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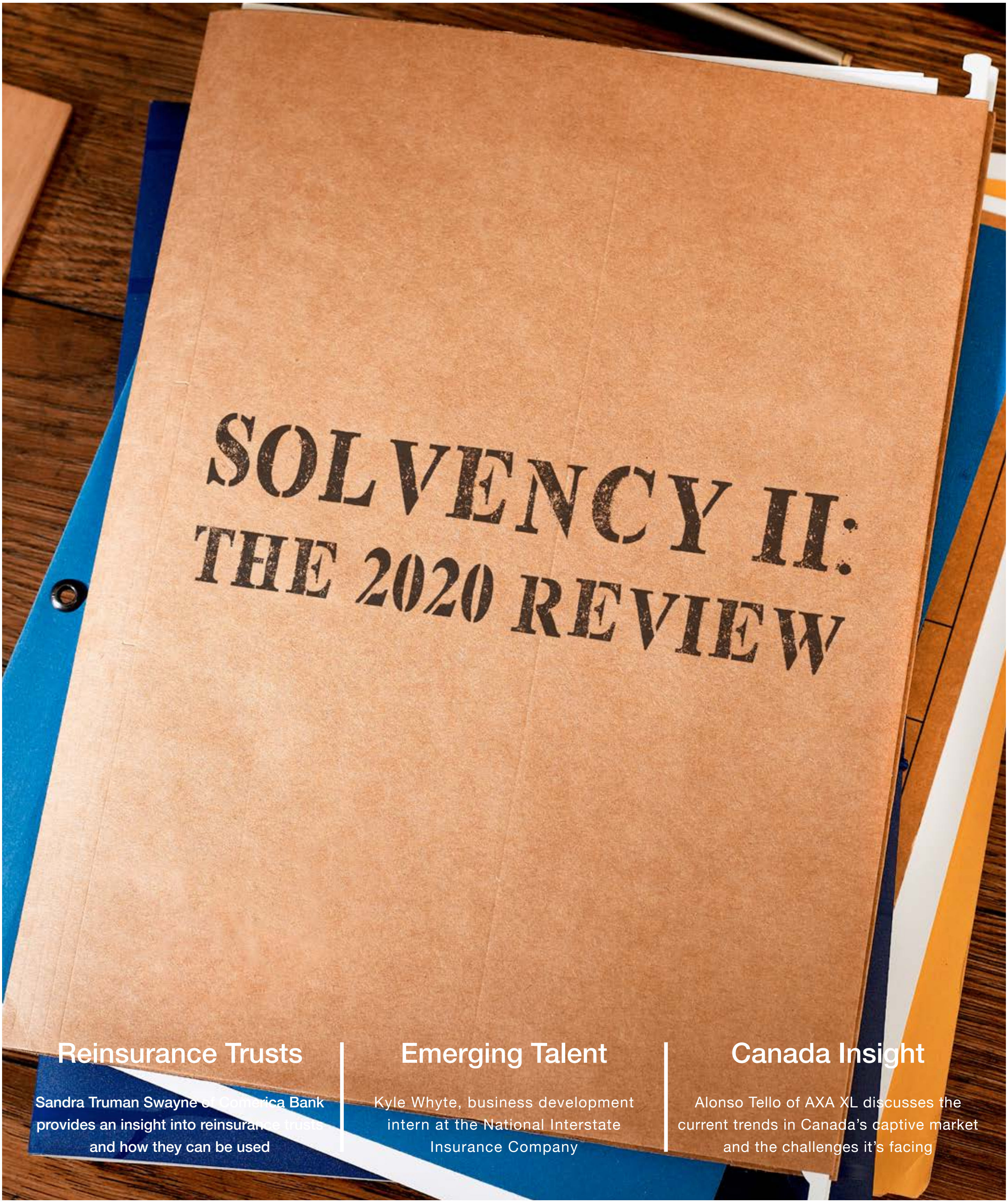

Reinsurance Trusts

Sandra Truman Swayne of Comerica Bank provides an insight into reinsurance trusts and how they can be used

Emerging Talent

Kyle Whyte, business development intern at the National Interstate Insurance Company

Canada Insight

Alonso Tello of AXA XL discusses the current trends in Canada's captive market and the challenges it's facing


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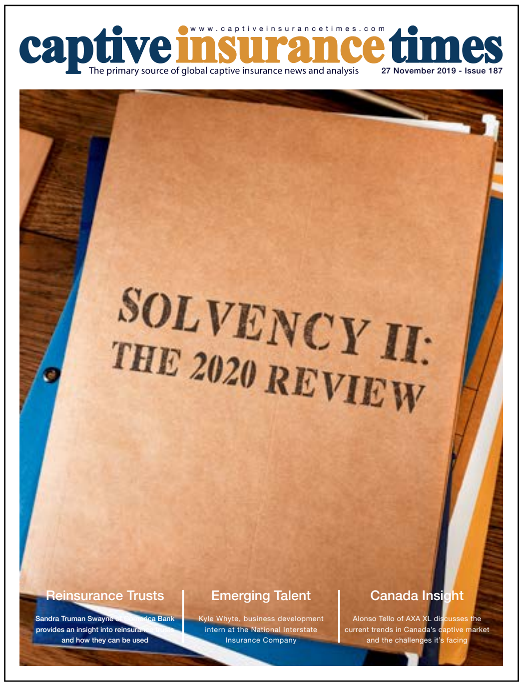


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Like its translucent waters The Bahamas is the Clear Choice for captive insurance.
Located just off the coast of Florida, The Bahamas captures everything that captive owners are looking for --- expertise that nurtures innovation to meet market needs and an idyllic environment to meet, live and do business.

In this issue

New FERMA president sets out priorities

The new Federation of European Risk Management Associations (FERMA) president Dirk Wegener has revealed he will prioritise lobbying at European level on behalf of European risk management associations and their members as one of his first tasks.

Wegener, who succeeds Jo Willaert, serves as global head of corporate insurance for Deutsche Bank as well as being a long-serving member of the German risk management association GVNW.

At the handover, during this year's FERMA European Risk Management Forum in Berlin, Wegener, said: "Following the European elections, the European institutions are currently about to define their objectives for the period 2019 to 2024."

He added: "We have already set out our key priorities for the European institutions in our FERMA manifesto, which calls for European leadership under four pillars: digital transformation; a secure transition to a sustainable economy; risk management education; and a stable insurance market."

