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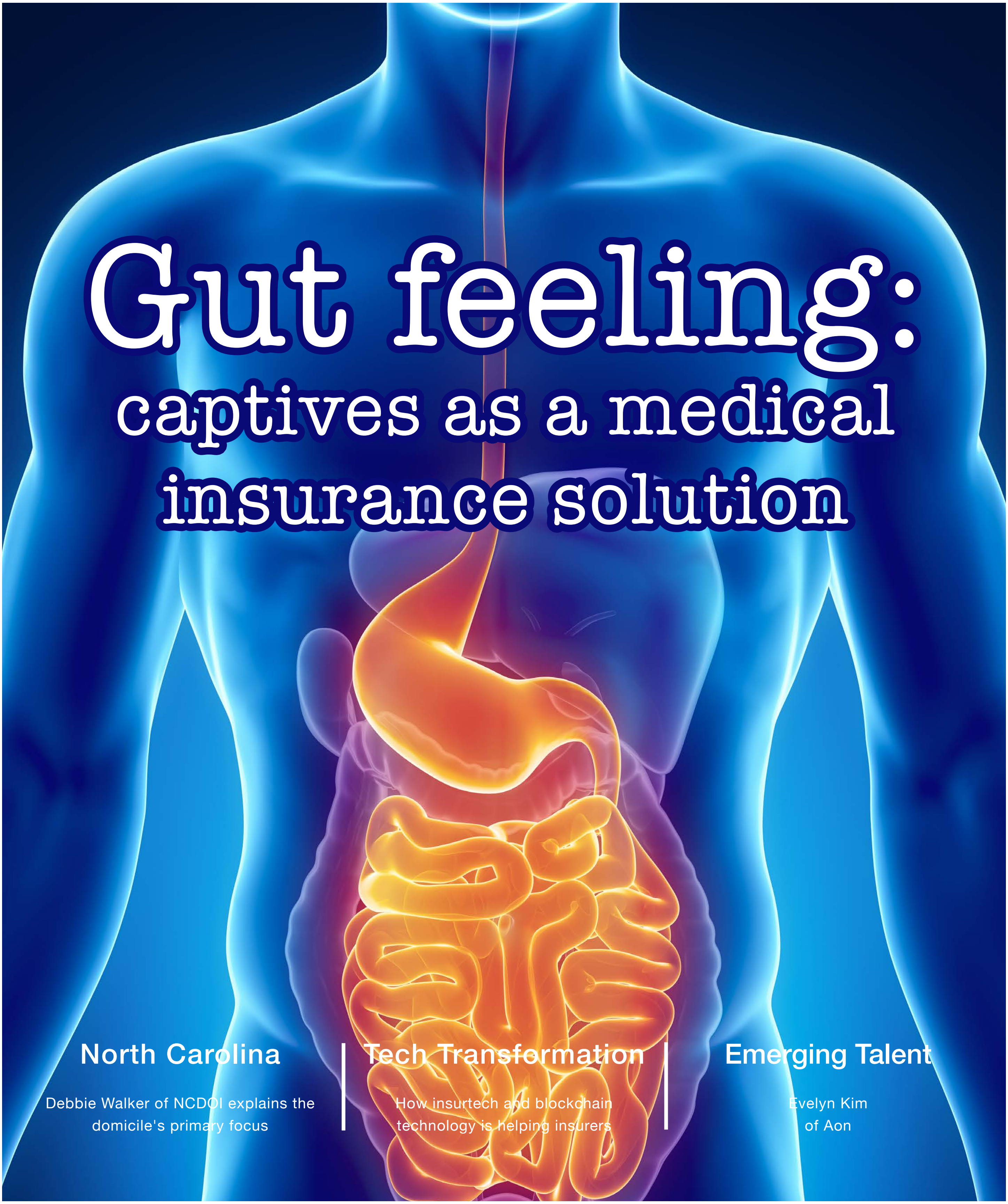

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captives as a medical insurance solution

North Carolina

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Tech Transformation

How insurtech and blockchain technology is helping insurers

Emerging Talent

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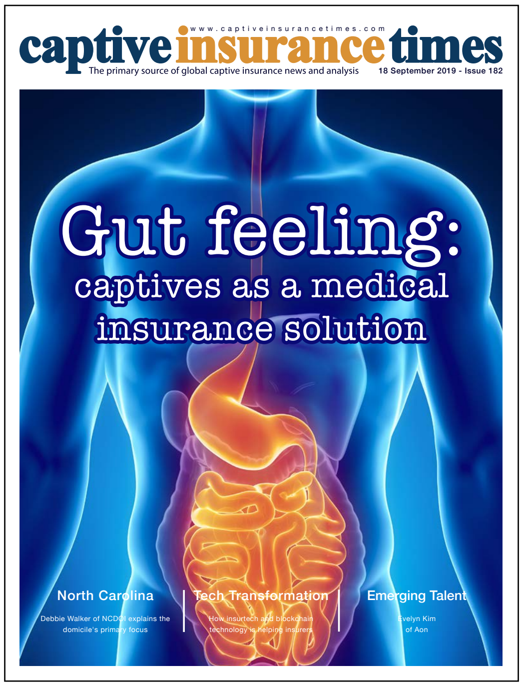

In this issue

IRS offers settlement for micro captive insurance schemes

The Internal Revenue Service (IRS) will be mailing a time-limited settlement offer for certain taxpayers under audit who participated in ‘abusive’ micro captive insurance transactions.

Under section 831(b) of the Internal Revenue Code, certain small insurance companies can choose to pay tax only on their investment income. Taxpayers eligible for this offer will be notified by letter with the applicable terms. Taxpayers who do not receive such a letter are not eligible for this resolution.

The settlement requires substantial concession of the income tax benefits claimed by the taxpayer together with appropriate penalties—unless the taxpayer can demonstrate good faith, reasonable reliance.

The initiative is currently limited to taxpayers with at least one open year under exam.

Taxpayers who also have unresolved years under the jurisdiction of the IRS Appeals may also be eligible, but those with pending docketed years under counsel’s jurisdiction are not eligible.

In addition, taxpayers who receive letters under this settlement offer, but who opt not to participate, will continue to be audited by the IRS under its normal procedures.

Potential outcomes may include full disallowance of captive insurance deductions, the inclusion of income by the captive, and imposition of all applicable penalties.

Taxpayers who are offered this private resolution and decline to participate will not be eligible for any potential future settlement initiatives.

The IRS said it will continue to assess whether the settlement offer should be expanded to others.

The IRS has revealed it also plans to continue to open additional exams in this area as part of ongoing work to combat these abusive transactions.

IRS commissioner Chuck Rettig commented: “The IRS is taking this step in the interests of sound tax administration. We encourage taxpayers under exam and their advisors to take a realistic look at their matter and carefully review the settlement offer, which we believe is the best option for them given recent court cases."

We will continue to vigorously pursue these and other similar abusive transactions going forward.”

Micro captives have come under scrutiny by the IRS for several years, appearing on the IRS’ ‘Dirty Dozen’ list of tax scams since 2014.

