The report adds: "At the same time, the maturity of the risk management community continues to develop in a trading environment that includes more data than ever, and easier access to the tools and expertise to support decision making."

The number of companies utilising captives to retain cyber risk has risen to 16 percent, up from 12 percent in 2017, and it was identified as a risk to be written in the future by 34 percent of respondents who are captive owners, the most of any line.

Respondents, across all regions and revenue sizes, also indicated they're planning to underwrite new risks in captives or cells, which Aon notes is "encouraging", and the spread of future risks written in captives continues to broaden.

Asia Pacific and Latin America, markets where captive usage has traditionally been very low, showed a big appetite for new captive risks to be underwritten, and Aon is keen to see if this will be reflected in the 2021 survey.

Aon stated that captives "remain an integral part of the insurance industry landscape and an important component in the risk financing toolkit, not only for large multinational companies but also for an increasing number of smaller entities".

‘Excellent’ ratings of Nissan captive affirmed

Nissan Global Reinsurance (NGRe), the single parent captive of global car manufacturer Nissan Motor Corporation (Nissan), has had its financial strength rating of A (Excellent) and long-term issuer credit rating of “a” affirmed by A.M. Best.

The outlook of the Bermuda-based captive’s ratings remains stable.

As a single-parent captive, NGRe provides Nissan with a host of insurance coverages in the US and abroad, including extended service contracts, product liability, and inland marine.

The affirmed ratings reflect NGRe’s “very strong” balance sheet, as well as its adequate operating performance, neutral business profile, and appropriate enterprise risk management.

Additionally, they reflect the captive’s continued profitable operations, which have resulted in significant surplus growth.

A large portion of NGRe’s investments are maintained in asset-backed securities (ABS), which produce significant monthly income that contributes to strong operating cash flows. A.M. Best incorporated the investment and liquidity risks related to ABS into this rating assessment.

It noted: “despite the substantial relative size of the underlying loans, they are considered to be of high credit quality and have been performing in accordance with expectations”.

NGRe is a member of the Nissan family of companies, and, therefore, benefits from the group’s proprietary data warehouse, extensive risk management practices, and loss control programmes.

Cayman adds 13 new captives in Q1 2019

The Cayman Islands licensed 13 new captive insurance companies in the first quarter of 2019.

Statistics from the Cayman Islands Monetary Authority revealed that five new class B(i) insurers, six new class B(ii) insurers, and two new class C insurers were licensed between 1 January 2019 and 31 March 2019.

Six of the new captives are managed by Artex, three are managed by Kensington, while Aon, Marsh, and Lainston all manage one of the new captives.

Additionally, there were four new portfolio insurance companies and one new insurance agent formed in the first quarter of 2019.

The Q1 formations follow on from steady growth in 2018, when 33 new captive insurance companies were licensed, equalling the same number of new formations as 2017.

Marsh and Guy Carpenter to merge fac re operations with JLT

Marsh & McLennan Companies (MMC) subsidiaries Marsh and Guy Carpenter will combine their Latin American facultative reinsurance operations with Jardine Lloyd Thompson Group (JLT). The combined business will be known as Carpenter Marsh Fac Re.

The new company will be one of the largest Latin American facultative reinsurance intermediaries with data capabilities and an expanding insurance market.

Carpenter Marsh Fac Re will be led by Andrew Perry, CEO of Mercer Marsh Benefits. He will be based in Miami and report to Dean Kilsura, president of global placement at Marsh, and Ricardo Brockmann, CEO of Marsh Latin America and Caribbean.

Leader of Guy Carpenter’s office in Colombia, Juan Carlos Gomez, will serve as deputy CEO.

James Nash, CEO, international at Guy Carpenter, commented: “By combining the facultative reinsurance offerings of Marsh and Guy Carpenter with those from JLT we will be able to offer insurers and insurance buyers a more efficient way to access global reinsurance markets.”

Perry added: “Carpenter Marsh Fac Re will offer an even wider range of cost-effective risk transfer solutions across LAC. I am excited to be leading a team of unrivalled talent that will deliver deeply specialized expertise across virtually every area of insurable risk.”

The deal is subject to regulatory approvals.

RRGs remain financially stable in 2018 with DPW up 14 percent

Risk retention groups (RRGs) continued to collectively provide specialised coverage to their insureds while remaining financially stable despite political and economic uncertainty in 2018, according to a report by Douglas Powell, senior financial analyst at Demotech.

In Demotech’s ‘analysis of RRGs year-end 2018’, Powell suggested that reported financial information revealed that the structures have a great deal of financial stability and remain committed to maintaining adequate capital to handle losses.

Additionally, Powell emphasised that the unique ownership structure of RRGs, in which ownership is restricted to the policyholders, may be a driving force in their strengthened capital position.

According to the report, RRGs were domiciled in 21 jurisdictions in 2018, with Vermont commanding the largest market share, housing 82 RRGs.

The next biggest domiciles were South Carolina (34) and the District of Columbia (32), followed by Hawaii (16) and Nevada (16).

Medical professional liability (claims-made) was the dominant primary line of business for RRGs, with the report showing that 49.8 percent of RRGs reported it as their primary line of business.