Wegener explained that as part of FERMA's strategic plan, the board have two other priorities for his presidency.

The first is to strengthen its network of European risk management associations, while the second is to promote the professional level in risk management in Europe, especially increasing the number of risk managers who hold the FERMA certification qualification, Rimap.

Wegener said that he will carry forward FERMA's theme into his presidency: 'Aim for the future: entering a new dimension of risk'.

He explained: "Aim for the future: entering a new dimension of risk, is a good statement of my vision for my mandate as president. It means that FERMA is committed to actively support the risk management profession to achieve its full potential in digital transformation and in a sustainable world."

In his handover, Willaert said: "My four years as president of FERMA have been among the most important and interesting of my life."

"FERMA is today in a strong position and I believe that our new president Wegener and the board will take FERMA further forward as we face a new dimension in risk."

He added: "I believe the themes I chose for my presidency: education, communication and leadership remain as relevant as ever."

Wegener thanked Willaert and said: "We have all benefited from Willaert's skills, his time and his enthusiasm. He has a wonderful way of bringing people together and has done so over the last four years as FERMA president. I am privileged to follow him." ■

AGCS launches expands insurance services offering

Allianz Global Corporate & Specialty (AGCS) has established a new business initiative to provide value-added services to its corporate clients.

The offering includes risk consulting, captive fronting, and crisis management solutions. AGCS is initially launching the new services offering in the Central and Eastern Europe (CEE) and the Mediterranean region.

The risk consulting services will include predictive risk analytics and monitoring, risk visualisation or risk mitigation and prevention while the captive fronting will reduce complexity, enhance control and compliance for captive insurance programmes and improve cash flows and transactions.

The crisis management solution will enable companies to respond quickly to any claims or crisis scenario thereby mitigating financial losses and reputational damage.

AGCS offers traditional property and casualty insurance products for businesses across a range of lines of business as well as alternative risk transfer and capital market solutions.

The launch of the new services offering was made at this year's Federation of European Risk Management Associations conference in Berlin.

Hartmut Mai, AGCS board member and responsible for AGCS's regionals units CEE, Mediterranean and Africa, said: "Corporate risk managers need much more than traditional risk transfer in today's complex and fast-changing environment. By introducing a suite of value-added services we enhance our offering and allow our clients a broader choice as they can now opt for specific service solutions."

Mai added: "We can support and protect businesses across all stages of risks helping them predicting, monitoring and mitigating risk to covering financial losses and enabling an effective crisis response when disaster strikes." ■

AXA XL launches risk innovation incubator

AXA XL has launched Cube, a six-week programme designed to enable risk managers to work alongside the firm's risk and innovation team to develop innovative risk management solutions for complex risks.

The programme includes a series of workshops in which AXA XL and its clients will experiment and test new solutions, resulting in a prototype and business case.

As part of the programme, clients will have access to a team of innovation, digital and analytics experts, risk specialists and AXA XL's technology partners if needed.

Philippe Gouraud, global head of strategic distribution at AXA XL, said: "Cube supports our goal to go beyond traditional insurance to become a comprehensive partner to our clients. The programme's structured and well-tested approach allows us to offer our clients a robust environment to innovate."

Hélène Stanway, digital leader at AXA XL, added: "Evolving technologies and new ways of harnessing data are transforming the way companies work, and the way we are able to gain risk insights to support them."

"Over recent years, we have successfully completed and scaled a number of innovative proofs of concept. It is now time to leverage what we have learned, through a structured and repeatable approach, to work even more closely with our clients and help them solve some of their most challenging risk management issues." ■

Risk Strategies continues acquisition streak

Risk Strategies has acquired Thomas McGee group, a Missouri-based brokerage that specialises in large accounts, group and single-parent captives and focused risk management services.

Thomas McGee Group has been in the alternative risk transfer market since the 1980s, the firm has formed and managed self-insured pools as well as placements for excess programmes, loss portfolio transfer programmes, claim reserve analysis, programmes for individual clients and other alternative risk financing and management strategies.

John Mina, Risk Strategies' CEO, said: "In a very active acquisition market, we remained focused on bringing on board only those firms with a culture and expertise focus that will advance our goal of becoming a best-in-class specialty brokerage."

"We saw in Thomas McGee Group's long history, loyal client base and expertise, particularly in alternative risk structures, a direct fit with our direction and philosophy."

Doug Joyce, managing partner, TMG, said: "With over 100 years of history, reputation and success, ensuring our clients and business could thrive in the future was the main focus in finding a national-scale partner."

"Becoming part of Risk Strategies, with its focus on specialisation, deep resources and unique, flat national-scale operating structure, offered the best path forward for our business and clients."

The terms of the deal were not disclosed. ■

Ratings look Evergreen for Bermuda-based

A.M. Best has affirmed the financial strength rating of A (Excellent) and the long-term issuer credit rating of "a" of Evergreen Insurance Company.

Evergreen Insurance, the pure captive of Evergreen Group, underwrites mainly marine, aviation and property risks related to the group's operations.

The ratings reflect Evergreen's balance sheet strength, which A.M. Best categorises as strong, as well as its strong performance, neutral business profile and appropriate enterprise risk management.

The Bermuda-based captive's risk-adjusted capitalisation remained at the strongest level and is also underpinned by low net underwriting leverage, a highly conservative investment portfolio and prudent reinsurance arrangements with a diversified panel of financially sound reinsurers, according to A.M. Best.

However, the company's small absolute capital size has experienced some volatility over the past five years due to dividend payouts.

A.M. Best explained that going forward it expects the company to maintain a prudent approach in capital management by balancing business expansion needs and shareholder expectations.

As a pure captive, EICL continues to be an integral part of the overall risk management at Evergreen Group by providing value-added services such as underwriting solutions, operational safety and loss prevention services to affiliated companies.

The rating firm suggested offsetting rating factors include the potential volatility in risk-adjusted capitalisation from heightened reinsurance credit risk in post major event scenarios due to the high reinsurance dependence in its captive business model.

The risk is mitigated partially through the use of a diversified panel of domestic and overseas reinsurers of sound financial quality.