In 2016, the Department of Treasury and IRS issued Notice 2016-66, which identified certain micro-captive transactions as having the potential for tax avoidance and evasion.

The IRS has recently won three court cases against captive companies regarding tax.

Following these cases, the IRS has decided to offer settlements to taxpayers currently under exam.

Tax law allows businesses to create captive insurance companies to protect against certain risks.

Under section 831(b) of the Internal Revenue Code, certain small insurance companies can choose to pay tax only on their investment income.

In abusive micro captive structures, promoters, accountants or wealth planners persuade owners of closely-held entities to participate in schemes that lack many of the attributes of genuine insurance. ■


FOCUSING ON CLIENT SERVICE THAT IS OUT OF THIS WORLD
MORE OF A PARTNER THAN A VENDOR
Simply put, we provide competent service and place a priority on building relationships. Our clients are domiciled across the United States and abroad, served by our staff both in the United States and abroad with countless years of combined experience in the insurance accounting field, our professionals know insurance and have the ability to clearly communicate complex differences between Statutory Accounting/US GAAP/IFRS, and describing the accounting treatment of proposed transactions while discussing the tax effect in a clear, concise, understandable manner. We Thrive on Being Different.
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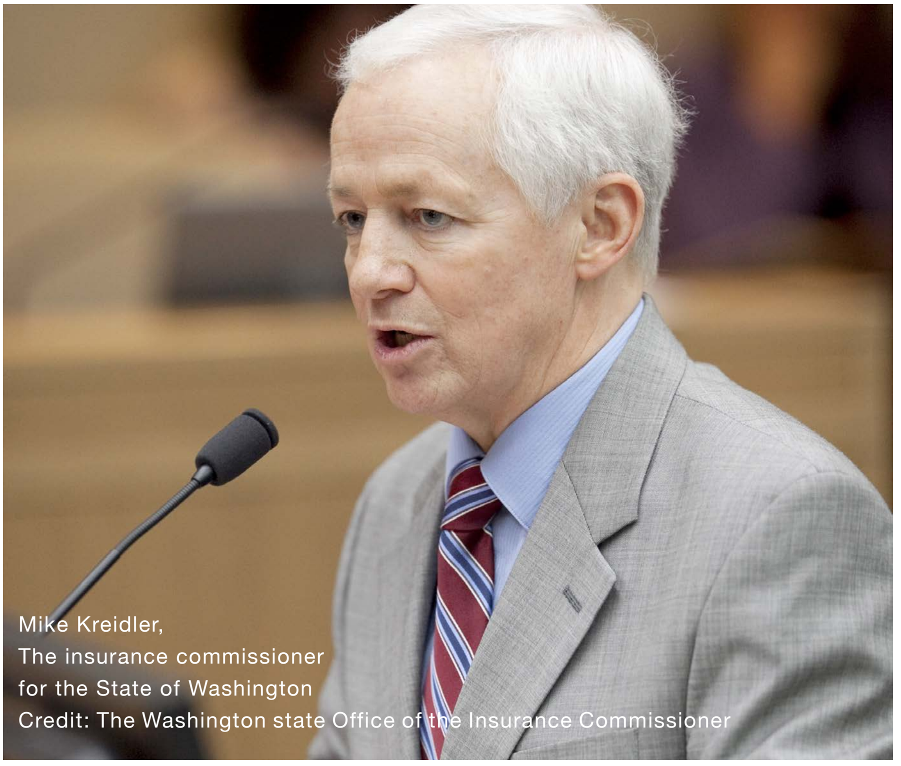
Captive receives $2.5m fine from Washington insurance commissioner



Mike Kreidler,
The insurance commissioner for the State of Washington
Credit: The Washington state Office of the Insurance Commissioner

The insurance commissioner for the State of Washington, Mike Kreidler, has imposed a $2.5 million fine on Alaska Air's Hawaii-domiciled captive insurance company for unpaid tax, interest, and penalties.

The fine handed to ASA Assurance, as well as its insureds and affiliates, included a fee of $1.8 million for unpaid premium tax, $0.2 million in interest, and $0.36 million in penalties.

It also received a fine of $0.1 million against ASA for violating the state's insurance laws.

In addition, the order stated that ASA does not hold a certificate of authority to transact insurance in Washington state.

In January, ASA filed a report under the insurance commissioner's captive insurer self-reporting plan. According to the order, the insureds self-reported "some, but not all of the insurance policies issued by ASA".

However, on 30 August the insurance commissioner withdrew the benefits of its self-reporting plan previously offered to ASA.

The self-reporting plan was introduced by Kreidler last year for captives that unlawfully insured risk in the state, offering them a reduced fine and premium tax penalty if they self-report during the 18-month grace period between 1 January 2019 and 30 June 2020.

From 1 July this year onwards, the fine amount and tax penalty increase for every six months that the captive insurer waits to self-report, up until the 30 June 2020 closing date.

Seattle-based insurance lawyer, Steven Beeghly said: "As a Washington state insurance attorney, I plan to closely follow the arguments Alaska Air's captive ASA will make here in Washington state should they fully litigate in the administrative hearing they have demanded."

Beeghly continued: "I am also keenly interested to see how their Hawaii captive will be used prospectively, and if they go down the same path or not as Microsoft and place coverage in the future through a licensed surplus line broker."

He added: "I would imagine they are exploring all defences and theories both in this current matter and to determine the best future use of their captive."

In August last year, Microsoft's captive insurer, Cypress Insurance, was ordered to pay $0.8 million to the Washington state insurance commissioner as part of a settlement agreement with the state.

After the order, Matthew Queen, general counsel and chief compliance officer at Venture Captive Management, suggested captives do not have to do business in Washington state and should do everything they can to stay out of the state.

Others such as John Dies, managing director of tax controversy at alliantgroup, said that while Washington's stance has been "very aggressive", other states are considering taking similar action.

At the 2018 European Captive Forum, Captive Insurance Companies Association president Dan Towle identified home states unlawfully taxing captives as the greatest threat facing the captive industry. ■

AXA XL launches local captive practice in Canada

AXA XL has launched a local captive practice in Canada in order to address the growing demand for captive and alternative risk transfer expertise.

Leading the new practice will be Alonso Tello, who was appointed as vice president of its captives and alternative solutions business last week.

Tello's appointment is part of AXA XL's aim to bring in top talent and expand the group's services for Canadian large commercial customers and brokers.

Urs Uhlmann, CEO and country manager AXA XL, Canada commented: "We are very excited to launch local captive capabilities in Canada. As a global practice, our specialised background will lead our growing business in the country while continuing to strengthen existing relationships with clients and brokers from all industries and sectors."

Regarding Tello's appointment, Uhlmann said: "We are particularly excited to kick-off this new Canada-based practice with the leadership of a captive expert like Alonso Tello."

He added: "His vast experience in the space will be a great asset to our Canada-focused practice." ■

R&Q reveals £25.3m profit increase for H1 2019

Randall & Quilter (R&Q) revealed a pre-tax profit of £33.1 million for six months ending 30 June, an increase of £25.3 million compared to H1 last year.