The next largest primary lines of business were other liability claims (17 percent), commercial auto liability (14.5 percent), other liability (occurrence) (12.8 percent), medical professional liability (occurrence) (4.3 percent) and all other lines (1.7 percent).

The report reveals that, collectively, RRGs reported a year-on-year increase of 14.1 percent in direct written premium through year-end 2018, rising to nearly $3.3 billion.

Net written premium (NPW) also rose by 6.9 percent in comparison to 2017, with RRGs reporting $1.7 billion through year-end 2018.

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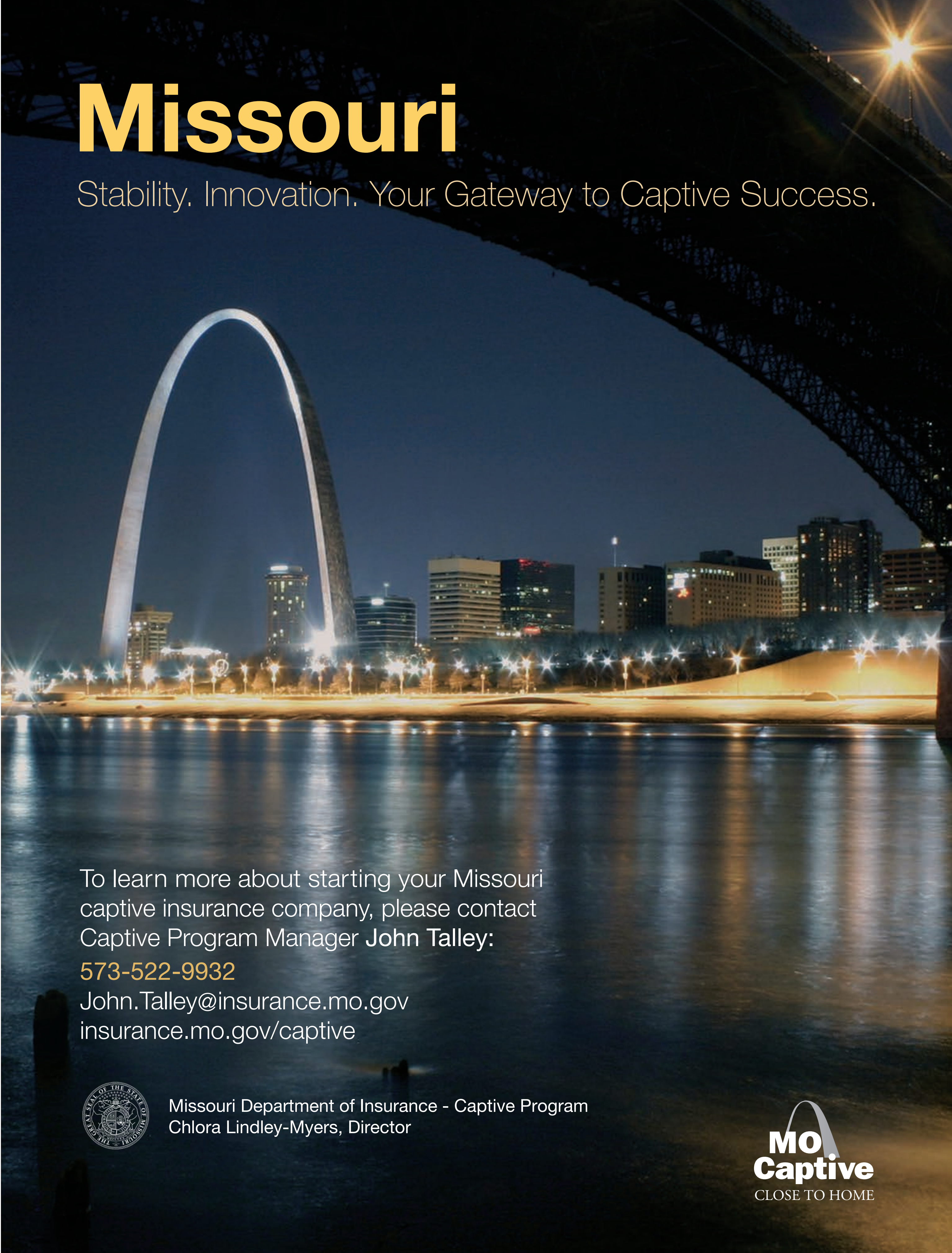
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Missouri Department of Insurance - Captive Program
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MO Captive
CLOSE TO HOME

Any way the wind blows

Organisations cannot control the weather, but they may be able to mitigate its financial impact. Michelle Bradley of Sigma, and Scott Kehler and Mike McAndless of Weatherlogics discuss weather analytics and their relation to weather captives

Unlike most types of risk, which can be avoided, controlled, or financed when necessary, weather risk presents a continual and persistent obstacle to many companies.

Agricultural companies' crop yields are directly affected by the state of the weather, retail operations can be impacted by heavy snowfall, and transportation companies must deal with road conditions resulting from all manner of elements. Even though organisations cannot control the weather, they may be able to implement strategies to mitigate its financial impact. Doing so will, at times, involve the use of insurance and other alternative risk financing programmes.

Since captive use is continually growing within the landscape of emerging and non-traditional risks, there is a strong possibility that companies will want to analyse captive implementation with regard to weather risk and examine how it aligns with their overall enterprise strategy.

