CIT
CAPTIVEINSURANCETIMES

ISSUE020
17.04.2013 WEDNESDAY
captiveinsurancetimes.com

New Jersey approves its first cell captive

PISCATAWAY 16.04.2013

New Jersey has approved the formation of QualCare Captive Insurance Company (QCIC), the first sponsored cell captive in the state.

QCIC will use newly formed sister company, QualCare Management Resources, to provide the captive insurance management and financial services that it needs for its clients and partners.

The new captive will allow for both members of the parent company of QualCare (QualCare Alliance Networks) and third-party entities to participate in the risk/reward opportunities associated with medical stop loss coverages related to their self-insured medical benefit plans.

John McSorley, executive vice president of QCIC, said: "We are excited to receive licensure and look forward to the value we can bring to our stakeholders and others in the marketplace that can benefit from our alternative risk offerings."

Ken Kobyloweki, New Jersey's commissioner of banking and insurance, said: "The department is pleased to welcome QCIC to New Jersey's expanding captive insurance market."

"We have now licensed nine captive insurance companies in New Jersey since the ... law was enacted in 2011. This market is a success story and it exemplifies the strong economic development agenda that the Christie Administration has established here."

Earlier this year, New Jersey encouraged Vermont captive, Lumerica Insurance Company, to re-domicile.

The New Jersey Department of Banking and Insurance (NJDOBI) approved Lumerica Insurance—a subsidiary

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CITINBRIEF

Bermuda's captive sector stays strong

Despite tough market conditions, the captive sector in Bermuda wrote $20.3 billion in gross premiums, according to the Bermuda Monetary Authority (BMA).

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Cayman moves forward with FATCA

The Cayman Islands government is planning to adopt a model one intergovernmental agreement (IGA) in response to FATCA.

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New Jersey approves its first cell captive

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of BASF Americas Corporation—to operate as a captive insurer in the state.

The department hosted a captive insurance summit in 2012 to encourage potential insurers to domicile in New Jersey.

The summit helped companies to become more familiar with the state's regulations and application process and brought captive industry experts together to discuss emerging trends and issues.

Bermuda's captive sector stays strong

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Reported total assets for the sector reached $85.3 billion and reported capital and surplus $42.1 billion.

Shelby Weldon, director of licensing and authorisations at the BMA, said that the market environment has become increasingly competitive in the captive space.

"Bermuda remains the largest domicile in terms of active captives—a total of 856 as of the end of 2012. We are continuing to see the new captive business choosing to locate here, based on our experience, both in terms of the practical regulatory environment and professional service providers on the ground catering to captives, as well as unparalleled access to a sophisticated reinsurance market."

The BMA also said that Bermuda will not apply any Solvency II-type regime to the captive sector.

Cayman moves forward with FATCA

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A similar arrangement will also take place for further automatic exchange of information with the UK.

The model one IGA is an agreement between governments for the exchange of information.

The most recent agreement will sit alongside the Cayman Islands's 31 other tax information agreements, including its most recent signing with Brazil.

Rob Leadbetter, chairman of the Insurance Managers Association of Cayman, said: "This is another demonstration of Cayman leading by example in international regulatory initiatives. Cayman has had transparency gateways with tax authorities around the world for decades and so this is just another rung in that ladder. It will ensure that Cayman remains competitive as a well-respected international financial services centre."

Rolston Anglin, minister of finance of the Cayman Islands government, said in the legislative assembly on 15 March: "This decision to adopt the model 1 IGA will fortify our good standing in the global community and continue to build on the solid foundation we already have in place with our existing agreements. We will continue to take our place in the international arena and ensure that we maintain our positive and informed engagement in the rapidly developing environment of international tax cooperation."

NAIC releases 2012 annual report

The National Association of Insurance Commissioners (NAIC) has released its 2012 annual report, Six Degrees of NAIC: Reflecting. Connecting. Protecting.

The NAIC report provides an overview of regulatory activities in areas including government relations, international insurance supervision, solvency modernisation initiative, financial regulation and consumer education.

In its attempts to modernise the state-based system of financial regulation, the NAIC saw notable progress throughout 2012 in the use of captives.

According to the report: "An NAIC group charged with evaluating the use of insurer-owned captives released study results and recommendations for public comment. Preliminarily, the group is recommending a series of actions that may entail revising statutory accounting guidance, updating the relevant NAIC models, enhancing financial reporting and improving analysis and examination procedures."

Ben Nelson, NAIC CEO, said: "This annual report's theme illustrates how state regulators evaluate various aspects of the insurance marketplace by connecting with consumers."

"While the details of healthcare, financial reform and international regulatory cooperation are complex, they have a real-world impact on real people. Discovering how public policy connects with the public in general is a unique responsibility for our members."

The report also features video messages from officers, highlights and statistics, and a copy of the NAIC's audited financial statements.

Delaware RRG withdraws after downgrade

Delaware-based United Contractors' Insurance Company Incorporated A RRG (UCIC) pulled out of A.M. Best's rating process, forcing the ratings agency to withdraw its downgrade of the company.

A.M. Best downgraded the financial strength rating to "C- (Weak) from B (Fair)" and issuer credit rating to "cc from bb" of UCIC.

This prompted the company's management to opt out of A.M. Best's interactive ratings process.

The ratings were based on UCIC's rapid decline in policyholder surplus that were caused by several large losses over the past two years.

"Other negative factors include an elevated turnover of third-party administrators for claims over the past three years," said a statement from A.M. Best.

Blue Whale is as strong as it seems

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and issuer credit rating of "a+" of Blue Whale Re in Vermont.

The ratings consider the company's critical and central role and favourable profile as part of the Pfizer Group, as well as the excellent performance of its operations.

Partially offsetting these positive rating factors are Blue Whale's very large gross and net underwriting exposures to property losses and its dependence on reinsurance.

Blue Whale is a single parent captive of Pfizer, the global pharmaceutical company.

As Blue Whale reinsures Pfizer's global property exposures, it plays an important role in the company's overall enterprise risk management and assumes a critical role in protecting assets, benefiting from Pfizer's extensive risk management and loss control programmes.

Blue Whale operates at conservative underwriting leverage levels, but it provides coverage with extremely large limits, and its gross exposures per loss occurrence are elevated.

Although Blue Whale benefits from reinsurance protection, its net retentions remain very substantial, said the ratings firm.

Reinsurance is provided by a large panel of reinsurers, and Blue Whale relies on significant capacity to be able to support its obligations. As such, it is heavily dependent on reinsurance.

Cayman welcomes new legislation

A framework for incorporated cell companies has been created in the Cayman Islands.