The firm's operational highlights included the acquisition of Global Re for $80.5 million, its largest legacy transaction.

During the first half of this year, R&A also agreed the acquisition of Sandell Re for $25 million, subject to regulatory approval. Once this deal has been completed, it will contribute to the 2019 full-year results.

It also completed five new legacy acquisitions and three legacy reinsurances in the first six months as well as the launch of 10 new programme management contracts in the US and Europe.

R&Q also announced a new leadership structure with Roger Sellek and Alan Quilter appointed as joint group CEOs, while Ken Randall continues as executive group chairman.

Commenting on the results, Randall said: "I am pleased to report a set of results reflecting both an outstanding financial performance and continuing delivery against our strategy."

"The H1 results have also been enhanced by a strong investment performance with a total income of £16 million against only £5.4 million for the whole of 2018."

He added: "The business continues to perform well with an excellent pipeline of new opportunities in both legacy and programme management.

The board expects that full-year results for 2019 will be in line with market expectations and we remain very positive about our medium and long term prospects, which will benefit from the emerging profits from our fast-growing programme management business." ■

OECD publishes second phase of peer reviews of Action 13

The Organisation for Economic Co-operation and Development (OECD) has released the outcomes of the second phase of peer reviews of the base erosion and profit shifting (BEPS) Action 13 country-by-country reporting initiative.

Country-by-country reporting, one of the four minimum standards of the BEPS Project, requires tax administrations to collect and share detailed information on all large multinational enterprises doing business in their country.

The second annual peer review considers the implementation of the country-by-country reporting minimum standard by jurisdiction as of April this year. For each jurisdiction, the review covered the domestic legal and administrative framework, the exchange of information framework and measures in place to ensure the appropriate use of country-by-country reports. The reviewed showed an increase in coverage to 116 jurisdictions, however, a small number of members were not included in the review either because they recently joined the inclusive framework or they faced capacity constraints, but the OECD explained: "They will be reviewed as soon as possible."

Countries missing from this review include Antigua and Barbuda; Armenia; Burkina Faso; Cabo Verde; Cook Islands; Dominica; Dominican Republic; Faroe Islands; Greenland; Grenada; Morocco; Saint Kitts and Nevis; Saint Vincent and the Grenadines.

It also revealed that over 80 jurisdictions have already introduced legislation to impose a filing obligation on multinational enterprise groups, covering almost all with consolidated group revenue at or above the threshold of €750 million. The OECD said: "Remaining Inclusive Framework members are working towards finalising their domestic legal frameworks with the support of the OECD."

It showed that the implementation of country-by-country reporting has been "found largely consistent with the Action 13 minimum standard".

In total, 62 recommendations that were made in the first peer review have been addressed and these recommendations have been removed.

Phase three of the peer review of the Action 13 minimum standard will commence in 2019, which aims to review all countries of the inclusive framework, focusing on progress made all jurisdictions including the countries that missed out in this review.

"The peer review outcomes and the launch of the global exchange of CbC report in June 2018 show that the BEPS measures are being implemented rapidly, consistently and globally"

Pascal Saint-Amans
Director of the OECD centre for tax policy and the administration


Image credit: https://www.flickr.com/photos/oecd/

Pascal Saint-Amans, director of the OECD centre for tax policy and the administration, said: "The peer review outcomes and the launch of the global exchange of country-by-country report in June 2018 show that the BEPS measures are being implemented rapidly, consistently and globally." ■

Reinsurance Collateral Trusts

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

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

The SunTrust advantage

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

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

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

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

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

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

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Why choose an Insurance Trust?

- **Improved Credit Availability** – an insurance trust has no adverse impact on your available credit.
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- **Convenience** – insurance trusts are tri-party arrangements that require no annual renewals.
- **Reduced Liability Concerns** – insurance trusts may limit the range of acceptable investments; this is done to ensure adherence to all regulatory requirements.

SunTrust®

Sedgwick expands claims management and risk solutions capabilities

Sedgwick has completed its purchase of York Risk Services Group, a provider of claims administration, managed care, specialised loss adjusting, pool administration and loss control solutions.

The acquisition brings to Sedgwick approximately 5,000 professionals from York serving a variety of clients, including corporations, the insurance industry and public entities.

As part of the transaction, entities controlled by Onex Corporation, an investment manager that owned York, are rolling their equity into the combined business and is joining Sedgwick's shareholder group as a minority investor.

Sedgwick president and CEO Dave North, said: "Joining forces with York enhances Sedgwick's position as a global industry leader. Together, we'll have the capacity to support more customers in times of need."

Thomas Warsop, chairman and CEO of York, added: "Integrating our two companies' expertise and capabilities will enhance our service offerings, bring us into new markets, and present exciting growth opportunities for our talented colleagues. This union is great news for the industry and all our valued stakeholders."

Last April, Sedgwick also acquired claims management and risk solutions firm, Cunningham Lindsey. ■

Ratings upgrade for IGI

A.M. Best has upgraded the financial strength of International General Insurance (IGI) (Bermuda), and International General Insurance Company (UK) to A (excellent) from A- (excellent) and the long-term issuer credit rating to "a" from "a-".

The long-term ICR was also upgraded to "bbb" of the non-operating holding company, International General Insurance Holdings (United Arab Emirates).

The rating company noted that the outlook of these credit ratings has been revised to stable from positive.

A.M. Best categorised IGI's balance sheet strength as very strong, as well as its strong operating performance, limited business profile and appropriate enterprise risk management (ERM).

The upgrade reflected IGI's resilient operating results, which have been driven by robust underwriting performance over the longer term, according to the rating company.

Despite the impact of catastrophe losses in 2017, the firm has a five-year average combined ratio of 90 percent between 2014 and 2018.

A.M. Best viewed IGI's underwriting discipline as a key driver of its good financial results and expects the company to report strong, albeit potentially volatile profits in prospective years.

IGI's balance sheet strength assessment is underpinned by risk-adjusted capitalisation at the strongest level, as measured by best's capital adequacy ratio (BCAR), as well as its good liquidity, conservative investment portfolio and reinsurance panel of good credit quality.

A.M. Best said it expects the company to achieve measured growth over the medium to long term, while maintaining a focus on underwriting performance.

It added that IGI's ERM framework is "well-developed" and its risk management capabilities are "aligned appropriately with its risk profile".

A.M. Best stated that IGICLand IGIUK are both fundamental to IGI's overall strategy and integrated with the group through shared management functions and an internal reinsurance programme. ■

SOBC DARAG continues acquisition streak

SOBC DARAG has acquired New Mexico's Property and Casualty (P&C) insurance company after receiving approvals from New Mexico OSI and Florida OIR for the transaction.

This marks the latest in a series of deals completed by SOBC DARAG, including the recent acquisition of Innovative Physicians Solutions RRG. As part of the acquisition, Mark Tabler, the COO of IPS, moved to SOBC DARAG to help with the development of the firm.

SOBC DARAG also opened a new office on 1 August in Bermuda as part of its expansion into the US and Bermuda markets.