Fortunately, many captives already insure risks related to traditional property weather perils or stand-alone, weather-sensitive coverages, making the examination process substantially easier. Property coverages relating to named storms, convective storms and hail are often insured in captives on a deductible buyback basis, but they can also be covered through parametric insurance, which does not indemnify the actual loss, but generally pays out a fixed amount in the event of a specific trigger. For example, if a category four named storm hits a certain location (within a specific mile radius) the contract would pay a specified amount. A crucial component of parametric insurance is ensuring the limiting of 'basis risk', a term describing potential disparities between the index trigger and the exposure being covered.

Analyses of traditional property coverages related to weather perils normally rely on standard actuarial techniques. The data for these risks is typically captured on traditional loss runs, and most organisations have credible data at lower severity levels. Because these types of coverages are short-tailed, standard incurred and paid loss development techniques can be used, as well as frequency and severity methods. If a captive wants to consider multiple retentions, or if the retention is large, simulation and modeling techniques may be required.

On the other hand, non-traditional weather-related risks, such as those listed in the examples above, pose distinct actuarial analytical concerns. From a data perspective, most organisations fail to maintain internal records of specific weather risks and how those affect revenue or tangible assets. As such, industry or public data related to the weather event or risk and limited internal information will normally be compiled as a first step for companies considering placing these risks in a captive. This information could be used to establish a preliminary coverage trigger (for example rainfall is less than a specified amount over a specified time) and to determine the frequency and severity for the event or risk.

While data gathering may seem like a trivial task, it can become quite complex. One of the first considerations for any weather element must be the source of the data. Did the instrument used to measure the weather conditions conform to international standards, such as those developed by the World Meteorological Organisation, or were the measurements taken by non-standard equipment?

This is critical, since some measurements, such as wind, are highly sensitive to the siting and height of the measurement instrument.

Measurement techniques can vary over time, which can alter the characteristics of data. One common example of this is the difference between automated and manual weather observations.

Today, many airports are transitioning from manual weather observations, taken by a human weather observer, to automated weather observations, taken by computer-based instrumentation. This change has both advantages and disadvantages. On the positive side, measurements can be taken more frequently and cost-effectively. On the negative side, measurements are sometimes less accurate, or less detailed, than human observations. For example, human observers who observe hail can take note of the hail's diameter, while an automated observation may not be able to observe hail at all. Similar pros and cons can be noted for other types of weather observations. When using this data for risk analysis, it is crucial to understand the measurement methodology, including the degree of automation used.

In cases where the weather risk and contract structure are especially complex, advanced modeling and data-gathering by a firm specialising in weather data and consulting may be essential in determining a sound loss projection. Once a weather risk has been identified, attention then turns to selecting an appropriate dataset of historical climate data to assess the risk. A weather risk consultant could help confirm the appropriateness of company specific data or assist in determining the best industry data source.

Weather risk consultants can also provide the advantage of performing quality controls on the meteorological data source. A dataset may have been generated by a reputable weather station, but that does not guarantee the quality of data. With tens of thousands of weather stations worldwide, producing millions of data points daily, erroneous values frequently find their way into otherwise reliable data. In Canada, the National Climate Archives are a primary source of climate data. However, due to changes in quality-control practices over the years, much of this data now only undergoes limited quality-control. Weather experts recognise the need to repair this data and have already developed a process to identify and correct errors. The amount of erroneous measurements in the National Climate Archives can number anywhere from hundreds to thousands for a single weather station.

Most insurance risks feature an expected frequency greater than one, but the frequency of weather risks may be less than one, depending on how the associated contract is structured. In the named storm example, the probability of a category four named storm hitting the location may be 5 percent (or .05), meaning that it is expected to occur once every twenty years. The frequency and severity distributions can also be used to model the risk and determine confidence levels associated with the projection. This modeling process can also help review probable maximum losses or approximate worst-case scenarios.

Once a weather event has occurred, additional weather data may be needed to verify the intensity or severity of an event.

Again, it is critical to identify a reputable data source for verification. One example of a difficult phenomena to verify is convective storms that produce hail. Hailstorms are frequently verified using radar-derived maps of hail swaths. While these maps can be a useful tool, it is important to recognise that weather radar does not directly measure hail.

As such, these maps are only estimates of hail occurrence and can be subject to errors both in size and location. Weather consulting firms will likely have access to a database of real hail measurements which can be used to supplement hail maps produced by radar. This database contains actual ground-measured reports of hail, including size, time, location, and precision anywhere across Canada and the US.

By combining these actual measurements of hail with radar-derived estimates, verification is made more accurate. In short, meteorological data must undergo thorough verification before being used to assess weather-related risk.

Since this type of data data continues to emerge on a daily basis, captives writing weather risk policies should fluidly monitor their actual and industrial databases to ensure both are utilising up-to-date information.

The decision to mitigate weather risk is always an easy one. However, the process of properly identifying and analysing the key weather scenarios, developing the appropriate and cost-effective risk-control response, and determining how to implement this process into an overall enterprise strategy can quickly become complex and overwhelming. This complexity is compounded when the strategy involves forming a captive or introducing this risk to an existing captive.