A.M. Best said that while positive rating actions are not likely over the short to intermediate term, negative rating actions could occur if there are material capital or dividend payouts that lead to a substantial decline in the captive's risk-adjusted capitalisation, or there is a deteriorating trend in the company's operating performance. ■

Reinsurance Collateral Trusts

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

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

The SunTrust advantage

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

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

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

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

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

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

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Why choose an Insurance Trust?

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

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'Excellent' ratings for Eni's captive

A.M. Best has affirmed the financial strength rating of A (Excellent) and the long-term issuer credit rating of "a" of Eni Insurance Designated Activity Company (EID) (Ireland), a captive of Eni, a multinational energy company based in Italy. The outlook of these credit ratings is stable.

The ratings reflect EID's balance sheet strength, which have been characterised as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management (ERM).

EID's risk-adjusted capitalisation, as measured by best's capital adequacy ratio is categorised as strongest and is expected to remain at the strongest level over the medium term.

An offsetting rating factor in the balance sheet assessment is EID's reliance on reinsurance to write large risks; however, the risks associated with this reliance are mitigated partly by long-standing relationships with reinsures of excellent credit quality.

EID has a track record of strong operating profits, evidenced by a five-year average combined ratio of 54.2 percent between 2014 and 2018.

In 2018, EID produced a pre-tax profit of €56 million (2017: €40 million), underpinned by a robust underwriting result. The combined ratio remained excellent at 40 percent, which represents an improvement compared with 2017 (49 percent).

The prospective performance is subject to volatility due to potential large losses from EID's property account. However, underwriting volatility should be moderated by the captive's comprehensive reinsurance programme.

Their captive enables the group to centralise claims information and establish effective internal reporting for Eni.

EID has a developed ERM framework, with clear risk appetite and tolerance levels in place. ■

A.M. Best affirms ConocoPhillips' captive credit ratings

A.M. Best has affirmed the financial strength rating of A (Excellent) and the long-term issuer credit rating of "a+" of Sooner Insurance Company, the captive insurance company of ConocoPhillips, an American multinational energy corporation.

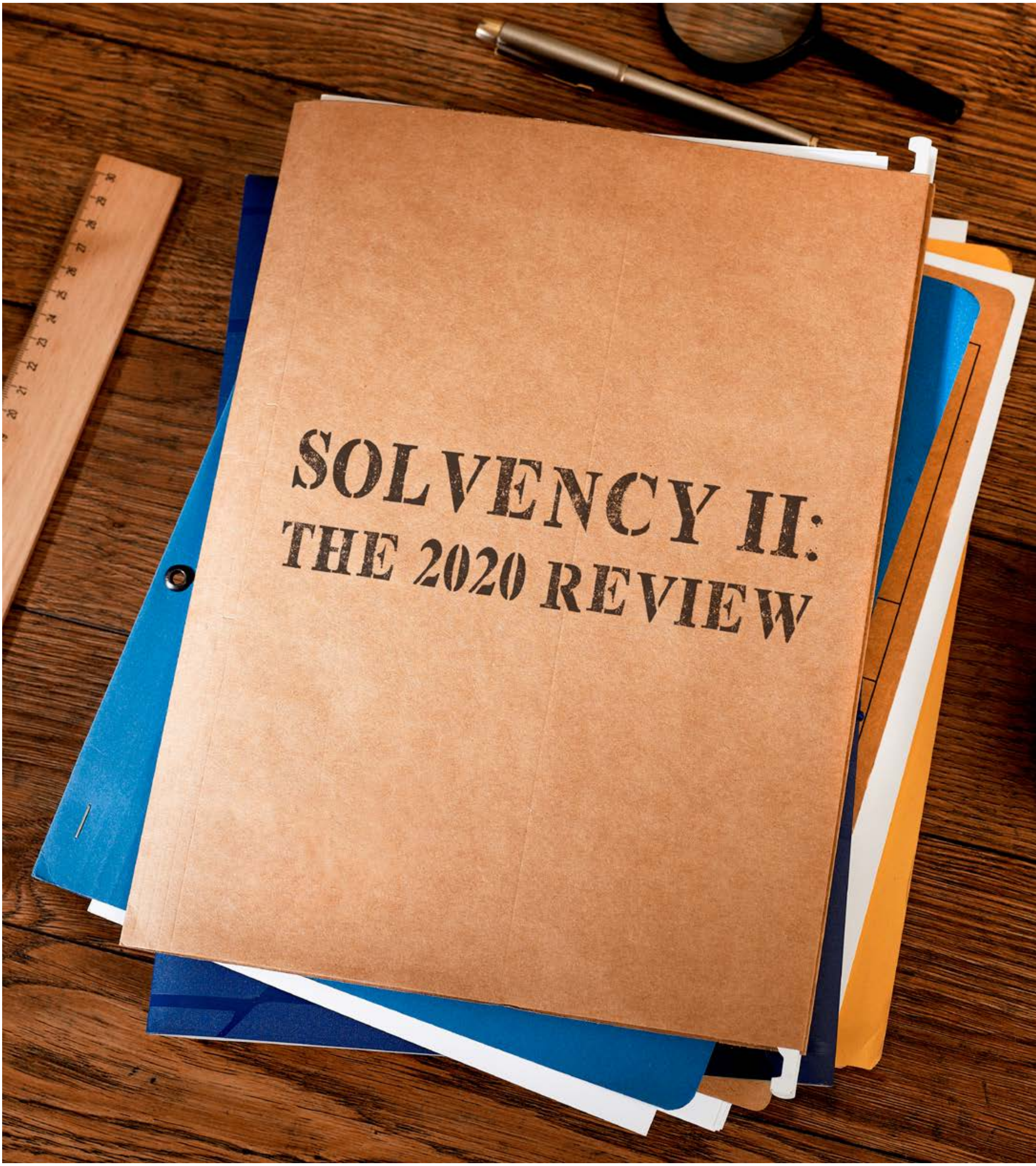
The ratings reflect Sooner's balance sheet strength, which A.M. Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