Dan Linden joined as head of SOBC DARAG's Bermuda office, Joel Neal joined as the executive vice president, Ryan Heyrana as the vice president, and Lucy Foster as the financial controller/captive manager.

Following SOBC DARAG new acquisition, Stephanie Mocatta, CEO, SOBC DARAG, said: "The acquisition of New Mexico P&C Insurance Company follows hot on the heels of a number of transactions as SOBC DARAG continues to grow."

"I am grateful to my team at SOBC DARAG for working quickly and efficiently on this deal and bringing it to a successful conclusion."

"Sellers recognise that we continue to offer fast, effective finality solutions for insurance companies in the run-off as we continue our strategic expansion."

She added: "With the new senior hires in Bermuda, we have more expertise and more capacity as a group and I expect to see a significant number of transactions completed in H2 2019." ■

Guernsey considers introduction of LLCs

Guernsey is proposing to adopt limited liability companies (LLC) to enhance the island's competitive position in the US.

The island's government, the States of Guernsey has launched a consultation exercise, as it considers following many other international financial centre jurisdictions in introducing LLCs.

LLCs are commonly used in the US as structures for trading businesses, holding vehicles and special purpose vehicles. They offer a flexible hybrid structure for any lawful business purpose or activity, offering a limited liability in a tax-transparent structure.

Guernsey first adopted limited liability partnerships in 2013. It is expected that LLCs would be treated as partnerships for the purpose of taxation in Guernsey, but could decide at the point of the establishment to be taxed as a company. The States of Guernsey consultation closed on 18 September.

Dominic Wheatley, chief executive of Guernsey Finance, said: "This move will be positive in developing Guernsey's flows of funds business from the US, which is increasingly a target market for the Guernsey funds industry."

He added: "The island's expertise in private placement helps managers to access investment on both sides of the Atlantic, and this move will provide further opportunity for cross-border structuring."

Dr Andy Sloan, deputy chief executive, strategy, at the promotional agency, commented: "The development of LLCs is one priority in the development of the new product for Guernsey, which we set out in our policy framework for financial services last year." ■

Non-life global legacy insurance market sees run-off reserves increase

PwC has estimated the non-life global legacy insurance market has run-off reserves worth $791 billion, an increase of 8 percent compared to last year, according to its 12th Global Insurance Run-off Survey.

The survey, released at the 2019 Monte Carlo Reinsurance Rendez-vous de Septembre, found that the US market will see the most activity in terms of deals over the next two years. It suggested that the US and the UK will continue to feature larger deals than continental Europe.

Responses indicated that legacy portfolios sitting within life insurance companies will be the main source of legacy transactions in the next year with others noting that Lloyd's of London, captives and non-insurance corporates will also feature in legacy deals.

Accounting for nearly 50 percent of the estimated reserves, the US continues to remain the largest run-off market, while Europe is estimated to have non-life run-off reserves of $292 billion.

The report showed that non-life legacy liabilities for the rest of the world are estimated to be $135 billion, with emerging markets including Asia and South America seeing increased run-off reserves since the last edition in 2018.

Jim Bichard, UK insurance leader, PwC said: "We have observed tremendous growth in the run-off sector in the last decade as it has developed into a key component of the insurance macro market."

"As insurance groups continue to embed the culture of repeatedly selling legacy insurance portfolios to drive capital efficiency, profitability or operational savings, I believe this market will continue to thrive as a way to create significant value."

Andrew Ward, director in PwC's Liability Restructuring team, added: "The non-life run-off sector is very active and our survey expects this trend to continue over the next few years, with the US expected to be particularly busy."

"We expect to see larger deals and more deals involving non-traditional run-off lines of business including non-insured corporate liabilities."

"We also anticipate that disruption through technological advances in the life insurance market will lead to transactions facilitated by legacy solutions."

"These developments will see run-off acquirers evolve and adapt their operations to meet the expectations of both sellers and regulators." ■

Legislative attention

Debbie Walker of NCDOI explains why ongoing regulation of licensed captive insurance companies is the domicile's primary focus

Earlier this year, it was reported that North Carolina was planning a captive amendment, known as HB 220, are there any updates on this? What opportunities will the amendments provide?

The North Carolina general assembly had a significant amount of insurance legislation to consider during this year's legislative session. It was determined that the timing of the captive insurance legislative proposal was not the best and would instead be proposed later. The North Carolina Department of Insurance (NCDOI) has begun its internal evaluation of the legislative amendments, including captive insurance proposals, that should be considered during the short legislative session in 2020.

Recent programmes have been created to draw in more women and to also attract young people into the captive sector, what is North Carolina doing to target more young people and women to work in the captive sector?

It has been a challenge to attract and retain young professionals (as well as applicants of any age) because of the favourable job market for those with an accounting education and work background, which is required for the analysts in our division. This market is providing career choices for young insurance and accounting professionals, and many young people are not aware of the interesting careers available in the insurance industry. We do desire to bring more young people into the NCDOI to become our future leaders. During the past three years under the guidance of Dr Michelle Osborne, chief deputy commissioner, the NCDOI has annually invited students and their professors from various colleges and universities to visit with us and learn about the NCDOI's responsibilities.

Additionally, we speak at colleges and universities, whenever possible, to share information about the captive insurance sector of the industry with students. This summer, our division was fortunate to hire a college intern to assist our team. It was a great experience for the division and this opportunity also expanded the intern's interest in a future career in captive insurance. Finally, we plan to advertise our available positions more frequently on the websites of various colleges and universities. We continue to encourage younger professionals to consider careers with the NCDOI.

It has been challenging, but our division has been fortunate to recruit some very talented young people, who possess not only the required accounting education, but also excellent communication skills, knowledge of technology, the ability to work with a team, and excitement about their jobs. These young people bring new ideas, perspectives and approaches to the work we do.

The NCDOI has been successful in attracting and retaining women to positions throughout the NCDOI. Women comprise 70 percent of the employees in our division. Additionally, the NCDOI has numerous women in leadership positions such as chief deputy commissioner, senior deputy commissioner, and deputy commissioner. I believe this is due to the job stability and work/life balance that is offered by the NCDOI, which is appealing to many women as well as men.

What do you see as the biggest challenges over the next year?

I believe the captive industry has a favourable outlook and it will continue to grow as more business owners learn about the benefits of utilising captive insurance to manage their risks. However, some of the challenges to the industry include regulatory and judicial activities such as the procurement taxation of captive insurers by non-domiciliary states and the Internal Revenue Service (IRS) scrutiny and reporting requirements accompanied by the outcome of several recent court decisions related to captive insurers.

In some cases, these activities have had an impact on business owners' appetite for captive insurance. As discussed already, another challenge is the recruitment, training and retention of young professionals to replace those in the industry that will be retiring in the coming years.

With the rising "mass shootings" in the US, do you have any plans to create a non-profit captive in North Carolina to help victims/family members of mass shootings?

The rash of recent mass shootings in the US has been alarming and the impact on the victims, their families, and organisations where the violence occurs are devastating.