As such, it's very common for experts to partner for the successful formation and operation of a captive. Common captive structure involves a captive manager, tax expert, actuary, broker, asset manager, and customer who has an intimate knowledge of the exposure to be covered all working together, but companies wishing to mitigate the financial impact of weather risk with a captive will gain significant value by adding a weather risk expert to the process. CIT

Rolled and ready to light

As legislation bringing safe harbours to financial insitutions providing services to cannabis related industries edges closer, Jon Harkavy discusses what to expect if and when they pass

Legislation is wending its way through an otherwise gridlocked Congress, which can potentially offer banks, insurers, and other financial institutions a safe harbour to provide financial services to cannabis-related legitimate industries. While to date there have been few sizable insurers operating in the space, enactment of such safe harbour legislation will prompt significant competition by large national insurers. In combination with traditional insurers, risk retention groups (RRGs) and purchasing groups (RPGs) operating pursuant to the Federal Liability Risk Retention Act (LRRA) may become the preferred platforms for insuring cannabis related risks.

Factory Mutuals

By way of historical analogy, in the 1800's US Factory mutuals, now making up a significant sector of the traditional insurance industry, began with the failure of US insurers at the time to provide adequate and affordable fire insurance to national factories and mills, largely due to underwriting gaps, including, incredibly, a failure to distinguish between factories made of wood versus steel in the charging of premiums.

The factory mill owners ultimately established their own insurance companies, primarily mutuals owned by the factory mill owners themselves. The historic precedent for such member-owned insurance facilities was Lloyd's of London more than a century earlier. In the US, from the 1950's until the present, when captive insurance companies were formed they were owned by their policyholders in much the same fashion as the factory mutuals before them.

The LRRA, RRGs, and safe harbour legislation

In 1986, Congress, faced with an insurance availability affordability crisis, amended a federal law to facilitate the formation of member-owned captive insurance companies, called as noted, RRGs, and what can best be described as insurance buyer cooperatives called RPGs.

Under the LRRA, all insureds of the RRG must be owners of the RRG. The LRRA also requires that there be a commonality of insurable interests by the RRG's owners. Both these requirements can be achieved by companies in the cannabis sector forming an RRG to insure their risks.

It is the nature of the traditional insurance regulation that forms and rates must, for the most part, be filed and approved in every state where the insurer operates, making it truly difficult for the traditional insurer to operate on a national basis in the fledgling US cannabis industry, where form and rate flexibility are a must.

Under the LRRA, the RRG can utilise the actuarially justified policy form and rates it chooses, upon approval by the RRG's single domiciliary state. Multistate form and rate approvals are preempted, thereby eliminating a 50 state gauntlet of form and rate approvals faced by traditional insurers. In addition to the ability to customise policy forms, the RRG mechanism gives its insured/owners the ability to exercise greater control of the underwriting function, which under a traditional insurance arrangement would be delegated to the insurer.

Upon licensure by the RRG's domicile state, the RRG can do business in other states and the District of Columbia on the basis of a registration in states where the RRG's policyholders reside. Starting a traditional insurer from scratch to insure the cannabis industry would, without the LRRA, take about seven years or more to secure multi-state licenses throughout the US.

There are some potentially problematic restrictions with the LRRA. The most significant being that only liability coverages can be written by the RRG. Non-liability coverages such as property, workers' compensation, and theft, cannot be written by RRGs. However, through cooperative structuring between the cannabis RRG and the traditional insurance industry, these non-liability lines of coverage can be written through the aforementioned RPG mechanism of the LRRA, which give purchasing groups' insurers the ability to offer non-liability coverage to RPG members, as part of a liability insurance offering.

In short, once safe harbour legislation is enacted into law allowing financial institutions to serve the legitimate cannabis industry, look to the LRRA to provide the likeliest lead state regulatory framework through which much of the cannabis industry policyholders will be served. **CIT**

“There are some potentially problematic restrictions with the LRRA”

Jon Harkavy
General counsel
Risk Services

Arizona, the sunshine captive jurisdiction

Michael Low explains why Arizona's captive friendly, forward-thinking mindset makes it a great place to domicile a captive

Apart from having a great climate, with over 300 days of sunshine a year, Arizona also offers a pro-business, forward-thinking captive insurance jurisdiction. The benefits of owning an Arizona captive insurer are many.

Unlike most captive jurisdictions, no premium taxes are required to be paid by captive insurers. After licensing, the only fee charged is an annual renewal fee of $5,500 payable to the Arizona Department of Insurance.

There is an exemption from the annual audit and actuarial opinion requirements for small captive insurers. Essentially, captives with less than $1 million dollars in direct or assumed premium and less than $1 million dollars in loss reserves and loss expenses are exempt from providing annual actuarial opinions and independent financial audits.

There is no regularly scheduled statutory examination for pure captives. While the director of the department reserves the right to conduct financial examinations at any time, such examinations are rare and only triggered under extraordinary circumstances, such as a hazardous financial condition.

Arizona has one of the strongest confidentiality laws in the US, which protects the information filed with or made available to the Arizona Department of Insurance. By statute, the Arizona Director

can only identify the name of the captive insurer, the date of its licensing, the type of captive insurer, including the business or industry of the owners or members.