The Cayman legislative assembly has passed an amendment to allow the registration of portfolio insurance companies (PICs), within segregated portfolio company insurers (SPCs).

The minister for financial services, Rolston Anglin, explained that PIC legislation is more efficient and cost-effective than standalone incorporated cell company (ICC) legislation.

Anglin added: "PICs do not involve the highly creative and untested jurisprudence involved in an ICC. Furthermore, because they will take on the form of an exempted company they will be subject to the same legal requirements as any exempted company."

Guernsey signs DTA with Qatar

Guernsey has signed a double taxation agreement (DTA) with Qatar.

Gavin St Pier, minister of the treasury and resources department, signed the DTA on behalf of the government of Guernsey during a meeting in London with Moftah Jassim Al Moftah, director of public revenues and taxes department at the ministry of economy and finance, who signed on behalf of Qatar.

Fiona Le Poidevin, chief executive of Guernsey Finance, said: "Signing a DTA with Qatar is another important step in diversifying the business base of Guernsey's finance industry. We have been actively promoting Guernsey's financial services offering within the Middle East for several years and more recently a number of the island's firms have established offices in the region."

"The DTA between Guernsey and Qatar deepens the relationship and it also offers significant potential for expanding financial services business. It provides clarity and certainty on matters of taxation, which makes it more attractive to conduct business between the two jurisdictions."

Guernsey has signed 17 DTAs, comprising 11 partial DTAs and six full DTAs. The island

has also signed 40 tax information exchange agreements (TIEAs).

In February this year, Guernsey signed a DTA with Singapore and TIEAs with both Brazil and Mauritius.

Single parent captive Transmonde receives ratings boost

A.M. Best has upgraded the financial strength rating to "A (Excellent)" from "A- (Excellent)" and issuer credit rating to "a" from "a-" of Transmonde Services Insurance Company in Bermuda.

The rating upgrades are based on Transmonde's historical operating performance, excellent risk-adjusted capitalisation and minimal underwriting leverage; all factors which have allowed it to enhance its surplus considerably in recent years, said A.M. Best.

Partially offsetting these positive rating factors are the company's relatively high retentions and concentration in liability lines with significant loss severity potential.

An additional offsetting rating factor is its limited market profile as a single parent captive. Transmonde provides professional, general and pollution liability coverages to members of the International Association of Superintendents, which is a subsidiary of SGS, a publicly traded Swiss company.

PartnerRe launches Lorenz Re

PembrokeRe has formed Lorenz Re, a new companion facility to provide additional capacity to PembrokeRe on a diversified portfolio of catastrophe reinsurance treaties.

Bermuda-based Lorenz Re was capitalised with $75 million through the issuance of multiple classes of preferred shares.

Aon Benfield Securities acted as advisor on the transaction. Prime Management, a Bermuda company specialising in the administration of special purpose insurance vehicles, will serve as the insurance manager of Lorenz Re.

Costas Miranthis, president and CEO of PartnerRe, said: "Lorenz Re allows us to provide additional capacity to a number of our clients while optimising the deployment of our capital."

"Investors will benefit from PartnerRe's twenty years of experience and expertise in the catastrophe market, as well as access to our diversified portfolio of catastrophe risks."

Utah launches new captive website

Utah's captive insurance division has launched a new and improved website to serve the captive insurance industry.

The new site is similar in design to Utah's state government site, utah.gov, which received praise from The PEW Center, noting that the site is "an overall area of strength where citizens can easily perform common transactions."

Ross Elliott, director of the captive division, said: "The new design makes it easier for people to navigate the site and find what they're looking for. One link provides basic information about what a captive is; another link lists the advantages to forming a captive in Utah, while another offers answers to frequently asked questions (FAQs) about fees, taxes, investment restrictions, and more."

"Now, anyone interested in keeping up with the news from our division and the site can just sign-up to receive tweet notifications."

"We want to continue to refine and improve the way we communicate with our customers. Within the near future we hope to be able to provide an internet portal through which captive managers can transmit information and documents to us for their clients."

Elliott adds that the Utah captive insurance divison welcomes any suggestions that will help them improve their new website and communication with the states captive insurance industry.

The new website can be found at www.captive.utah.gov.

One giant leap for small corporations

The 831(b) election offers a host of benefits that captives are watching closely. CIT takes a look

JENNA JONES REPORTS

A micro captive is typically defined as an insurance company that qualifies under section 831(b) of the US Internal Revenue Code. Under the section, which was written in 1986, insurance companies that write $1.2 million or less in premium per year only pay tax on investment income.

According to David McManus, president of Artex Risk Solutions, he himself coined 'micro captives' to describe the insurance companies taking up the 831(b) election. "We originally coined the term (I credit myself with inventing it!) to embrace Artex's strategies designed to bringing what larger companies are doing in the risk financing arena down to a smaller company audience."

McManus adds that—despite coming up with the term—as more small and medium-sized enterprises (SMEs) took advantage of the 831(b) election, it became synonymous with the code.

Douglas O'Brien, national casualty and alternative risk practice leader at Wells Fargo Insurance Services, explains that there are secondary benefits that apply to micro captives "including the potential to deduct up to $1.2 million in premium payments as business expenses and retain 100 percent of the underwriting profit if no claims are paid".

"If done properly, the business owner could ultimately save a significant amount in taxable net income which can be used to fund future risk exposures or taken as profit distributions in the form of dividends or capital gains."

Karl Huish, president of the Artex Risk Solutions captive division, explains the history behind the emergence of micro captives. He states that while there were always some small captives based in the US, the revision of section 831(b) in 1986 opened the door to micro captives. A handful of captive managers began using 831(b) in the late 1990s, and micro captives have grown significantly over the last 10 years.

O'Brien feels that the influx of micro captives in the past decade is primarily due to increased education, favourable revenue filings and promotion of alternative risk transfer vehicles.

Huish adds that from a domicile standpoint, micro captives are established just like any other captive. "The only difference is making the 831(b) election. Because this is a US tax code election, micro captives are applicable to captives that will be owned by US persons. The risks can be US or non-US based."

"Both foreign captives and domestic captives can make the 831(b) election. Foreign captives would first need to make the 953(d) election to be taxed as a US captive."

With the exemption of the obligatory premium rule, micro captives are, as Huish states, just like any other captive. Though O'Brien explains that a micro captive can also provide myriad tax benefits to companies that fit the bill.

He says: "Most companies that have established or are considering these types of captives are privately held companies with sufficient exposures to uninsured or retained loss but also with positive net income, a high effective tax rate and, for companies that do not meet the criteria on their own, a willingness to take on true third-party risk in some form."