Although I am not aware of any plans for the state of North Carolina to utilise insurance to help victims and their family members, organisations may consider obtaining coverage for an active shooter, workplace violence, and similar types of risks through captive insurance.

A captive insurer provides the insured(s) with the ability to obtain the exact coverage, including gap coverage, and policy terms that are needed so that the insured may appropriately address the risks that it faces.

What else is the NCDOI working on right now and over the next year?

Currently, our primary focus is the ongoing regulation of licensed captive insurance companies. Each captive insurer is assigned to a direct and supervising analyst in our division, responsible for monitoring the financial health and compliance of each insurer. The analysts utilise the annual reports, audit reports, statements of actuarial opinion, and other information filed by captive insurers.

Through the analysis process, any questions or issues of concern that arise are addressed directly with the insurers for resolution. We are also evaluating applications for new captive insurers, business plans of new proposed cells, and amendments to current business plans, all of which requires the NCDOI's prior approval. These filings have been steady throughout the year. As we approach the end of the year, we expect these submissions to increase in number.

The NCDOI is internally discussing proposed insurance legislation for the 2020 short legislative session. These discussions include legislation regarding the North Carolina captive insurance programme that may be necessary to improve the law and maintain its relevance.

We will continue training and educating our captive insurance regulatory team in accounting and insurance matters related to the captive insurance programme through captive courses, webinars and conferences. Two team members, Leane Rafalko and Michael Arcangel, are about to complete their associate in captive Insurance coursework through the International Center for Captive Insurance Education.

As in the prior years, our team will be involved in numerous captive events in the upcoming year to obtain an education, to educate others about the use of captive insurance, and to promote North Carolina's captive insurance programme. I have the pleasure of participating in a captive insurance regulatory panel with captive regulators from other states at the Self-Insurance Institute of America Conference at the end of September. On the panel, we will discuss captive insurance topics from a regulator's perspective.

Our division is already planning our exhibits and participation at the World Captive Forum, the Captive Insurance Companies Association Conference, and the Risk Management Society Conference, which are all taking place during the first half of 2020. We will also exhibit and participate in the North Carolina Captive Insurance Association's conference that will be held May 13 to 15 2020, in Durham, North Carolina at the Washington Duke Inn & Golf Club. ■

"We will continue training and educating our captive insurance regulatory team in accounting and insurance matters related to the captive insurance programme through captive courses, webinars and conferences"

Debbie Walker
Senior Deputy Commissioner , NCDOI

Technology transformation

Stephen Browning of Next Generation Services explains how insurtech and blockchain technology is helping insurers to become more efficient

The emergence of artificial intelligence (AI) and other leaps in technological advancements are dramatically reshaping the insurance industry. Use of data, the emergence of AI and machine learning have the potential to be very advantageous for consumers and businesses alike.

Now more than ever, the insurance sector has a duty to not only keep up with these developments but also to stay one step ahead to maintain its global leadership position.

Services—including insurance, accounting, and law—account for almost 80 percent of the UK economy, and financial and professional services alone are worth £190 billion and employ 2.2 million people, so it is vital that we ensure these are primed for the future.

The insurance sector not only contributes directly to the economy, but it underpins all other business activity by supporting the management of risk. UK Research and Innovation (UKRI) has allocated £20 million of funding to projects exploring how new technologies could transform the UK insurance, accountancy, and legal services industries. The Next Generation Services challenge, as it has been named, aims to advance technologies such as AI and data analytics that can help the sector to become more efficient, productive and globally competitive. Through this challenge, the government is supporting industry and researchers to develop technology and services that can transform the UK's services industry.

There are a number of key technological trends and obstacles within the insurance sector that are having a huge impact on pricings, operational efficiencies and customer experience.

Robotic process automation will play a big part in the future of insurance. Bots are set to become the norm in both the front and back-office to automate policy servicing and claims management for faster and more personalised customer service.

Always-on technology and data-driven operations mean cybersecurity must be proactive and strategic, not reactive and defensive. Insurers need to create a stronger protection for key data, reduce brand and reputational risk, and achieve more efficient regulatory compliance, so customers can feel confident that their data is safe. For example, UKRI is funding a project which is using AI and machine learning to detect cyber threat activity and enable accurate risk prediction. We are also funding industry-led research and development projects working on specific solutions such as a 'telematics' style approach for pricing cyber risk.

Insurtech and blockchain technology is helping insurers to achieve more efficient claims management, stronger fraud detection and prevention capabilities, reduced asset management costs, and enablement of big data and internet of things initiatives. As a result, customers gain stronger data security and privacy, increased trust and transparency, and faster resolution.

The use of data and data science is clearly established in the insurance sector particularly when it comes to pricing risk. However, the emergence of technologies like machine learning enables ever more granular understanding of risk and new sources of data to be included. For example, analysis of earth observation satellite imagery can help insurers to better understand risks to assets from buildings to ships by providing a greater ability to carry out situational awareness.

As these technologies develop, we will likely see ever more tailored offerings fitting the specific needs of businesses and individuals. Further down the line, we may be able to mitigate or prevent risks better, thus removing the need for after the fact reparations, or at the very least, insurance companies will be able to recognise that risk has materialised and intervened proactively through 'AI' type technologies.

In some of the projects we are funding, we are trying to reduce fraud by using AI to detect anomalies in calls and into call centres or through other means. Insurance fraud is estimated to have cost £3 billion in the UK in 2017 amounting to approximately £50 per policy for consumers. Obviously, if we can reduce this it is beneficial for consumers, the insurance industry and the economy as a whole.

All these technological possibilities need to be tempered and understood in a human context. We need to not only ensure that we are following ethical approaches, but we also need to understand the human behaviour that will enable or hinder roll-out of new solutions. Typically, with any transformative technology, it's not the technology itself that undermines results and opportunities, but rather the human reactions and broader systems into which that technology is being deployed.

"Insurtech and blockchain technology is helping insurers to achieve more efficient claims management, stronger fraud detection and prevention capabilities, reduced asset management costs, and enablement of big data"

This is why in all our Next Generation Services programme activities we emphasise the need to consider human behaviour as well as technology.

UKRI has so far offered grants totalling £7.86 million to 16 projects that are wholly or partly in the insurance sector.

One project we have funded, Oasis-CAIMAN, is developing machine learning-based software that can accept, analyse and review drone collected visual images to a high level of accuracy for property loss and damage after extreme events such as flooding, severe windstorms, tornado, landslides and

"There has been an incredible development over the past five years and with proper funding and support, these innovations can continue to improve the sector"

Stephen Browning
Challenge Director, Next Generation Services

so on. The highly accurate loss and damage information can be rapidly compared against insurance claims information and used for damage assessment by insurance and other sectors and has the potential to be an open system with claimants themselves.

It can be used for both domestic property, industrial and business insurance claims, as well as in major disasters by disaster risk responders.

As mentioned, the need for robust cybersecurity is imperative; with our financial support, the project Orpheus is seeking to transform the insurance sector by using AI and machine learning to predict cyber threat activity and enable accurate risk assessment. Orpheus collects huge volumes of cyber risk data, which is then analysed by machine learning and converted into actionable insights so that consumers can clearly understand the cyber threats they face and act effectively.