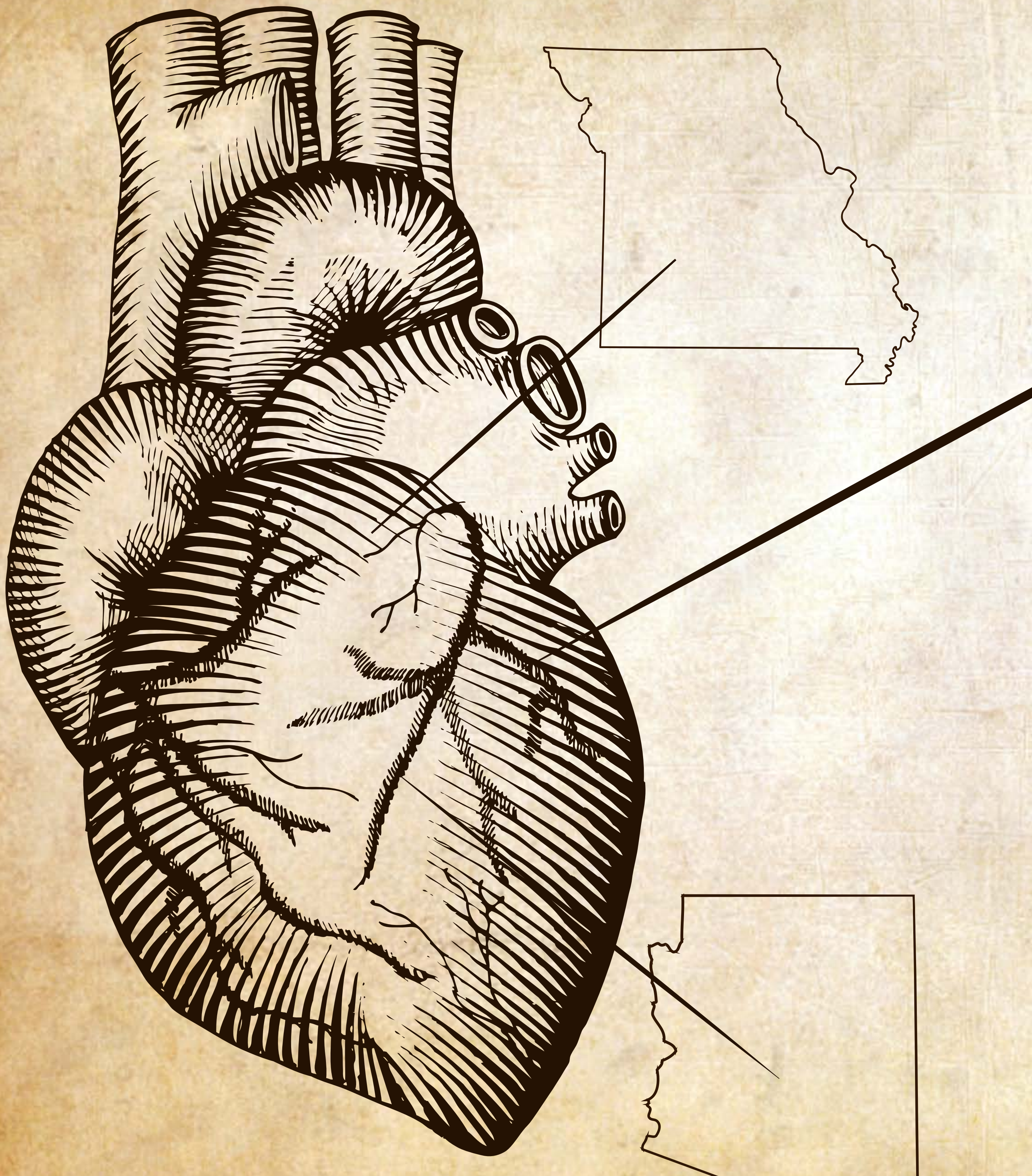
By statute, the approval of an application for a captive insurance licence is expected within 30 days after the submission of a complete application. Based on recent conversations with department representatives, the average time for licence review and approval once a complete application is received is generally within a 25 to 30 day window.

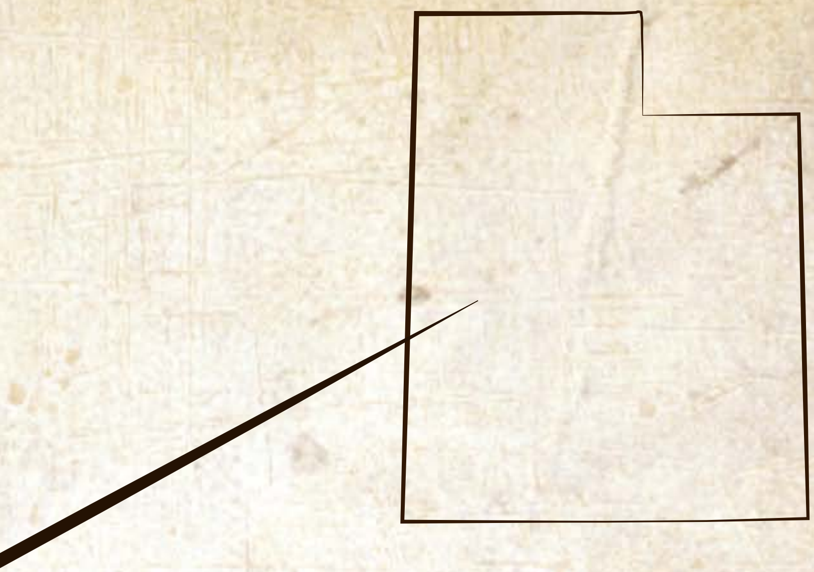
Arizona's captive programme has been in existence for 18 years, dating back to 2001, and there are currently 125 licensed Arizona captive insurers. As a mature captive programme, Arizona is ranked as the tenth largest captive jurisdiction in the US.