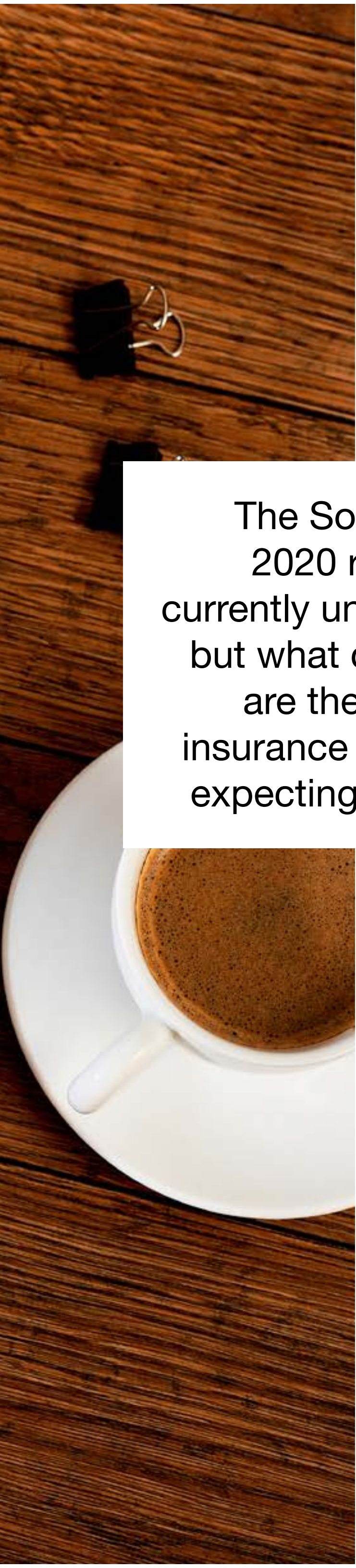
These factors are supported by Sooner's strongest risk-adjusted capitalisation, consistently favourable operating results, favourable loss reserve development and low underwriting leverage.

A.M. Best said that the ratings also consider the level of commitment on the part of its ultimate parent, ConocoPhillips, whose management incorporates Sooner as a core element in its overall risk management programme.

Although the majority of Sooner's capital is loaned to its parent, it is considered to have relatively low risk due to this affiliation, as well as the parent's strong balance sheet and history of positive earnings.

A.M. Best explained that the ratings also reflect the implicit support of ConocoPhillips and the critical role the captive plays in its enterprise risk management programme. ■


SOLVENCY II:
THE 2020 REVIEW



The Solvency II 2020 review is currently underway, but what changes are the captive insurance industry expecting to see?

The Solvency II directive, which came into effect on 1 January 2016, is a European Union law that codifies and harmonises the EU insurance regulation.

Solvency II was a milestone for European insurance regulation and supervision. The directive is the first common supervisory framework in the EU and set global standards. It sets the basis for the integration of the single market for insurance in Europe.

The system is based on a forward-looking and risk-based approach, requiring the highest risk management standards and active monitoring and steering of the risk an insurer is facing.

It ensures fair competition and consistent consumer protection across the EU and allows insurers to provide their product cross-border.

However, Solvency II has added a lot of complexity to the process and structures of companies and supervisors, presenting a significant regulatory burden.

As Guenter Droese, executive director, European Captive Insurance and Reinsurance Owners Association (ECIROA), says: “Solvency II introduced a lot more work which follows the three pillars with the respective requirements and a challenging volume of reporting, leading to some changes in the organisational structure.”

Where captives in the past didn’t provide the prescriptive information to their owner which they now need, Droese notes that this can be qualified as an advantage for the captive owner.

He explains: “Before the implementation, some captives covered the main requirements anyway; for those which chose a rather simple and low-level performance the additional workload and especially the reporting has grown dramatically—with huge differences between the various domiciles.”

“The level of professionalism has been increased and the comparability between the various companies is now to a certain extent possible—even when a very limited number of interested parties has read publicly available reports,” he adds.

Although the majority of captives do not suffer under the new regime, which Droese says to a certain extent means “business as usual”.

However, with the new regulatory regime, the industry was also faced with the Organisation for Economic Co-operation and Development’s (OECD) base

"Our focus, therefore, is primarily to get improvements to the application of proportionality for small and less complex insurers like captives"

Typhaine Beaupérin

FERMA

erosion and profit shifting (BEPS), which Droese notes "raised some challenging requirements regarding captives".

He says: "We strongly believe that our exchange of views with OECD has been fruitful and the concerns raised are respected by the majority of our captives, bearing in mind that most of the BEPS paper requirements are covered to a great part by similar or same principles and rules of Solvency II."

THE BIG REVIEW

Almost four years since it's go-live date and the Solvency II Directive is currently under review. In February this year, the European Commission called for the European Insurance and Occupational Pensions Authority (EIOPA) to provide technical advice for a comprehensive review of the Solvency II Directive.

The areas being reviewed include long-term guarantees measures and measures on equity risk; methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula; member states' rules and supervisory authorities practices regarding the calculation of the minimum capital requirement; and group supervision and capital management within a group of insurance or reinsurance undertakings.

Beyond that minimum scope, other parts of the Solvency II framework were also identified by the EC services or by stakeholders as deserving a reassessment, such as the supervision of cross-border activities or the enhancement of proportionality principles, including as regards reporting, and also others.

A public consultation was already completed during the summer that focused on the draft advice on reporting and disclosure and on insurance guarantee schemes.

The second public consultation, which is currently in process, focuses on technical advice covering all advice other than on reporting, disclosure and insurance guarantee schemes.

The deadline for the second consultation is on 15 January 2020. EIOPA's publication of opinion is expected to be published in June 2020, with a final report from the EC and a potential legislative proposal due at the end of 2020.

One association that has been working closely with EIOPA is the Federation of European Risk Management Association (FERMA). The association has a dedicated working group of risk managers and other captive specialists, who according to 7, CEO of FERMA, "have already been successful in putting proportionality for small insurance entities very high in the EIOPA agenda".

Beaupérin explains: "Our network of members has told us that member states are not consistent in the way they apply the proportionality principle. Our focus, therefore, is primarily to get improvements to the application of proportionality for small and less complex insurers like captives, which are used by around 30 percent of risk and insurance managers in Europe according to FERMA's 2018 European Risk Manager Survey."

Published on 15 October, EIOPA's consultation paper on the 2020 review stated that it had reviewed the rules for exempting insurance undertakings from the Solvency II Directive, in particular, the thresholds on the size of the insurance business.

As a result, EIOPA proposed to maintain the general approach to exemptions but to reinforce proportionality across the three pillars of the Solvency II Directive.

EIOPA also proposed to double the thresholds related to technical provisions and to allow the member states to increase the current threshold for premium income from the current amount of €5 million to up to €25 million.