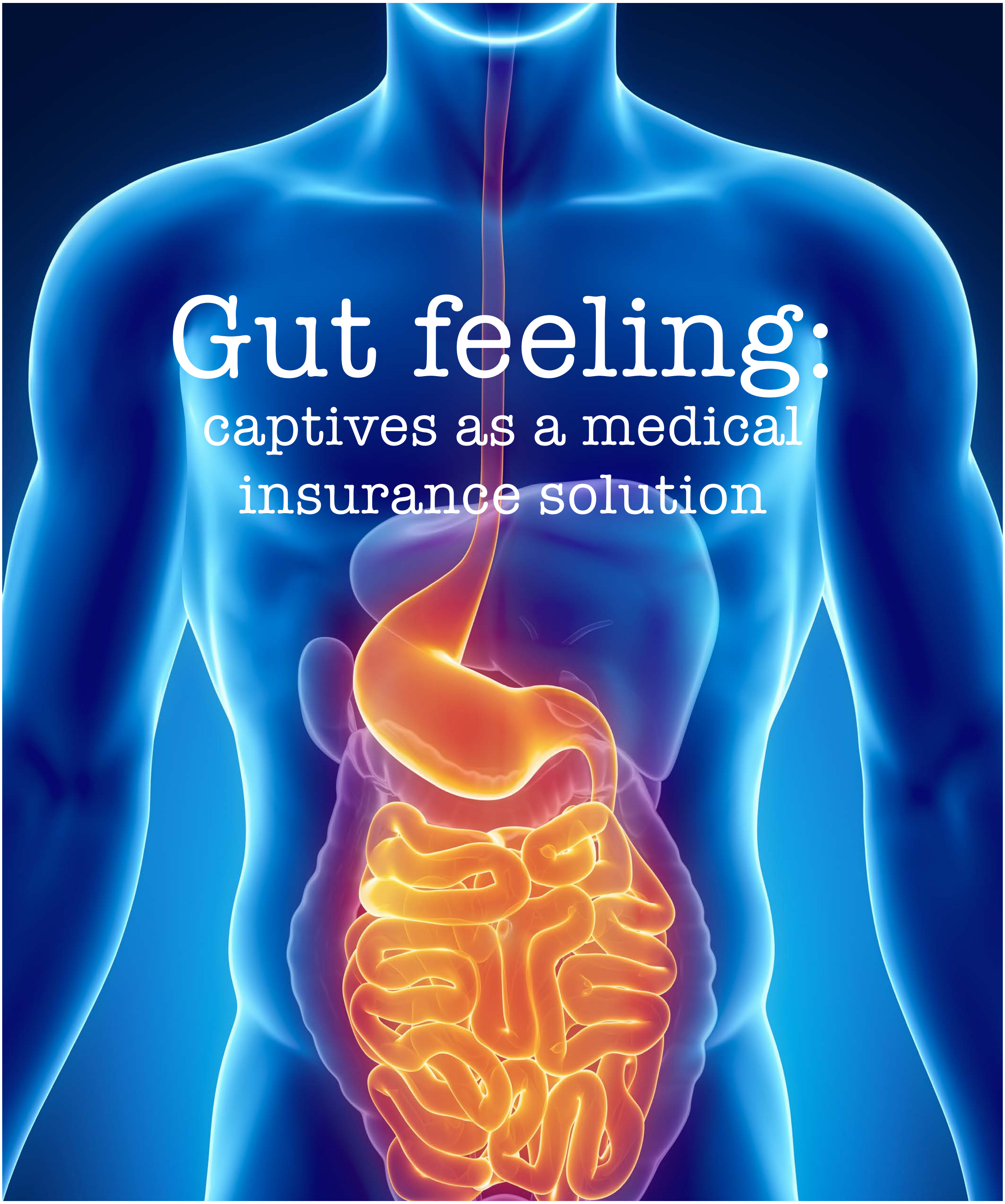
By contrast, Project Flowerpot is looking to fuse video capture, automated video image processing, and AI to develop the next generation of in-vehicle telematics devices. These devices will give feedback to drivers on factors influencing their safety including acceleration, braking, handling intensity, proximity to other vehicles and accommodation of external conditions.

This will be critical in reducing levels of fraud within the vehicle insurance market, combating both personal injury fraud and crash for cash schemes. The high quality of crash data will also help insurers with claim resolution processes as reliance on driver recollection is negated by the availability of data.

There has been an incredible development over the past five years and with proper funding and support, these innovations can continue to improve the sector exponentially.

UKRI is committed to developing these technologies and integrating them into the insurance sector. Streamlining these practices and overcoming obstacles provides amazing opportunities to cement the UK as a global leader in the sector. ■

Gut feeling:
captives as a medical insurance solution



Changes to the financing of the healthcare industry and its insurance coverage has seen some independent practices turn to captives as a solution

The current environment of the US healthcare industry presents a variety of both opportunities and objections for medical practitioners, particularly those operating out of independent healthcare provider organisations (HPOs).

The Patient Protection and Affordable Care Act, introduced in 2010, reformed the model by which healthcare professionals are paid, from being correlated to the number of patient visits to a capitation contract. This healthcare plan pays a fixed fee per patient registered under the care of an HPO, regardless of how many visits they make. Capitation contracts essentially operate as a volume-to-value model, with the increased treatment required by a patient equating to less HPO profit. Therefore, independent practices must be adaptable to this change.

HPOs, particularly independent practices, are now turning to captive insurance solutions to stabilise their profits and cover expected losses, primarily because any premiums paid to a captive are a tax deductible. Furthermore, HPOs that offer captive programmes will experience collateral effects on how they conduct their business, for example, profit and loss statements mirror traditional insurance company models.

As a form of self-funded alternative risk management for professional liability insurance, the viability of a captive is somewhat dependent on the efficiency of medical stop-loss protection. However, captives do offer better management of risk exposures than traditional insurance coverage because they allow access to the global reinsurance market, offer structured, bespoke coverage, and raise the HPO's 'risk IQ'.

In order for an HPO to determine if a captive is the best solution, it is advised to assess its risk exposures, quantify stop-loss coverage, and calculate risk tolerance. In the consolidation of the provider HPOs, the most common coverage of a healthcare captive is medical malpractice—litigation following a patient injury caused by medical professional negligence.

Medical malpractice coverage in a captive programme oversees the formation of accountable care organisations (ACOs), comprised of the independent practices participating in the captive. Increased risk pooling sees an increased emphasis on the quality of the care provided, as well as overall population health management because the payment structure now prioritises outcome-based compensation.

In this climate, a new specialised captive insurance solution has been formed in a partnership by four industry organisations: GastroAssure. The brainchild of the collaboration between Gastrologix, the Digestive Health Network (DHN), Curi, and Arthur J. Gallagher & Co, GastroAssure provides medical professional liability coverage for independent gastroenterology (GI) practices in the US.