Captive division personnel are experienced, helpful and extremely supportive of the programme. Arizona is generally known as a business-friendly jurisdiction and that is certainly true of the Arizona Department of Insurance Captive Insurance Division.

> "Arizona has one of the strongest confidentiality laws in the US"

J. Michael Low
Partner, Kutak Rock
President, Arizona Captive Insurance Association,
Chairman, Western Region Captive Insurance Conference





Three hearts that beat as one

Regulators of Arizona, Missouri and Utah give an update on the health of the Western Region captive domiciles

Arizona, Missouri and Utah are perhaps not three states traditionally grouped together. In the captive industry, however, they find themselves linked by the Western Region Captive Insurance Conference, as their state captive insurance associations jointly host the event.

All three are well-known captive domiciles, and between them the three states boast almost 600 captives. The three states also share one other thing in common, the presence of a knowledgeable and captive regulator.

We spoke to the regulators; Vince Gosz, chief captive analyst, Arizona Department of Insurance captive programme; John Talley, captive programme manager, division of insurance company regulation, Missouri Department of Insurance, Financial Institutions and Professional Registration; and Travis Wegkamp, director of captive insurance, Utah Insurance Department, about the health of theirs domiciles, what sets them apart and the outlook moving forward.

What is the current state of the market in your domicile and how did it fare in 2018?

Travis Wegkamp: We see the past year as a positive one for the Utah captive market. We licensed 38 new captive entities, three of which were cell captives. Historically, Utah has been popular with smaller micro captives, who are still more than welcome here in the State; however, since the inception of the Protecting Americans from Tax Hikes Act we've seen a decrease in the licensing of new captives here in the state. On the plus side, the new formations we have been licensing are larger, more robust and comprehensive programmes, which we're pleased to see. There were a total of 77 licences surrendered, 16 of which were cells.

Additionally, in our recently concluded 2019 legislative session we were able to pass legislation allowing for captives to request dormancy status for up to five consecutive years. The legislation becomes effective 14 May 2019 and we're pleased to be able to offer this option to our captives.

John Talley: 2018 was a good year for the Missouri captive programme. We licensed 10 new captives and lost only four companies to closure or redomestication. With the license of one new pure captive in January 2019, we have licensed 72 captives. The gross written premiums in 2018 was $4.1 billion, which is places Missouri first or second for domiciles with under 100 licensed captives.

Vince Gosz: The Arizona captive domicile remains active and continues to experience solid and steady growth. 2018 saw eight

> The captive industry is creative and resourceful and Arizona continues to see a lot of interesting ideas

Vince Gosz
Chief captive analyst
Arizona Department of Insurance Captive Programme

new captive licenses including six pure/pure reinsurance captives, a new risk retention group (RRG), and a new protected cell captive insurer. The industries represented by these new licensees were primarily in finance/insurance and manufacturing.

At year-end 2018, Arizona had 124 active captives, most pure and pure reinsurers, but also including 11 RRGs and a small mix of other types. We have since added two new pure captive licenses in early 2019 and we lost three to dissolution. While numbers are still coming in, we expect Arizona captives to have written over $9 billion in gross premiums during the 2018 year, a figure that makes the programme very consequential to our captive owners and the industry as a whole.

What makes it unique?

Wegkamp: A key selling point for having your captive in Utah is no state taxes on your premiums; we simply charge an annual renewal fee of $5,000.

We have a great staff dedicated entirely to our captive companies. As such we're easily available and able to respond to and turnaround requests in a quick and timely manner.

We're working hard to be completely paperless and develop our website, insurance.utah.gov/captive, as a one-stop shop for our users.

Talley: The licensing fee and licensing renewal fee is fully deductible from premium taxes. Premium tax rates are less than 0.4 percent and can never exceed $200,000. With the credit for the licensing and renewal fee, pure captives must direct write above $2 million premium to pay any taxes. The examination costs are kept low because we utilise in-house examiners and a modified examination approach for pure captives. Presently, the cost averages $3,000 for pure captives.

Gosz: Arizona has licensed captive insurers since 2002 and has a mature regulatory infrastructure. It has long stood out from most domiciles, though not all, for having no insurance premium tax, instead requiring a reasonable flat annual renewal fee.

We have also taken the approach of relying more on the service provider community, as well as the technical expertise and reporting of actuaries and audit firms, and less on routine periodic regulatory examinations to monitor Arizona captives for liquidity, solvency, and compliance with captive insurance law. We examine RRGs routinely, of course, in part to comply with National Association of Insurance Commissioners (NAIC) accreditation requirements. While we have the authority to conduct examinations of other captive types, we tend to do so only for compelling reasons. This has likely saved Arizona captives no measly sum over the years.