During a webinar that FERMA held in late August, those involved were asked if their captive benefitted from proportionality measures put in place by the local supervisor in relation with Solvency II. Most respondents did not know whether they benefit from proportionality measures, with 21 percent answering yes and 38 responding no.

When asked if these results came as a surprise, Laurent Nihoul, general manager, group head of insurance at Arcelor Mittal, said: “Yes and no”.

On the same webinar, EIOPA’s head of supervisory process department, Ana Teresa Moutinho confirmed that they have different applications of proportionality across Europe and shared that it is difficult for EIOPA to streamline their analysis for only captives—which is something they are working on.

Florian Wimber, head of European affairs and international insurance, Insurance Ireland, explains that the system is generally based on the assumption of a representative insurer. Insurers with a specific risk profile have the opportunity to apply for the use of internal models.

These internal models, however, require supervisory authorisation and the development of such models and the governance around the application process is, usually, “very burdensome” for smaller insurers, including captives.

Companies such as captives usually apply the “standard Solvency II” and according to Wimber, “due to the special nature of captives, Solvency II does not appropriately reflect the business model. Complying with these ill-fitting standards is an inappropriate burden for the respective companies”.

Wimber believes as a matter of principle, Solvency II should be applied proportionately to the nature, scale and complexity of the risk inherent to an insurer.

He explains: “Such a proportionate application of Solvency II should mean that the compliance burden for less complex insurers and captives is more tailored. Unfortunately, a recent EIOPA assessment found that the principle of proportionality is very inconsistently applied across the EU.”

Insurance Ireland also teamed up with the EC and EIOPA to ensure that captives are appropriately reflected under Solvency II.

Wimber explains that as a next step, it will be “crucial that the industry develops concrete proposals on how Solvency II can be amended during the current review to better reflect the characteristics of captives and apply the principle of proportionality more consistently”.

Wimber stresses that in accordance with the general principles of Solvency II, Insurance Ireland believes that the system should reflect each risk appropriately—including sustainability risks.

He adds: “We oppose ideas of a green benefitting or brown penalising factor under Solvency II. EIOPA’s initiative to take a closer look at the risk exposure of companies is supported and so is an enhanced reporting of these risks.”

Wimber says: “It will have to be assessed how Solvency II sets disincentives towards the goals of a sustainability strategy.”

“This particularly applies to certain short-termism and penalising character of Solvency II on long-term investments which particularly limit the ability of insurers to invest in sustainable projects.”

“Such a proportionate application of Solvency II should mean that the compliance burden for less complex insurers and captives is more tailored”

Florian Wimber

Insurance Ireland

Adding that "certain calibrations of Solvency II—such as risk margin—will have to be reviewed to free-up unnecessarily bound capital."

Beaupérin explains that FERMA also provided contributions EIOPA, the first involved the integration of sustainability risks in Solvency II and the Insurance Distribution Directive (IDD) and the second focused on the general place of sustainability within Solvency II.

It also responded to the consultation on Solvency II revision which focused on reporting and disclosure.

Beaupérin says it welcomed EIOPA's view that there is a mismatch in the time horizon of Solvency II capital requirements and climate change impacts.

She adds: "EIOPA also stated that it did not consider sustainability risk as a separate category of risk, a view which we share.

However, EIOPA maintained its position that scenario analysis and stress testing on climate change should be part of the own risk and solvency assessment (ORSA). We believe it is overly prescriptive and disproportionate for small and less complex insurers."

Also discussing EIOPA's paper on sustainability within Solvency II was Droese, who suggests that sustainability considerations have been discussed since the 'Club of Rome`s' activity in the late 1960s.

Droese says: "Now it seems necessary to remind all companies in the economy to protect our planet and by the way to reduce all kind of avoidable emission and to invest in those activities which are more carefully regarding CO2 reduction but also with regard to all other kinds of pollution."

The way forward chosen by governments and politicians using certificates, financial instruments and tax penalties, according to Droese, will not be appropriate and efficient considerations and measures to reduce the emissions with the necessary speed—the real economy, have to change their production, goods, services and processes.

He continues: "EIOPA is demanding what makes sense in its broadest form. We believe that captives don't have the appropriate tools and volume to contribute very intensively to these necessary changes. The investment strategy of the captive usually is aligned with the strategy of the parent company."

AWAITING THE CHANGE

As EIOPA considers to adjust over the next years level two rules of Solvency II, which have been discovered by local supervisors and all other stakeholders as not perfect for either the supervisor or the insurers, Droese says the main factors which will help to reduce or limit or improve some of the level two rules have been identified as the proportionality principle and its application.

Droese says: "We strongly believe that during the coming six or ten years regulatory adjustments will have a positive effect on the workload, cost and performance of all insurers, not only on captives."

"A Solvency III concept deems unnecessary once these adjustments are integrated on level two."

Although it could be 12 months before the European Commission publishes its Solvency II review, in that time Beaupérin states that FERMA will continue the dialogue and advocate for an assessment on how the principle of proportionality is currently interpreted in the various member states and for a consistent approach to its application." ■

"We strongly believe that during the coming six or ten years regulatory adjustments will have a positive effect on the workload, cost and performance of all insurers, not only on captives"

Guenter Droese

ECIROA

Beating the captive drum

Alonso Tello of AXA XL discusses the current trends in Canada's captive market and the challenges it's facing

With the opening of AXA XL's local captive practice in Canada, what plans are in place for the first 12 months?

AXA XL already has experience in the captive insurance sector on a global basis, however, we are a relatively new captive insurance player in the Canadian market.

In my first 12 months leading the practice, my plan is to get to know the Canadian business in more depth and to work on building out local processes for the captive-related business as well as raising awareness with our global partners and respected clients.

What does the captive market currently look like in Canada?

We estimate there are around 150 corporations, mostly multinationals, utilising captives as part of their risk management strategy.

In Canada, there is a range of different captive owners, with domiciles such as Bermuda and Barbados being popular destinations for those captive owners.
In terms of current trends, I think we're seeing a hardening of the current market environment. Rates have spiked up in many lines and capacity is being deployed more conservatively.

We're seeing a lot of companies either exploring a captive solution for the first time or starting to reassess the economics of a captive model as it fits their business to increase retentions.

I have seen an increase in the number of enquiries related to the trucking industry, and some companies are working with brokers to look at the feasibility of setting up a single-parent captive.