Gastrologix was a fundamental element in launching the captive programme, as the only group purchasing organisation (GPO) in the US that operates on behalf of independent gastroenterologists to help lower costs, improve efficiency and expand their offering of services, while the DHN consists of a group of GI practices partnered to increase the efficiency of practice management.

Furthermore, Curi, a medical mutual company that offers health maintenance organisations' insurance, participated in the formation of the captive, as a provider of products and services ranging from medical malpractice insurance to wealth management and wellbeing programmes.

Global insurance brokerage firm Arthur J. Gallagher & Co served as the medical liability programme manager and provided risk management and consulting services during the launch of the captive programme.

Dale Jenkins, CEO of Curi, reiterates the importance of GastroAssure in the market: "This partnership creates a custom captive insurance platform that allows independent GI practices to have more control of their medical professional liability coverage, so they can more easily focus on what's most important: treating their patients and running a successful business."

GastroAssure differs from traditional medical liability coverage because it provides a more personalised offering of benefits, including, as Jenkins notes, "the ability to control pricing, coverage terms and level of participation in risk sharing".

The captive programme is also eligible for ancillary businesses with existing insurance parameters that are compatible with a captive, such as endoscopy centres, pathology labs and anesthesia services.

In order for a GI practice to participate in GastroAssure, they must be a member of DHN and seek to observe "incremental growth solutions outside of the commercial marketplace", Jenkins advises. A particular advantage of captive insurance is that they provide coverage outside of the traditional commercial insurance environment to offer more tailored solutions.

More specifically, GastroAssure provides advantages to independent GI practices as it allows them to "come together to lower their medical liability insurance costs, collaborate on developing best clinical practices, and build assets that can generate additional revenue for their members," Jenkins affirms.

He continues: "GastroAssure ultimately gives these practices more flexibility with their insurance, allowing them to benefit from stabilised or lower premiums and reduced administrative costs while having more control over claims. The practices will also share in the profits of the captive programme as owners of GastroAssure."

The effects of the GastroAssure captive programme remain to be seen; however, independent GI practices are encouraged to join and become an ACO. ■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Associate director
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Aon

Having been born and raised in Canada in one of the most diverse cities in the world provided a unique perspective growing up and instilled in me a desire to explore and learn about other cultures. I'm passionate about diversity and inclusion in the workplace and currently lead Aon's national Latino BRG which focuses on helping Latino colleagues advance in their careers at Aon and improve representation at all levels of the organisation. My husband and I currently call Chicago home and enjoy hosting friends and introducing them to Korean BBQ.

Professional profile:

Studying Accounting at the University of Waterloo was probably one of the best decisions I've made in life as it provided me with the analytical tools and inquisitive mindset to view the world. After my completing Masters in Accounting and successfully writing the CPA exam, I jumped at the first opportunity to escape the harsh Canadian winters and moved to sunny Bermuda to work as an auditor for PwC in their captive insurance division.

During my time there I had the opportunity to audit numerous captive insurance entities from across all industries and countries. It was a fascinating experience to see self-insurance at work in a formalised structure that yielded great benefit to insureds and centralised their risk management programme.

After several years with PwC, I made the jump to the captive management and took a senior account executive role with Aon's captive management team in Bermuda where I was responsible for the day-to-day operation and financial reporting of a portfolio of captive insurance entities. Being on the client side, as auditors say, gave me a front-row seat in management's decision making over the operations and risk appetite of the parent company and grew in me the desire to learn more and share with others.

During my time with Aon's Bermuda team, the opportunity to relocate to Chicago presented itself and I took on a role with Aon's captive consulting team overseeing the Midwest region. My role is focused on working with our office and practice leaders to drive captive opportunities and provide captive consulting services via captive feasibility and risk financing studies.

How did you end up in the captive industry?

An opportunity with PwC in Bermuda introduced me to the captive industry and it's been a fascinating journey since. Like most professionals in this space, we've somehow all stumbled into the industry and have been kept on our toes with the introduction of new technologies and ways of doing business. Each day brings new challenges and pushes all of us to think outside the box and a captive insurance company allows the flexibility and nimbleness to do so.

What has been your highlight in the captive industry so far?

Taking on the role of associate director within Aon's captive consulting team has been the most rewarding experience so far. It's been a perfect match combining my analytical and technical skills with my interpersonal skills and overall drive to solve problems. I think the captive industry provides the right outlet for those looking to find solutions to problems that don't yet exist and I'm keen to be at the forefront of the incoming wave.

What/who have been your influences in the captive industry?

Being a self-starter and negator of the status quo have been my greatest influences during my career in the captive industry. Taking on various roles within the industry has provided me with the wide view of the industry and allows me to approach problems from different perspectives. I can relate to CFOs in their endeavour to reduce costs and manage volatility while also working with corporate risk managers to find alternative solutions to new emerging risks or a hardening market. I wouldn't have made it this far had it not been for my colleagues at Aon who entrusted me to oversee the Midwest region and provided the guidance and support to successfully do so. My success has not been achieved alone, but rather from a large consortium of people helping me along the way.

What is your impression of the industry?

The captive industry provides an opportunity to engage with self-insurance at the discretion of the insured and their risk tolerance while aligning them in the direction that best suits them. It is flexible and nimble to emerging risks and responsive to changing market conditions.

What are y**our aspirations for your career in the captive industry?**

Solving problems and seeking to find new and creative ways to address the pain points of our clients to drive better business outcomes for them and their employees.

What advice do you have for someone considering a role in the industry?

Be hungry to learn. You are the driver of your destiny and the captive industry provides the platform to explore a variety of roles and find your niche. ■

Evelyn has mastered the use of analytic tools to "see things in the data" that we could not see five years ago. As a result, she delivers strategic insights around the use of risk finance, captive insurance companies and risk hedges, including the use of insurance, to solve complex risk mitigation problems. She is a part of a team that is tieing risk data to a firm's economic and market performance (EBITDA, EPS). Attention to analytics aside, a key skill is Evelyn's ability to communicate complex financial and operational issues in simple, strategic and practical terms.

Her experience as a captive manager has given her a unique client centric understanding into the workings of enterprise risk from a hazard, operational, market, human capital and reputational perspective. Evelyn understands the value of portfolio and how portfolio analytics improve the management of risk volitility. Going forward, the management of risk volitility will become the central risk management metric.

Sit up and pay attention: Evelyn is someone to watch.

Ward Ching
Aon Captive Insurance Managers, Aon Adjunct professor of management, Marshall Business School, University of Southern California

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The latest moves in the captive industry

Hylant has recruited Anne Marie Towle to lead its global captive solution team.

Previously, Towle worked as executive vice president and captive practice leader at Marsh. She has more than 20 years of experience in the sector and has worked in many key onshore and offshore domiciles.

Commenting on the recruitment, Richard Hylant, president, sales and innovation at Hylant, said: “Hylant has long placed its clients first with service offerings uniquely tailored to evolving trends and client needs.”

He continued: “Adding Anne Marie Towle to our team furthers this commitment as we look to make our captive business into a global resource in the captive and alternative risk space.”