What trends are you seeing in your domicile?

Wegkamp: We continue to see interest in ways for companies to place certain employee benefits in their captives. Also, continued interest in marijuana-related captives.

Talley: As with most domiciles, Missouri is seeing renewed interest in captives related to the marijuana industry. Since the decriminalisation of hemp, I have had several inquiries concerning forming a captive in the state.

Gosz: The captive industry is creative and resourceful. Arizona continues to see and hear lots of interesting ideas. Lately, the focus seems to be on exploring the use of stop loss, group benefits, cyber, and to some extent still, terrorism, but we continue to see many more traditional uses of captives, including reinsuring fronted programmes and deductible buydowns. We have also experienced a spike recently in interest to redomicile existing captives from offshore, or other onshore, domiciles.

Has there been any recent, or are there any upcoming, regulatory changes of note?

Wegkamp: As previously mentioned the big news is the recent addition of dormancy legislation. Another item to note is that we

Formations of captives will continue to be strong in 2019

John Talley
Captive programme manager, division of insurance company regulation
Missouri Department of Insurance, Financial Institutions and Professional Registration

reverted back to requiring two individual officer signatures on the captive's annual statement.

Otherwise, there was some rearrangement of sections of our captive code to be in a more logical sequence and the use of generalized terms to reduce duplicative language for stock companies and LLC's.

Talley: There have not been any recent changes in the Missouri captive laws.

Gosz: Arizona is always on the lookout to make revisions to further enhance our position in the captive space. We added a small change to the agency captive law last year. I can envision us making some more enhancements in the coming year or two as we identify opportunities.

Lately, however, most activity has centered on ensuring we remain in line with NAIC accreditation standards. We recently were reaccredited by the NAIC for another full five-year term, which is great news for a domicile active in regulating RRGs. In the last year or two, we also rolled out an online captive annual reporting portal, which was a popular enhancement, along with an electronic renewal fee payment option and hope to extend these capabilities to other aspects of our interaction with captive managers and others.

What is the outlook for 2019?

Wegkamp: I would say more of the same; we'll continue to see a positive trend of formations with strong risk programmes, despite what I think will be continued IRS scrutiny given their recent tax court victories.

Talley: I believe that formations of captives will continue to be strong in 2019. Different industries, some new to the idea of alternative risk financing, will fuel this continued growth.

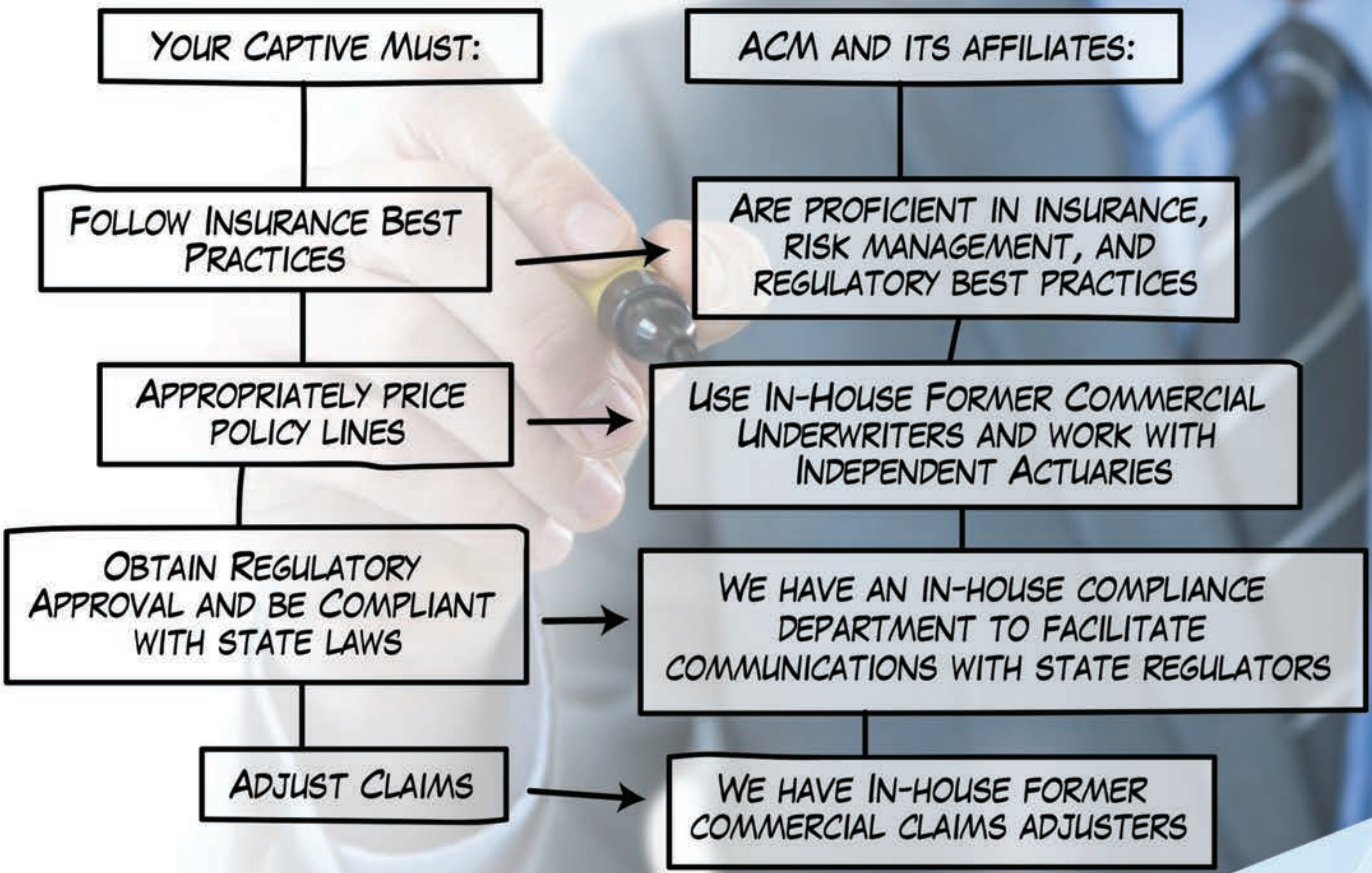
Gosz: The first few weeks of 2019 were much busier than usual for us. While actual numbers have not climbed markedly quite yet, there has been a large number of conceptual and pre-application conversations regarding new formations and redomestications.