"There is no restriction for publically traded firms in terms of creating these types of captives, however, we often see closely held publically traded firms having more interest in these vehicles."

This is because the $1.2 million premium is relatively low for most publicly traded firms and the benefits derived are not as material, says O'Brien. Shareholders and analysts may prefer to see these premiums and any resulting surplus utilised for other business purposes.

While coverage lines for micro captives can include any exposure to loss that an insured has, most micro captives include low frequency/moderate severity exposures to loss, which are typically self-insured, says O'Brien. Lines of business can include loss of key customer, loss of key supplier, brand reputation, environmental liabilities, impact of regulatory changes and more.

"The key issue is that these coverages must be real and tangible to each insured. Moreover, the insurance premiums allocated to each coverage line must be established at an arm's length distance and have some objective basis in determination. This is why it's important to utilise an insurance broker, insurance actuaries and other risk management professionals in the process."

As a niche in an ever-expanding market, micro captives are seen as an economically feasible structure for SMEs that do not require a traditional captive.

Huish explains the lucrative reasoning behind the formation of a micro captive. "If the micro captive is considered to be an insurance company by the IRS, and has made the 831(b) election, then the micro captive does not pay any federal or state tax on any underwriting profit for the captive. The micro captive will pay tax on any realised investment income, but such income is likely to be modest."

It is the exemption of tax on underwriting profit that makes SMEs, that would normally shy away from captives for cost reasons, reconsider their options, adds Huish.

"Most (more than 80 percent) Fortune 500 companies have a captive, and it provides good risk management for such companies. Giving the financial incentives of a micro captive to smaller companies encourages them to better their risk management as well," he says.

The benefits of forming a micro captive—including tax, wealth transfer and deferred compensation—are obviously appealing to companies that suit the requirements, but O'Brien warns against establishing a micro captive for the wrong reasons, and points out the dangers of doing so, which could include attracting the attention of regulatory authorities.

Dangers include the improper allocation of premium to coverage lines, inability of the insurance transaction to meet the minimum risk distribution and even the inclusion of unrealistic coverage lines that do not remotely pertain to an insured's actual exposure to loss.

He says: "The key is that first and foremost, this is a risk management vehicle and it must meet the requirements of an insurance transaction to meet minimum risk distribution or risk shifting requirements. An insured needs to have a legitimate business purpose in the form of uninsured or underinsured exposure to loss prior to setting [a micro captive] up."

O'Brien also states that most small-to-middle market insureds fail to meet the IRS criteria for risk shifting and risk distribution on their own. In the absence of meeting the criteria, the insured must take on third-party risk.

"Most insureds meet the criteria by joining a risk pooling consortium or taking on the acts of independent contractors. Trying to set up a micro captive without paying attention [to requirements] will likely result in some significant scrutiny."

Most foreign regulators view micro captives as a regular captive vehicle but smaller, so they are regulated the same way, says Huish.

"Larger businesses have traditionally used captives for typical insurance risks, such as workers' compensation, auto and property. Micro captives can insure both traditional risks and also 'business enterprise' risks. [Certain] regulators understand these risks and make it easier to get the captive approved in their domicile. Some regulators actively seek out micro captive business, and other regulators are neutral about it."

Companies must also recognise that sufficient premiums and surplus need to reside in the micro captive for a number of years before dividends are taken back and/or loans of any size are permitted.

O'Brien says: "The vehicle must function as any prudent and well run insurer would and taking too much capital out of these captives or taking the capital out too soon could also result in unnecessary scrutiny."

The benefits of micro captives are evident, but Huish highlights another potential downside to the structure.

He explains that once the 831(b) election is made, it is irrevocable, meaning that if the captive receives more than $1.2 million in premium, then losses cannot be carried forward from year to year.

While McManus concurs that premium limitation is a clear disadvantage to forming a micro captive, he feels that the biggest potential downside occurs if companies establish captives that rely solely on a tax provision to justify their existences.

"Tax codes change, and although there's nothing on the horizon to suggest that the 831(b) tax provision will change, Artex never let that be the only reason why a captive is justified. We have a strong belief that even if the tax code altered a lot of the businesses that we have brought into the captive world would want to stay there." CIT

Think differently about risk

CIT talks to Marty Scherzer of AIG about risk profiles and why alternative risk transfer vehicles are sometimes the answer to traditional insurance needs

JENNA JONES REPORTS

What sort of risk profile does a modern company have and how has this changed during your time in the industry?

Typically, the risk profile of a company looks very different today than it did in the past. Global expansion has resulted in companies needing to address risks across wider geographic areas, each with its own regulatory requirements. Companies operating in emerging economies face even greater uncertainty since these countries do not always have well established or documented insurance regulation and are increasingly issuing new regulations and oversight requirements. Today's companies must invest substantial time and resources navigating the challenges of conducting business throughout the world while trying to operate as efficiently as possible in an environment of increased regulation and regulatory scrutiny.

Companies are very mindful that plaintiffs' awards are considerably larger today than even just a decade ago, and accordingly, companies look to purchase larger limits. Risks are more interdependent than in the past as companies are learning from dealing with an interconnected global supply chain. The Thailand floods were an all too painful example of this phenomenon. With social media, information—both good and bad—moves faster and in a much more unstructured way than ever before, thereby creating risks that did not exist just a few years ago.

As companies seek to expand and develop new businesses, new risks will continue to evolve. If you asked someone what a cyber threat was in 1980, they would have struggled to comprehend what you meant. Today, most firms are acutely aware of cyber risk, whether it is from a cyber-attack or a careless mistake that leads to the release of personally identifiable information. Similarly, the growth of the internet and smartphones, fracking, supply chain exposures and other innovations, will result in more risks that must be addressed.

Where do you expect growth to come from in the future?

As companies expand geographically and develop new businesses, the type and number of risks to which they are exposed will increase thereby creating an increased demand for insurance. Similarly, as emerging economies grow, the assets of both the businesses and the individuals within those countries will grow, which will create increased demand for insurance protection for these assets.

I believe the most exciting opportunities for growth will result from asking our clients to 'think differently about insurance'. We are an industry that's been around a very long time. As early as 3000 BC, Chinese traders exposed to losing cargo when a boat capsized agreed to share the risk by redistributing their individual cargo across the group's many vessels. These traders faced a problem, had resources, and devised a strategy to utilise those resources to address the problem.