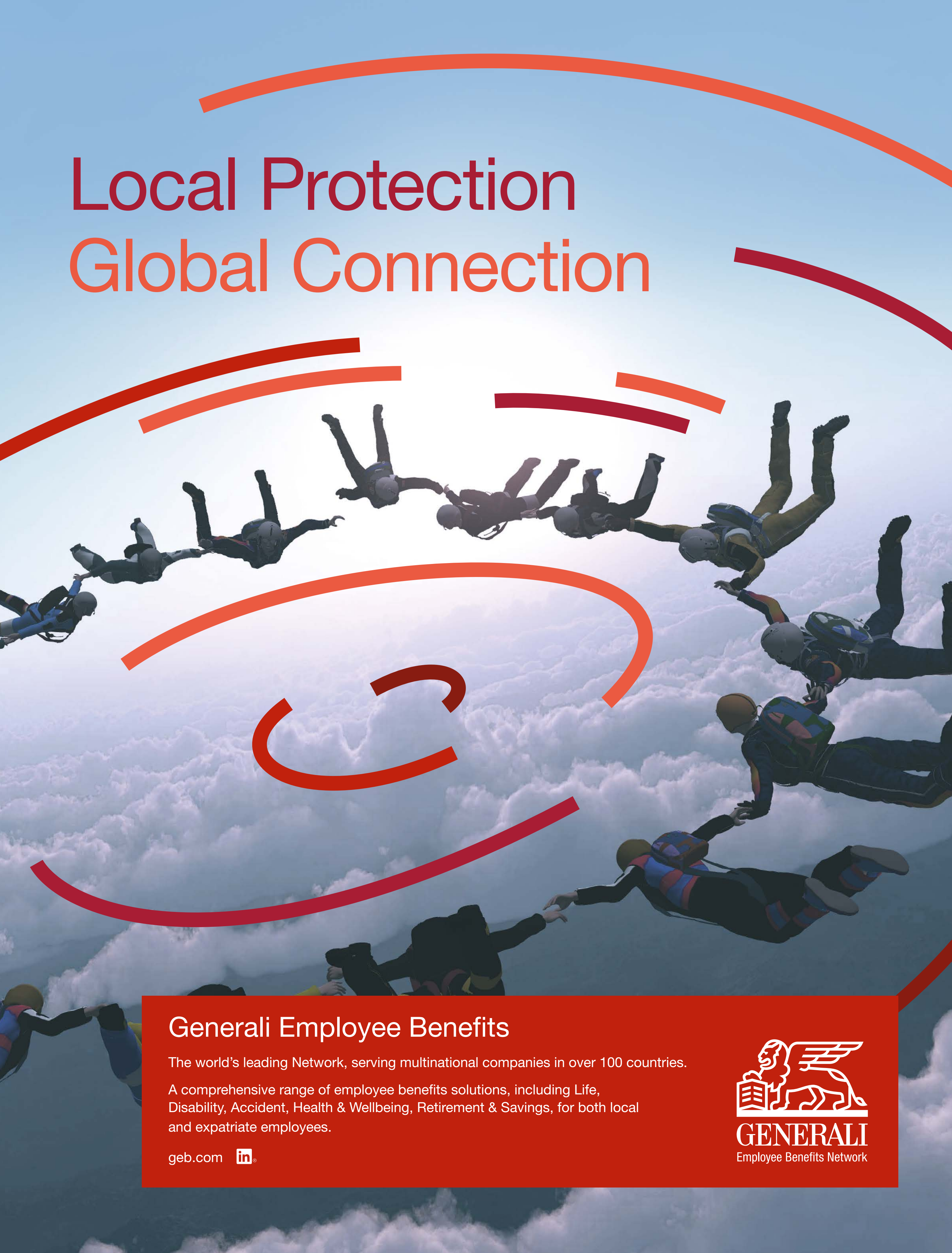
“Kip Irle, who has led captive consulting, will continue to lead Hylant’s private equity and mergers and acquisition business while supporting captives alongside Towle.”

Tennessee governer Bill Lee has named Hodgen Mainda as the new commissioner for the Tennessee Department of Commerce and Insurance (TDCI), effective 1 October.

Mainda takes on the new role from Julie Mix McPeak, who stepped down on 14 June to pursue career opportunities in the private sector. Deputy commissioner Carter Lawrence has served as the department’s interim commissioner since McPeak stepped down.

Commenting on Mainda's appointment, Lee said: “Hodgen Mainda joins my cabinet after an outstanding career as a community leader in Chattanooga.”

Lee added: “He is respected for his ability to build partnerships across multiple sectors and we welcome his leadership to such a multifaceted department like commerce and insurance."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Aon has appointed Neville Weston as vice chairman of its reinsurance solutions business in Bermuda.

This appointment is pending Bermuda's immigration approval.

Reporting to Tony Fox, chairman of Aon's reinsurance solutions business in Bermuda, Weston will be responsible for speciality lines, bringing knowledge and experience to the Bermuda team from both an underwriting and broking background.

He joins from Aeolus, where he was a partner and senior underwriter for the property catastrophe fund.

Prior to Aeolus, he worked at Guy Carpenter, where he managed the casualty and professional liability broking operations in Bermuda.

UK CEO of Aon's reinsurance solutions business, Nick Frankland commented: "Neville Weston's experience in speciality lines, property catastrophe treaty, industry loss warranty and retrocession contracts will further strengthen the team on the island as we explore growth opportunities for our clients." ■

Hanover Stone Partners has appointed Laureen Coyne and Pam Davis as co-leaders of its new national public entity practice.

Coyne has more than 25 years of risk management leadership experience, focusing on the public sector. She served as president of First Mutual Transportation Assurance Company, which was both the first public entity captive and first captive in New York state.

Previously, Davis was executive assistant general counsel at the New York City transit authority. Among other responsibilities in that position, she revamped the authority's workers' compensation division, achieving reductions in reserves.

Based in New York, Coyne and Davis will be supported by the company's network of more than 50 senior risk advisors and 30 partner firms. ■

Marsh has made new senior leadership appointments within its property and financial and professional liability practices.

Reporting to Martin South, president, US and Canada, Michael Rouse will assume the leadership of Marsh's US property practise, succeeding Duncan Ellis, who has left Marsh.

Rouse has more than 20 years experience of property insurance. Most recently, he served as Marsh's US property placement leader.

Michelle Sartain has been appointed FINPRO practice leader for the US and Canada, reporting to Pat Donnelly, Marsh JLT speciality leader for US and Canada.

Sartain has 20 years of experience serving in roles at Marsh in the property and financial and professional liability business as well as the US sales team, including most recently as US sales leader.

She succeeds Devin Beresheim, who has also left Marsh.

Based in New York, Rouse and Sartain will both join Marsh's US executive committee.

Commenting on the appointments, South said: "Under the leadership of Michael Rouse and Michelle Sartain, we will continue to provide clients with unrivalled data, analytics, and risk transfer solutions that allow them to anticipate, model, and manage the threats facing their businesses." ■