At the very least, I would expect 2019 to come in as strong as 2018. I look forward to working with captive owners and others to help with their challenges. **CIT**

We'll continue to see a positive trend of formations with strong risk programmes

Travis Wegkamp
Director of captive insurance
Utah Insurance Department

Captives Are For Risk Management



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Comings and goings at SRS, Atlas and more

Richard Daley, president of JLT Insurance Management (Bermuda), will join Strategic Risk Solutions (SRS) Bermuda as its new managing director on 1 August.

Daley joins SRS after 13 years at JLT Insurance Management, which he joined in April 2006 and became president of in February 2015.

Prior to his role at JLT Insurance Management, he held roles at Aon Insurance Managers and JD Irving.

In his new role, Daley will work alongside current managing directors David Sykes and Andrew Hupman in SRS's Bermuda office.

Additionally, he will join the board of SRS International which includes SRS's activities in Bermuda, the Cayman Islands, and Barbados.

Sykes noted that he and Hupman have "tremendous respect" for Daley's work "at JLT and for the Bermuda captive industry in general".

He added: "He was always a strong adversary as a competitor and we look forward to working with Richard Daley to continue to build our Bermuda business."

Brady Young, president and CEO of SRS, described Daley as a "leading figure in the Bermuda captive insurance industry" and said the company is "excited to have him join us".

Young continued: "Richard Daley will help us take our business to the next level, both in terms of strengthening our local presence and the breadth of the services we provide to our captive clients."

Daley commented: "I am proud of the captive management business we built at JLT and it is difficult to walk away from that."

"SRS represents a new chapter in my career and an opportunity to work for an independent captive manager focused on delivering top quality captive management services to its clients."

Nigel Feetham, partner at Hassans International Law Firm, has been appointed to the rank of Queen's Counsel.

The appointment was made by the governor of Gibraltar, lieutenant general Edwards Davis, on 5 April 2019.

Feetham joined Hassans in 1993 and became a partner in 1999.

During a career spanning almost 30 years, he has specialised in setting up innovative insurance structures and has advised the Gibraltar government on insurance legislation, specifically related to protected cell company laws.

He is considered an expert in insurance passporting and has contributed to a number of articles to Captive Insurance Times around Brexit and its potential impact on insurance passporting.

Davis congratulated Feetham and said the appointment "is in recognition of the highest standard of personal professional integrity and competence".

Managing partner of Hassans, Javier Chinchotta, described Feetham as "a leading figure in the financial community having played a major part in some of the most significant developments in the Gibraltar finance sector".

He added: "Nigel Feetham's outstanding contribution to the cell captive and insurance industry (both in Gibraltar and internationally) has been recognised in six major law firm awards and nominations."

In a statement on LinkedIn, Feetham commented: "Thank you everyone who has contributed positively to my career. I have been incredibly blessed."

"The three pillars for a successful professional career in my view are trust (people must feel they can trust you), hard work (half the effort might get you to the same place but it doesn't guarantee it) and thinking outside the box/innovation (you have to have a unique selling proposition)."

Atlas Insurance PCC has promoted Ian-Edward Stafrace to chief strategy officer.

Stafrace has spent almost 19 years at Atlas, having joined as an executive in October 2000.

He was made chief risk and compliance officer in 2009, a role he held until he was promoted to his new role in March this year.

In his new role, Stafrace is responsible for international business coordination, including protected cells with insurtech, captive or traditional direct writing business models, and is head of business intelligence.

He is also an executive committee member, an IT board committee member, and a risk and compliance board committee member.

Stafrace will continue to work out of Atlas' Malta office.

Acadia Professional, the US medical professional liability firm, has appointed Brian Kern as partner.

Acadia provides specialist medical malpractice insurance services for healthcare networks, organisations, and providers, including captive insurance programmes.

Kern has broad expertise in professional liability, and has experience helping build risk purchasing groups and captives, and overseeing loss portfolio transfers.

Prior to joining Acadia, he founded healthcare risk consulting firm Toro Risk Consulting Group and was a founder and principal at Argent Professional, which was acquired by Bollinger.


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