While it is great that our industry is well known, this deeply ingrained tradition of defining insurance solely as a means to share risk often limits our thinking about how insurance can address a wide variety of challenging issues. This limitation is particularly relevant when risk transfer is not the motivation for the insurance purchase; for example, when the sole need for insurance is to provide evidence of insurance to meet a regulatory requirement. I believe there is a tremendous opportunity to be gained by broadening how our clients define us—from 'traditional insurance provider' to 'problem solver with a wide array of resources to address risk'.

Thinking differently about insurance poses a particularly strong growth opportunity for captives as well as rent-a-captives. With the client retaining a significant portion of a risk, these types of programmes generally have more flexibility than traditional risk transfer programmes, particularly in terms of the types of exposures that can be addressed and the structure of the programme.

How do you broaden the way clients think about insurance to include being a resource for addressing problems, obstacles and risks inherent in their business?

Accomplishing this repositioning is no easy task. We need to change the way we market to include a much larger educational component. All of the parties involved in the insurance transaction—the insurer, the broker and the client—need to invest the time to learn how insurance can provide broader solutions than just transferring risk.

The first step is convincing clients and brokers that investing time with us can produce results.

To accomplish this task, we use case studies to demonstrate the multitude of issues that can be solved with non-traditional insurance programmes. These scenarios help us explain the range of exposures our programmes can address and the variety of insurance structures that we can design and implement.

In the second step, we ask that the client teach us about their business. Through a series of in-depth questions, we seek to gain a deeper understanding of our client's business objectives, obstacles, problems and opportunities.

The last step, structuring a solution to bring some certainty around the client's issues, is probably the easiest. We've been in this business for more than 50 years and have the expertise, resources and global footprint needed to craft a solution. Our experience shows that the better job we do in understanding the client's issues, the more successful we will be in designing and implementing a solution that benefits the client.

How can a company's risk manager determine if the company is exposed to risks that might be addressed with an alternative risk transfer programme?

If we are successful at broadening the way clients think about insurance, then the risk manager's role also broadens to being a problem solver, with a wide array of resources at his or her disposal to address risks. To succeed in this broader role, the risk manager must be an integral part of the business' strategy so that he/she has an in-depth knowledge of the company's objectives, constraints and obstacles. This knowledge will better enable the risk manager to identify issues that might be addressed with an alternative risk transfer programme and have a more meaningful discussion with providers when working towards a solution.

Companies should empower their risk managers to research alternative risk transfer solutions when the traditional insurance or financial markets do not adequately respond to the company's needs. As these solutions often involve a capital commitment over a period of time, risk managers need to work closely with their finance departments to define the ultimate objectives.

Risk managers should understand the broadening capabilities of insurance to address unusual or non-traditional risks. Once armed with a solid understanding of the types of alternative risk transfer programmes available, as well as what the insurer will need in terms of loss data and timeframe to structure a programme, risk managers will be well equipped to help their companies address lots of different and complex risk issues. It also helps to work with a knowledgeable broker who can navigate the different alternative risk transfer providers and offer criteria to evaluate those providers. There are many insurers who dabble in this space, but there is a real benefit to working with an experienced provider who has seen the issues, understands the pitfalls and knows how to address them.

What criteria should be used to evaluate an alternative risk transfer provider?

It is important that providers have:

- Global capabilities, including superior servicing and claims handling, as well as the ability to issue locally admitted policies as part of a global master programme and in-depth, local knowledge of regulatory requirements
- Flexibility in the type of exposure, class of risk, and contract best suited to the requirements of the deal (eg, insurance, reinsurance, loans, captive management, or other financial products)
- Ability to offer a broad range of products
- Access to significant risk-bearing and financing capacity in support of structured or alternative risk transactions
- Broad expertise, including the ability to analyse complex and unique risk, and a proven track record of actually implementing creative solutions
- Multi-disciplinary team, ie, underwriters, actuaries, lawyers, tax experts, accountants, credit officers, regulatory and operational specialists—it takes a village
- Ability to retain significant risk.

How can alternative risk transfer vehicles such as captives help with meeting traditional insurance needs?

Captives are not always used as a solution for when the traditional insurance market cannot respond. Many of our clients are using captives or other risk retention vehicles as part of a well designed, formal, risk retention programme to help them better manage the risks they choose to retain. When a significant amount of reinsurance is purchased, a captive can create greater transparency for clients through a more direct line of sight to who its reinsurers are. In addition, insurers will look favourably on a well-designed risk retention vehicle such as a captive with the necessary discipline to capture data, perform actuarial reviews and clearly demonstrate how a risk has performed.

What must a company have in place before it should begin considering whether a captive insurance programme is viable?

Firstly, the company must be willing to retain and fund a significant amount of the risk over a long time horizon. Also, the company should be looking to establish a more formalised approach to its risk management programme. It needs financial resources commensurate to the level of risk it is seeking to retain. The company should fully understand the nature of its risks and have effective loss control in place. Lastly, the company should be able to clearly articulate its objectives to its insurer and broker so they can be effective partners in crafting a solution.

If you noticed, I haven't said that the company must have an existing captive in place. Rent-a-captives and protected cell captives enable companies to pay a fee to 'rent' a portion of a captive's capital, surplus, licences and administrative services to provide insurance or reinsurance. Rent-a-captives offer companies many benefits of a captive, including features that allow the insured to retain a certain proportion of the risks and better manage the associated costs, without the full operating costs of a stand-alone captive. CIT

Fronting and alternative risk transfer programme opportunities

Fronting and alternative risk transfer programmes help clients to:

- Benefit from positive loss experience
- Obtain evidence of insurance for regulatory, disclosure, marketing, trading, or counterparty requirements
- Solve a specific problem for which there is no clear risk transfer solution
- Resolve a situation where current market conditions or shifting underwriting capacity are limiting availability of risk transfer
- Prevent difficult risks from impeding a planned merger, acquisition, or divestiture
- Improve the efficiencies of multinational programmes/operations
- Benefit from an above average risk profile that is not properly reflected in the market pricing of traditional insurance
- Achieve greater certainty and flexibility on coverage and premium through varying market cycles
- Access reinsurance markets more efficiently
- Protect against the accumulation of retained losses and/or free up capital
- Satisfy a primary lead layer as part of an excess tower for a difficult to insure risk.

Marty Scherzer
President, global risk solutions
AIG

Freedom of the continent

Ireland's strict definition of captives means that, while it may lose out in the league tables, it is all the stronger for it. CIT takes a look

JENNA JONES REPORTS

Unlike the Caribbean, Ireland is not synonymous with sun, sea and sand, but Europe's third largest island does compare when it comes to captives, as it boasts more than 100.