We're also seeing interest from mid-market sized companies, who are grouping together to form captives with others in the transportation industry.

Globally, the captive space has seen an increased interest in exploring the addition of employee benefits in their captive. Firms are benefitting from this as they can gain more control over their employee benefits programme, whether it's to enhance offerings to their employees and help boost employee retention or to gain cost efficiencies that you can get with the economies of scale. We're in a great position to have this conversation with clients, via our colleagues at Maxis.

What were AXA XL's motivations behind the new local captive practice?

The strategy in Canada itself is to be a top-three large commercial insurer. To help achieve this and to compete more effectively, there was a need to bring on a dedicated captive expert to help leverage access to AXA XL's well-known captive capabilities at the global scale within the Canadian market.

Many of the large insurance buyers in Canada utilise captives and more often than not they require fronting partners.

Our ability to compete in the larger commercial space is strengthened by having local expertise available. As an industry, insurance has historically been viewed as a "payer" after the insured loss but we're working as a company to shift that notion from being just a "payer" to becoming a "partner" with the client and I think captive business provides a great avenue to make that happen.

When clients retain more risks, the insurance transaction becomes more of a partnership, where both parties have a vested interest in loss improvement and mitigation.

The captive side as a whole provides another touchpoint to collaborate with our clients, that we may not have if a claim hasn't been made.

It amplifies that collaboration to share a lot of insights amongst each other and innovate together.

What are the biggest challenges facing Canada's captive insurance market?

Education on the benefits of captives is always a challenge, not only in Canada but especially with a market like Canada where there is a smaller number of professionals in this space to raise awareness.

Most firms in Canada need to focus on attracting young talent into the captive industry, and we are already seeing this in the US and in Europe.

Many industry groups outside of Canada are already trying to tackle this, which is a positive, but there's still more to be done.

Things are improving already though. It was refreshing when I attended a recent meeting, and most people in attendance were young professionals.

I am used to being one of the only people under 35 in the room, so it was really nice when I met with a broker recently and we were in the same age bracket.

We have also seen a challenge with captives being in the limelight for the wrong reasons. In the past, captives were known to be formed more-so because of the potential tax efficiencies, which is why we may have seen Canadian owners utilising their captives for foreign risks only and not for Canadian-based risks.

However, we're starting to see a shift in that mindset and seeing more captive owners including in Canadian-based risks too. It makes sense to me if you're a company who has a more long-term view on how you manage your group's risks, we really should be focused on the core benefits.

For instance, captives can provide greater control over the costs, coverages and the claims in a programme, which is why I see more of that trail towards potential owners looking at captives and current owners expanding the use of their captives happening.

How do you see captive market growth over the next five years?

The current hardening market will continue to persist for the next few years and potentially beyond and that will motivate more insured's to consider whether a captive is right for them.

We're already seeing this happen, I recently had a conversation with some captive peers and a brokerage here in Canada. They suggested that the number of those requesting feasibility studies is on the upswing.

Market forces and client interest itself are going to mean more growth for the captive space in the Canadian market.

I'm really excited for what the next few years hold. In the past with soft market conditions, it was harder to come across opportunities for new formations, although there's always been consistent interest from clients with a longer-term view of their risks.

The hardening market is exciting for people in our space because firms will start to see more of an increase in formations and we'll continue to beat the drum of what captives can do for organisations further. I'm excited about what is happening right now and the number of enquiries that we're receiving. ■

"The current hardening market will continue to persist for the next few years and potentially beyond and that will motivate more insured's to consider whether a captive is right for them"

Alonso Tello
Vice president of its captives and alternative solutions business
AXA XL

The trustee’s role

Sandra Truman Swayne of Comerica Bank provides an insight into reinsurance trusts and how they can be used

Understanding reinsurance trusts

The most common use of a reinsurance trust is for an offshore/onshore reinsurance company such as a captive (grantor) to secure its obligations under a reinsurance treaty to an onshore fronting company (beneficiary). This allows the beneficiary to use trust assets to meet statutory reserve requirements. The trustee is responsible for safeguarding the assets that are held in the reinsurance trust. The trustee is required to adhere to the terms and conditions that are outlined in the trust agreement.

Reinsurance trusts

Trusts can be useful in many insurance transactions. A reinsurance trust provides a flexible and cost-effective alternative to a letter of credit (LOC). The following is an overview of how such trusts operate and what to expect of the trustee.

The basics

A reinsurance trust is a tri-party agreement in which the grantor has deposited cash or other assets to be held by the trustee to secure certain obligations to the beneficiary. The trustee holds the assets under the terms of the reinsurance trust agreement. A Regulation 114 Trust is a type of reinsurance trust established to secure payment of future losses, in the format prescribed by the New York Insurance Administrative Code, which governs the form of reinsurance trust agreement approved for use by New York insurance companies. The New York code is viewed as a model, although each state may have its own requirements.

The assets in the trust remain the property of the grantor for all purposes, including accounting and taxation. However, the reinsurance trust agreement provides the beneficiary with the right to withdraw assets from the trust. The trust agreement must be established “for the sole use and benefit of the beneficiary” per Regulation 114.

Reasons for withdrawals are defined in the underlying reinsurance agreement and are a matter to be resolved between the grantor and the beneficiary. In a Reg 114 Trust, the trustee is obligated to comply with the beneficiary’s written request for withdrawal.

Uses of reinsurance trusts

A reinsurance trust allows the beneficiary to calculate the value of the trust assets toward statutory reserve requirements.

Other creative uses for these trusts are possible, such as securing a deductible buy-down programme, which is an insurance contract provision that allows an insured party to pay a lower premium to reduce or eliminate the deductible that the insured would have to pay if a claim is made. Another use of the trust is securing the insured’s deferred obligations under a loss sensitive agreement.

The investment policy of the trust must be acceptable to the beneficiary and comply with applicable regulations. While this may be more restrictive than a LOC collateral account, the total cost of the trust arrangement is usually lower than the cost of a LOC.

Typically, the minimum size for a trust to make economic sense is around $3 million.

Establishing a trust

A reinsurance trust can be established in a relatively short timeframe. The first step for the grantor is to select experienced legal counsel to assist with the trust agreement. The beneficiary (or fronting company) will usually have a preferred form of a trust agreement. The grantor should complete a legal review of the document and request any reasonable changes, if necessary, in compliance with applicable regulatory requirements.