Lorraine Stack, senior vice president of captive solutions at Marsh Management Services Dublin, admits that while captive growth was steady throughout the 1990s, with a period of rapid growth in the early 2000s during the hard insurance market, there was a slowdown in the late 2000s.

She says: "[The slowdown was] reflective of global economic conditions, and more recent growth has been primarily organic where existing captives are extending coverage to include new lines of business."

But despite this Marsh do expect future growth in captive numbers as the broader economic recovery continues globally.

According to Sarah Goddard, CEO of the Dublin International Insurance & Management Association, the first captive insurance company was registered in Ireland in 1989, with infrastructure changes starting a couple of years earlier when the International Financial Services Centre was set up.

"The immediate attraction of Ireland lays in the ability of a captive re/insurer to use the EU life and non-life directives to write business on a freedom of services and freedom of establishment basis, automatically giving access to all EU and EEA member states."

Initial interest for setting up captives came from Europe-based parents, but soon US parent companies with European operations began to adopt Ireland-based captives. Indeed, well-established companies such as the Coca-Cola Company have set up shop there.

Goddard explains that Ireland's specific classification of a captive insurance company lowers its total.

She says: "Ireland uses a very precise definition of captives—the one that is used in Solvency II—so entities which would be viewed as captives elsewhere are not considered captives in Ireland (this has to do with a few aspects such as the type of parent company and whether the entity writes third party business)."

"Our most recent figures are that there are 109 pure captives and 32 'quasi-captives', the latter being what other jurisdictions classify as captives but Ireland doesn't because of using the Solvency II definitions."

Goddard feels the types of business written through an Irish-based captive tend to be European in nature, and can range from very simple single lines to complex multiline coverage.

Tim Byrne, executive director of Willis Management in Dublin, says that as a member state of the EU, a captive licensed in Ireland can write insurance and reinsurance business across all 30 EU and EEA member states without requiring individual member state licensing.

Byrne says: "Such a captive can write all classes of risk (including statutory covers) and the cross border activity is know as 'freedom of services'—a recognised principle of all EU member states."

"Ireland was the first EU member state to attract captives in large numbers and as such has built up an infrastructure and reputation which supported by a 12.5 percent corporate tax rate has proven very attractive for EU and non EU domiciled multinational groups. Owning a captive in Ireland is also an alternative to traditional EU fronting."

Stack explains that historically, Ireland has been a preferred domicile for multinationals with significant European operations and exposures.

"Easy access, a well educated English speaking workforce, a stable and competitive corporate tax regime, and a well established local network of service providers continue to make a Ireland attractive as a European hub for captive operations."

"Ireland also has a diverse insurance market including life/non-life, insurance/reinsurance companies and catastrophe bonds, which means a broader range of expertise both at operating company level and with local service providers. Importantly, the Central Bank of Ireland has over 20 years of experience in regulating captives and has an appreciation for the unique nature of captive risk exposures and the proactive manner in which captive sponsors manage risk."

Location consideration

When deciding on a location for a captive, companies can be drawn to prevalent jurisdictions such as the US and the Caribbean based on the number of active captives and impressive growth figures.

But Byrne believes that the reasoning behind the expansive figures should be taken into account. He explains that captives that are formed in the Caribbean and the US are predominantly owned by North American entities and formed to provide cover to physicians and private hospital groups.

He says: “European countries have tended to date to have a more socialised health system and so the growth around these medical malpractice type captives has not been replicated in Europe.”

“Each area has its niches—US entities are able to form RRGs (risk retention groups), which do not exist in Europe. All EU captives can potentially write insurance cover across all EU borders whereas US captives (other than RRGs) must be aware of local state insurance procurement rules.”

According to Stack, captive numbers alone don’t necessarily give the full picture of how domiciles are performing.

“Ease of establishment, and competition between regulators to attract captive business has also assisted in driving the numbers in the US, particularly in the small captive space. Historically here in Europe, higher solvency requirements and conservative fiscal regimes have meant that captives have traditionally only been accessible to large corporates. This also means that individual captive sizes in Europe can be larger than in the US,” says Stack.

Waiting in vain

Solvency II implementation has always been something that the Central Bank of Ireland has supported.

Gareth Colgan, deputy head of the prudential policy division at the Central Bank of Ireland, believes that the move towards an economic framework with risk-based capital requirements represents a necessary improvement from the existing regulatory framework.

“With the delays experienced in finalising Omnibus II, European Insurance and Occupational Pensions Authority’s (EIOPA’s) initiative with regard to its opinion on interim measures regarding Solvency II and more recently the guidelines package, is welcomed by the [Central Bank of Ireland], as we strongly favour a consistent pan-European approach which avoids the potential for individual jurisdictions to adopt their own solutions at a national level.”

The Central Bank of Ireland has had a dedicated Solvency II team in place since 2010, which produces resources, including an ORSA report ing tool, and represent it at EIOPA’s working groups and committees.

“We also proactively engage with the Irish insurance and reinsurance industry in fostering awareness of Solvency II developments. We achieve this primarily through active dialogue with the industry, publication of a quarterly Solvency II newsletter and industry briefings and events.”

Though the Central Bank of Ireland is content with the progress being made towards implementation, Stack says that Solvency II will not be without its challenges for captives and that the industry welcomes an end to the uncertainty that has been caused by the delays in implementation.

And while succinct regulatory formation is definitely a plus for potential captives, old clichés such as the good old-fashioned British weather could force companies elsewhere, says Byrne.

He adds that Ireland’s lack of protected cell company and re-domiciliation legislation could also be seen as disadvantages to the domicile.

Stack feels that there are no specific drawbacks to domiciling in Ireland. “The key considerations corporates would look at before establishing here are the same for other jurisdictions, such as capitalisation, regulation, infrastructure, convenience and ease of operation; all areas in which Ireland performs comparatively well in a European context.” CIT

PoP goes proportionality

Günter Dröse of ECIROA tells CIT about Solvency II and captive owners

JENNA JONES REPORTS

What are ECIROA's plans for 2013?

The European Captive Insurance and Reinsurance Owners` Association (ECIROA) will take advantage of the delay in the introduction of Solvency II to continue our discussions with local regulators. We strongly recommend that captives take this opportunity to ensure they will be in compliance in the future. We are confident that most captives are in good shape for the Pillar I requirements and the few that are not may need to change their strategies. With regards to Pillar III, ECIROA as an industry body, as well as individual captive owners, need to contact their local supervisors to discuss the way forward for their specific captive and to understand what is expected to get approval based on the principle of proportionality (PoP).

The PoP delivers the argument to treat each and every captive individually. Captive owners must come to their local supervisors with their ideas of how their captive can fulfill the Pillar II requirements in a proportionate way. ECIROA has drafted a best-practice document that can be used as a guideline to help them achieve this. The majority of captives already follow good governance principles so it is just a question of documenting them.

For each country, we need to know what the perception of the local regulator is and how much flexibility will be shown to follow, on the one side, the unavoidable requirements of Solvency II (eg, under Pillar I), and on the other side, the recognition of the specificities of the captive to achieve and fulfill the targets of Solvency II.

With regards to Pillar III, ECIROA is working on a bespoke set of templates for captive owners, with the assistance of Aon, Marsh and Willis. Without doubt, the templates are really overkill for captives and we can only complete some of the information. We want to save time and money for both captive owners and supervisors and we will try to get agreement for our suggested approach from the European Insurance and Occupational Pensions Authority (EIOPA).

What are your members telling you about the captive insurance market at the moment?

The owners of captives usually do not have a comprehensive view of the captive insurance market, so most of our colleagues follow the reports of captive managers. ECIROA cooperates with the leading captive managers and we keep each other advised of developments in the different jurisdictions.

How will ECIROA find simplifications for the nature of captives under Pillar I, II and III of the Solvency II directive?

Via PoP, we try to cut down excessive requirements that we cannot fulfill The request of EIOPA is 'comply or explain'—this implies that we cannot document activities or describe the work of (usually requested) committees, when such a captive is managed by a service provider and the underwriting volume of that company is focused on just one, two or three policies (or programmes). As mentioned above, we have produced best practice guidelines to help captive owners with Pillar II and we are aiming to achieve a reduction in the volume of reporting in Pillar III.

Are captives considering re-domiciling to jurisdictions that aren't seeking Solvency II equivalency?

For the time being, we are not aware of such considerations. Bear in mind that the QIS5 (fifth quantitative impact study) results of our own captive survey, which included the data of around 150 captives in Europe, didn't show the need for expensive capital injection or huge adjustments. The fear was, and still is, that the additional workload and reporting will cause higher administration costs. I am aware of some corporations establishing new captives in Europe. There are a lot of rumours in the market about re-domiciling that is caused by parties trying to expand their business volume.

What kind of relationship does ECIROA have with regulators? Are they welcoming the association's views?

We have close contact with various local supervisors, as well as individual captive owners. We are able to compare the request of the European Commission and EIOPA with actual comments from some captive domiciles. Nevertheless, it is our main target to increase the exchange of arguments and the influence to determine the PoP and it is our impression that our activities and contributions are welcome.

How has your role as managing director at Deutsche Bank and industry experience helped you to manage ECIROA?

Due to the fact that my experience is rather comprehensive, based on my functions as senior account manager and underwriter of one of the market leading insurers, followed by some years as an in-house broker and captive manager, I guess that I am able to cover most of the critical questions we dispute within this regulatory environment.

Unfortunately, many market participants have very specific (and much appreciated) expertise on a particular topic, but they lack understanding of the interdependencies within the insurance market with its huge variety of influencing factors. This is one of the reasons to help colleagues wherever possible to clarify and to sort out potential problems. CIT

Günter Dröse
Chairman
ECIROA

Yesterday's news

Roy Baumann of Swiss Re Corporate Solutions takes a look at how corporate risk financing adapts to changes in the legal, regulatory and tax environment

With yet another delay in the introduction of Solvency II in the EU, Bermuda exempting captives from equivalent supervision and Guernsey simply not bothering, interest has fallen sub-zero and one might suspect that regulatory fatigue has taken hold of the captive insurance and reinsurance world.

Far from it! Rather than waiting for the fog surrounding Solvency II to lift, companies are already addressing second order effects and are moving on to focus on more practical business matters. Now, how is this possible?

Over the last few years, a comprehensive and consistent framework emerged for central corporate risk financing, including captives. Key components include:

- Economic substance: Court of Justice for the EU's (CJEU's) Cadbury Schweppes-ruling
- Transfer pricing: OECD guidelines
- Premium allocation: CJEU's Kvaerner ruling
- Best practice standards: International Organization for Standardization, Committee of Sponsoring Organizations of the Treadway Commission, Captive Insurance Companies Association, et al
- Insurance and reinsurance supervision: Swiss Solvency Test, EU Solvency II, EU Reinsurance Directive.

This 'meta-framework' in essence simply promotes substance over form, strong risk management and good corporate governance. While Solvency II clearly has been a major catalyst, it arguably isn't a driving force behind this.

Against this fairly traditional background many risk managers have started reviewing how they structure their central risk financing. Specific considerations include:

- Rising premium and corporate income tax rates
- Counterparty credit risk
- Liquidity requirements
- Investment restrictions on ring fenced assets
- Increased administration expenses and management time
- Compliance and reporting
- Corporate governance.

Adaption of corporate risk financing via captives is mostly driven by second order effects of Solvency II, specifically, credit and concentration risk-related to loan backs, reinsurance asset risk and protection of underwriting, ie, renewal capacity. As a consequence, one would expect:

- More homogeneous limit structures with reduced peak risks
- Reduced reinsurance to unrated or lowly rated counterparties
- More single captive structures and fewer pure fronting captives
- Introduction of target capital adequacy ratios of around 125 to 150 percent of Solvency II requirement
- More active capital management with introduction of dividend policies
- More active underwriting portfolio steering to control level of equalisation reserves and deferred tax
- Increased focus on composition of shareholders' funds/available capital
- More diverse board composition.

Beyond self-insurance via captives, companies are carefully thinking about the value of insurance and are considering alternatives where available and sensible. Many may also choose risk financing options that are entirely outside the regulated insurance and reinsurance space. Again, as a consequence, one would expect:

- Further increase in the number of protected cells
- Renewed interest in structured insurance with embedded captives
- More frequent structured uninsured risk retention on balance sheet such as optimisation of deductibles, virtual captives and risk trusts
- Increased interest in pecuniary interest covers
- More active involvement of insurance department in liquidity/working capital planning by the treasury department.

The results can already be seen today and anecdotal evidence suggests that these trends will likely accentuate in the coming two to three years.

While the finalisation and introduction of Solvency II may be in the distant future, surprisingly it seems to already be yesterday's news for risk managers, captive owners and captive insurance and reinsurance companies. That's good news. CIT

Roy Baumann
Director, strategic solutions
Swiss Re Corporate Solutions

Cleanliness is next to thoroughness

Accurate information makes captives tick, says Mark Davies of Avox

Data has become, for many captive insurers, all-consuming. The task of managing their own data, as well as that of their parent group or groups, has become increasingly time-intensive and costly. At the same time, insurers are under pressure to collect and prepare data faster than they do today, as a result of forthcoming regulations such as Solvency II. One of the biggest yet relatively unreported issues around data management relates to the vast amount of inaccurate data that exists in the insurance industry. This article will explore the growing importance of data accuracy for captive insurers in the context of business pressures and regulatory drivers.