Selection of the bank trustee is a critical second step since the trustee must also review the agreement for acceptability. A bank trustee experienced in handling such trusts will also be able to expedite this review process.

Role of the trustee

The trustee is invariably also the custodian of the trust assets. The related duties are described below. The trustee can also act as the investment advisor of the trust. Alternatively, the grantor may direct the investments or hire one or more independent investment advisors who are authorised to direct the investments of the trust on behalf of the grantor.

Trustee duties

- Receiving deposited assets and safeguarding them under the terms of the trust agreement
- Ensuring that all assets held are negotiable and available for withdrawal, as required
- Accepting additional deposits, as required
- Handling the substitution of assets, as requested and permitted under the trust agreement
- Receiving authorised instructions from grantor or beneficiary
- Distributing cash or other assets, as directed
- Providing required notices to the grantor or beneficiary
- Maintaining updated lists provided by the grantor or beneficiary of the persons authorised to give instructions
- Providing periodic accountings
- Arranging for preparation of a tax return, if required

In selecting a trustee, it is critical that the bank is experienced in performing the fiduciary duties required and capable of properly executing the myriad of related custodial duties. ■

Kyle Whyte
Business development intern
National Interstate Insurance Company

Personal Bio: My name is Kyle Whyte. I am from New Franklin, Ohio. I have been raised by two exceptional parents named Karen and David Whyte. My older sister, Katie is a true role model and has an unbelievable work ethic. I have been blessed to be given the opportunity to be surrounded by individuals who have taught me and challenged me to be extraordinary.

Professional Bio:I attend the University of Akron pursuing a degree in risk management and insurance with a minor in professional selling. I work at National Interstate Insurance Company as a business development intern, in the national accounts group. Along with my internship and being a full-time student, I work two on-campus jobs. I work for the College of Business Dean's Team, recruiting high school students to the university and work as a success leader to share my experiences with incoming students. I am the vice president of our Gamma Iota Sigma chapter, which is the risk management and insurance business fraternity on-campus. I am the risk management chairman of Phi Delta Theta and a member of the Institute of Leadership Advancement programme.

How did you end up in the captive industry?

Previously I had the chance to intern in our claims department at National Interstate with focus on our passenger department.

Since the summer I have transitioned to business development where I work with our current truck captives.

I have had the chance to learn about the products we offer in the truck sector and learn more about the different captives we offer.

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

My biggest highlight in the captive industry so far is having the chance to attend one of our annual captive conferences. I had the chance to learn more about the dynamic of our captives as well as having the ability to interact with our insureds and agents.

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

From a work perspective, I would have to say, my supervisor, Jody Jordan and Chris Mikolay. Both individuals have been excellent role models in the captive industry. I have been fortunate enough to learn under them and continue learning throughout my internship.

What is your impression of the industry?

After attending the National Risk Retention conference in Chicago, Illinois, I have been exposed to different areas of the industry that I would not have been able to receive in my coursework at the university. I believe that not only does the captive industry has potential, but the insurance industry, in general, has a tremendous amount of opportunities for younger individuals to succeed.

What are your aspirations for your career in the captive industry?

With the number of opportunities in the captive industry, I see great potential and a chance to promote the industry.

This side of the industry gives insureds the chance to grow as businesses by sharing their knowledge with each other to ultimately save them money and reduce the number of claims.

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

The industry is very broad, which allows individuals to find what they are truly passionate about and gives them the ability to specialise in it.

Most individuals do not have a dream to work in the captive industry, but this industry has given many professionals the ability to learn more and share their knowledge with others. ■

"Kyle Whyte has a tremendous amount of passion and dedication to the insurance industry. His hard work, positivity, high energy and commitment make him an asset to our organisation and the entire industry."

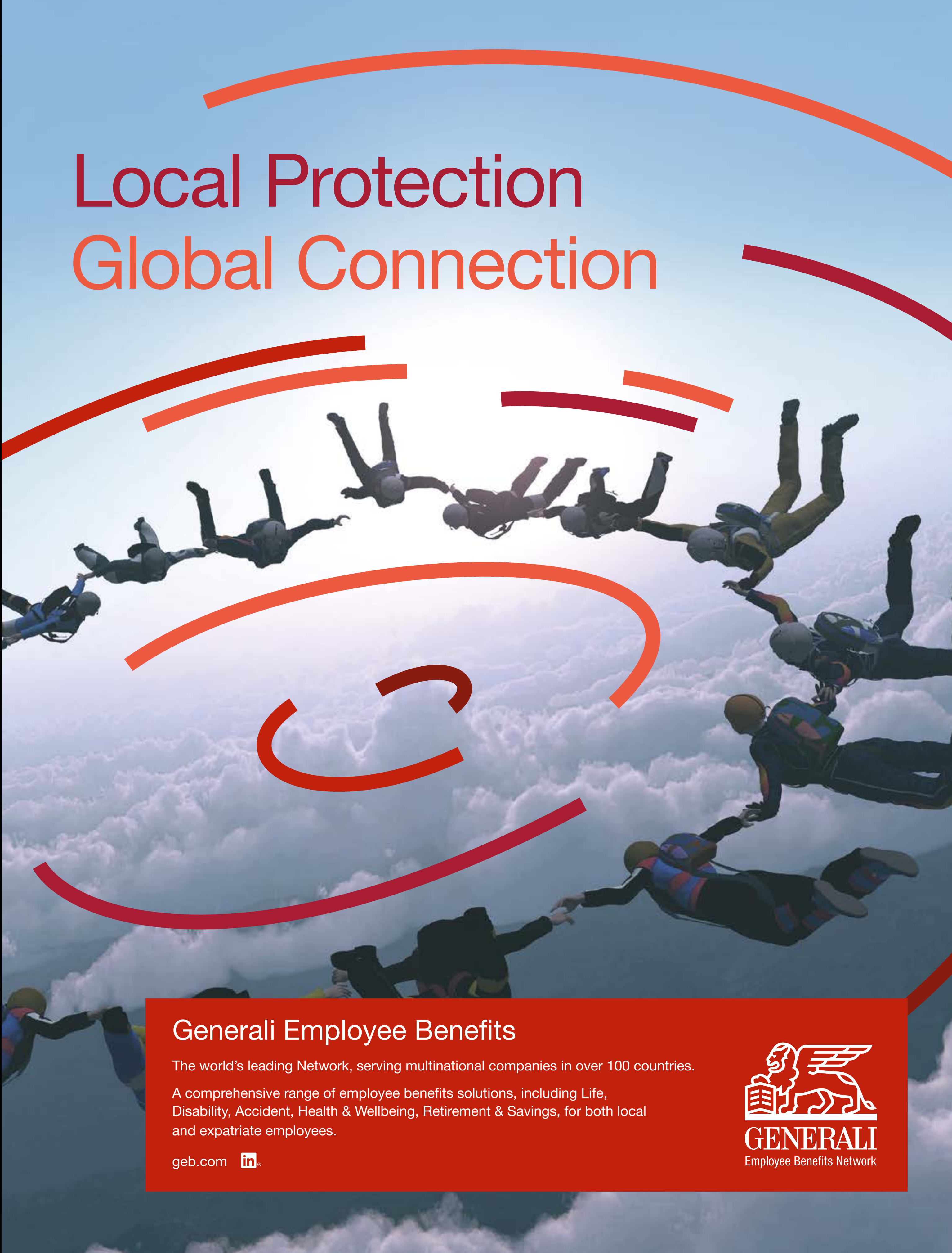
Lindsey Santana
Claims technical training manager
National Interstate Insurance Company

Industry Events 2019/20

Don’t miss your copy of
Captive Insurance Times

ICRMC Bermuda	World Captive Forum Miami, Florida	WSIA Insurtech Conference New Orleans
December 04-06	January 27-29	March 15-18

For more information on the events listed visit captiveinsurancetimes.com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The latest moves in the captive industry

Diana Hardy has been promoted to senior audit manager at the Greensboro office of Rives & Associates, following a string of promotions at the firm.

Hardy, who has worked at Rives & Associates since 2015, has 10 years of experience in the industry with a focus on auditing and attestation.

She will manage multiple captive and traditional insurance teams, non-profit and governmental teams and as well as helping lead the firm's forensic investigations.

Hardy's promotion follows the promotion of T.J. Strickland to senior manager of the insurance service group and Jacob Allen to senior audit manager.

Strategic Risk Solutions has named Stephen Gray as the new managing director and executive vice president of its Cayman operations, effective early 2020.

Gray, who joins from Willis Towers Watson, has extensive experience serving captives in the healthcare industry, as well as 22 years' experience in the Cayman captive market.

In addition, Gray is a former treasurer and member of the executive committee of the Insurance Managers Association of Cayman (IMAC).

Commenting on his appointment, Gray said: "I am excited about the opportunity of joining SRS. It was a difficult decision to leave Willis Towers Watson after 28 years at the firm, but I felt the time was right for a new challenge." I have known the team at SRS through our work with IMAC and have a lot of respect for the business that they have built in Cayman. I am looking forward to working with an independent manager and focusing on serving the needs of captive clients."

Brady Young, CEO and president of SRS, added: "We have seen consistent growth in our Cayman business over the past 15 years which has allowed us to become one of the top managers in the domicile."

"We are investing in our infrastructure to support the servicing of our clients in Cayman and firmwide. This will provide a platform to improve the quality and efficiency of services for current clients but also allow us to accommodate future growth. We believe there are additional opportunities in the Cayman market and that Stephen Gray can help us enhance SRS as the leading captive manager in Cayman."

"We have seen consistent growth in our Cayman business over the past 15 years which has allowed us to become one of the top managers in the domicile."

Brady Young
CEO
Strategic Risk Solutions

Cover & Rossiter has appointed Lori Schneider as principal in the audit department.

In her new role, Schneider will be working with non-profit clients as well as managing audit services for some of the firm's captive insurance clients.

The firm's captive insurance clients include traditional insurance companies, 831(a) and 831(b) captive insurance companies, series captives, series protected cell captives, and risk retention groups. With over 25 years of experience in public accounting, Schneider's background includes a strong focus on serving clients in the not-for-profit and government sectors.

Previously, she has worked as a senior manager at Wipfli. She has also worked at KPMG and the State of Delaware.

Pete Kennedy, audit director at Cover & Rossiter, said: "Lori Schneider brings a wealth of experience and we are elated that she chose to join us. Additionally, Schneider shares the commitments to excellence and client service that have been the hallmarks of Cover & Rossiter for the last 80 years." ■

MARSH

Marsh has appointed Reid Sawyer as US cyber risk consulting leader, based in Chicago.

Reporting to Brannan Johnston, US strategic risk consulting practice leader, Sawyer will lead the strategy and delivery of Marsh's cybersecurity consulting services in the US, working closely with Marsh's cyber insurance brokerage team to offer clients a unified cyber risk management approach.

Sawyer brings 25 years of experience in identifying and managing critical risk issues facing businesses and government.

Prior to joining Marsh, he led JLT's emerging risks group.

In addition, he spent more than 20 years with the US Army working in a number of roles including, a senior advisor on emerging risk trends, special operations forces, and founded the US Army's premier strategy group on counterterrorism.

Commenting on his appointment, Sawyer said: "Cyber risk affects almost every aspect of a business today, and it is imperative that organisations evaluate its impact across their value chains to enable strategic risk decisions."

He continued: "With our vast array of cyber insurance and risk solutions, Marsh occupies a unique position where we can enhance our clients' ability to understand, measure, and manage cyber risk. I am thrilled to lead this group and continue to advance our state-of-the-art cyber risk consulting capabilities."

Johnston added: "Clients are facing deeply challenging and complex cyber risks. Sawyer's extensive experience advising the military and business leaders on emerging risk trends and his keen analytical insight will further enhance Marsh's ability to support our clients with cyber risk solutions." ■

Risk Strategies has named Michael Sean Grant as employee benefits practice leader for the firm's greater New York region.

Previously, Grant was senior vice president and managing director at a New York City insurance brokerage, where he was responsible for restructuring its single employee benefits office in New York into a national practice, spanning across California, Texas and Florida.

Grant's appointment follows the promotion of Chris Powers to oversee its eastern US employee benefits operations.

In this new role, Grant will work closely with Powers to help grow the firm's overall employee benefits business, while focusing on the employee benefits operations in the Greater New York area.

John Greenbaum, national employee benefits practice leader at Risk Strategies, said: "Risk Strategies' employee benefits practice is committed to hiring and retaining the best experts in the industry in order to deliver superior service." ■