When it comes to data, anyone operating outside of the back-office function within captive insurance firms would be forgiven for thinking that the single biggest issue or topic is big data, a term that means different things to different people but ultimately relates to data sets that grow too large for commonly used software tools to capture, manage and process in a timely manner.

However, despite the hype surrounding big data, a more pressing issue is data accuracy. In short, a serious problem throughout the insurance industry is that the data that firms use to describe themselves and those companies that they do business with—known as business entity reference data—is often inaccurate, meaningless and therefore untrustworthy. Business entity reference data includes, as best practice, corporate hierarchies, registered name and address information, industry sector codes, and company identifiers.

'Unclean' entity reference data exists in almost every commercial industry and our domain experience has highlighted a large number of reasons for this, but one stands out. In any calendar year, 20 percent of all companies will go through a corporate event affecting name, address or ownership information, so internal systems very quickly become stale without proactive effort. Many firms will underestimate the scale of ongoing change and fail to plan accordingly.

Unreliable legal entity data was highlighted as an issue in the financial markets in 2008 when Lehman Brothers collapsed, and has subsequently been examined by regulators in the context of improving risk management. Policymakers have become aware that all types of risk—including counterparty, operational, credit risk—can only be properly managed if they are based on sound information, derived, in part, from accurate business entity reference data.

It is a telling sign of the growing importance of data vis-à-vis new regulations that as the implementation deadlines for key regulatory initiatives (think the Dodd-Frank Act in the US and the European Market Infrastructure Regulation in Europe) draw near, we, at Avox, saw a 25 percent increase last year in the database of legal entity records that we validate—a process whereby we check, correct and maintain information for our clients.

From a regulatory, client and counterparty perspective, attention in this area is not confined to the financial markets. Solvency II is focusing insurers' minds on data quality, especially around Pillar III of the directive, which relates to disclosure and transparency. Pillar III requires the provision of high quality information and the ability to report and publish this data according to regulatory requirements. In relation to some of the other pillars of Solvency II, data quality has, to date, received less attention, but there is a growing realisation that it is a key component in the context of the entire regulation.

It is no great surprise that data inaccuracy exists as unclean data is something that appears over time. Organisations tend to use a variety of methods to gather, organise, and manage data. This inevitably leads to duplicates, inconsistencies, and erroneous mappings. Records, over time, become stagnant and the processing of actions becomes increasingly complex. This is compounded by the fact that entities, and their relation to their own subsidiaries, may have undergone multiple changes in their legal structures that have not been updated in the information currently held by corporates, leading to further data irregularities and heightened business risk.

These issues mean that data management has become costly and time-consuming and, too often, has failed to keep up with the new demands and challenges of the insurance industry. And this needs to be addressed.

To begin with, firms need to undertake a data cleansing exercise, which involves accessing their legal entity structures and checking this against the entity reference data they hold—a process that can be managed by external providers, such as Avox. Once the data is checked, repaired and updated, it then needs to be properly maintained on an ongoing basis. This way, on a practical level, firms can improve their data quality and facilitate better access to this data across the business. By doing so, they can demonstrate a commitment to implementing robust risk management processes and best practice in data management, bringing reputational as well as business benefits.

Many firms have already begun the process of analysing their current data architectures, determining where entity data is present, and identifying data quality issues within their data. Those who move most quickly to ensure the accuracy of their data will emerge as the winners. CIT

Mark Davies
General manager
Avox

New risks on the block

Emerging lines of business pose all sorts of problems for companies. CIT's experts discuss the issues and explain how captives can help

Linda Haddleton
Managing director
Kane Cayman

Steven Bauman
Head of captive services
Zurich Insurance Group - North America

Alison Quinlivan
Managing director, captive and insurance management
Aon Risk Solutions

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Risks such as 'cyber' and 'supply chain' have been evident in the industry now for some time. Are there any other emerging risks that the industry is watching out for?

Linda Haddleton: There are a number of emerging risks that practitioners within the captive market are watching very closely at present.

One such risk is intellectual property risk. Many companies do not currently purchase third-party coverage for IP risk. Because of the rise in patent litigation in the technology industry, there has been a recent increase in client queries for this coverage. In many cases, conventional coverage, when available, will not provide ground up coverage and will also have limitations and exclusions.

If we look at the implementation of the Patient Protection and Affordable Care Act (PPACA) in the US, this may also be said to present emerging risks. Healthcare is moving towards a very different model that has the potential to both reduce risks and costs, and to create new exposures and liabilities. Coordinated healthcare requires significant cooperation between healthcare providers. Those with captive experience insuring multiple providers have a head start on this, because they already have quality controls embedded in their underwriting criteria and understand the benefits of joint defence—both important steps in managing these exposures.

In addition, the coordinated healthcare that is envisaged by PPACA will present liability risks above and beyond today's professional liability risks. The increased population of insureds with access to healthcare will present a demand versus supply challenge, particularly in view of current concerns about primary care physician numbers. There are numerous organisations considering a combination of self-insurance and other stop-loss scenarios to potentially address their obligations under this act.

One other general area that is generating significant interest at present is that of data breaches and privacy violations. As more and more companies store client and employee data by electronic means, there will be greater risks incurred. Identity theft is a huge issue in the US and many companies are evaluating various options to address these exposures.

The risk of errors and omissions is another area of focus. Companies are facing increased exposures resulting from the rise in government and regulatory scrutiny. The cost of coverage increases and policy limitations is driving captive owners to review this coverage.

Trade credit risk is also coming under the captive spotlight. As companies expand to foreign markets, the use of trade credit insurance is increasing. Smart captive owners are evaluating the addition of this coverage.

If we look at litigation risk, it is clear that increases in regulatory control, internet usage, cyber-hacking, and healthcare risks are exerting pressure on litigation expenses. Coverage for excess litigation expenses will be considered by exposed companies.

One other risk I would draw attention to is that of telemedicine risk. As the use of the internet/ intranet increases in the medical community, the risk of an associated error will increase.

Finally, I would add that while not what would be categorised as a new risk, it is worth noting that more captive owners are electing to insure political risk in select countries.

There is increasing interest in addressing emerging risks within the framework of existing captives. In many cases, these exposures are very difficult to quantify and certainly outside of the captive owners control. The captive structure provides the flexibility to address these risks in the manner best deemed by the company.

Thomas Jones: In the world of service and manufacturing, companies are more concerned about reputational risk, which is along the lines of what happened in the Toyota 'surprise acceleration' issue. Essentially, there is an alleged product problem, but it's not only product liability. Rather, it's tarnishing the brand, such that public relations firms must be hired and other expenses incurred, to right the wrongs in the eyes of the customer. Companies are beginning to consider prefunding for such events, at least the out-of-pocket expense portion, as contrasted with a diminution of brand value (inherently quite subjective) in a captive.

IP risk, meaning the risks that are associated with patents, copyright and trademarks and so on, is another type of risk that is now being recognised. This could be the risk that a company's patents may be challenged as invalid, as occurred with the $300 million plus payment that Research In Motion (makes of Blackberry smartphones) made to so-called 'patent trolls'. There is also the offensive side, which would see a company asserting its own patent rights against a competitor. These are risks involving intellectual property that we see companies starting to worry about.

Steven Bauman: I would point to the issue of non-compliance with insurance laws and regulatory authorities in the US and around the world as something that is becoming more of a risk to multinational organisations. It is not so much an insurable risk, but is one that clearly needs to be managed. Compliance issues and regulatory controls are increasing around the world as countries continue to respond to fallout from the financial crisis. Multinational customers need to work with carriers that have a clear understanding of the varying laws and regulations on a country-by-country basis and can assist in the delivery of solutions that comply with all local requirements.

Contingent time element or contingent business interruption risks, related to supply chain interruption exposures, will also be of growing importance and concern to insurers and customers in the future.

Alison Quinlivan: The areas that captives are currently responding to include the above mentioned cyber and supply chain, but also others, such as catastrophic events (wind, storm and earthquake risks) and US healthcare risks. These follow the occurrence of six of the most costly catastrophes within the last five years and passing of healthcare reform in the US that greatly increases the responsibility of healthcare providers and employers alike.

We are developing captive solutions for less familiar but just as potent risks, such as patent infringement, reputational protection, regulatory risk, pandemic health conditions, drug resistance and electromagnetic exposures. All of these risks have had or are likely to have, a significant impact on corporate performance in terms of financial losses.

Even where the exposure is still unclear, such as for electromagnetic injuries through excessive cell phone use, the potential for extensive litigation creates financial challenges.

What are risk managers telling you about the sorts of risks that their companies face?

Bauman: In my own interactions with large, corporate customers around the world, it's clear to me that multinational companies are facing an expanding range of interconnected and increasingly complex risks. Clients are much more aware of the need to develop strategies to understand, mitigate, control and contain emerging risks. They realise that the risk environment they face today can change dramatically tomorrow, which is why long-term planning is essential. Strategies and working relationships framed with a long-term perspective are the keys to successful risk management.

Haddleton: In addition to the more traditional risks, the property and casualty risk managers that we work with are seeing the emergence of new and complex risks. Many of these risks emerge as a result of increased government regulation such as with PPACA. Other risks emerge when a company grows/expands its client base, enters new geographies of operations, becomes a publicly listed company or enters into new lines of business.

All of the developments that I mentioned above are currently happening in a relatively soft insurance

market. Risk managers are planning for the next hard market and considering captive formations to contain costs and truly manage their risks and exposures.

Quinlivan: The key industries that we are hearing from are energy, technology and US healthcare.

Hurricanes and pollution incidents have affected the ability of energy companies to purchase high limits at efficient premiums. Increasingly, there are also concerns that risk is being transferred to entities with weaker balance sheets than the insured entity.

Technology clients are faced with increasingly sophisticated hacking attacks and patent suits. The latter is costing millions each year in legal costs alone, as 'patent trolls' deliberately seek to purchase patents that they believe are being infringed so that they can recover significant damages.

The healthcare industry has experienced an increase in potential liability for compliance with healthcare reform. Increases in potential fines for failure to meet these standards and reduced reimbursements are challenging their operational models and forcing entities to consolidate. There is also a shortage of skilled medical staff, leading to increased competition in the employment market.

US companies are reporting issues with new obligations regarding provision of medical plans to their employees. Many are choosing to be self insured, but then have the challenge of being prepared for larger losses as certain states are regulating the level at which stop loss insurance can apply.

Jones: A major area for future captive growth is the healthcare industry, which in the US is undergoing dynamic and rapid structural change due to implementation PPACA. What we're beginning to see is the consolidation and integration of healthcare systems, hospitals, and perhaps most importantly, physicians.

Traditionally, physicians worked as independent parties who carried privileges to admit patients to a hospital. But they were not employees of the hospital, so often they were called 'community' or 'independent' physicians. They bought their own liability insurance for medical malpractice through various companies, but in many cases from carriers formed by the doctor's state medical society years ago.

What's changing is that due to the financial reimbursement incentives that are built into the healthcare reform law, many of these physicians are now becoming employed by hospitals. Under the law of all US states, once you are an employee, your employer is automatically liable for everything that you do within the scope of employment, so now the physician liability becomes the hospital's problem!

Naturally, this physician liability risk is being placed in the hospital's or healthcare system's captive, so that means that we're seeing these captives grow dramatically in size. I believe that from 2011 to 2012, the gross asset size of Cayman Islands captives almost doubled, in large part due to its being the principal domicile of healthcare captives.

On the other side of the coin, due to these consolidations and merger transactions, the actual number of captives is steady or in fact shrinking, because as hospitals participate in mergers with one another they end up with redundant captives that they close.

Many emerging risks are currently not fully understood by companies. What can captive service providers do to alleviate this problem and help these companies?

Jones: The captive world supports many conferences over the course of the year, so many sessions exist that are essentially educational in nature. Perhaps attending a few is a good way to learn about emerging risks. I think that the role of company risk manager is first to identify a risk to the company and then to determine if there is insurance available in the commercial marketplace. If so, at what cost, and would it be a line of business that would be suitable for at least partially funding in a captive? In some cases, it could be that there is no commercial insurance available for that particular risk, so paying claims out of current cash flow or pre-funding in a captive are the only options.

Bauman: Delivering relevant risk insights and knowledge is one of the most important values a captive services provider can offer to a customer. Helping a client to better understand risk and compliance issues associated with any countries where the captive will operate is a crucial first step in framing an effective captive management strategy. Captive owners need to seek out knowledgeable, preferably global, service providers with the ability to develop solutions to help identify, control and contain local country risks as well as to share in the long-term risk assumption.

Quinlivan: A great number of companies know that they have exposures, but have no idea how to measure their potential impact. This is where Aon's captive management teams work closely with their analytics colleagues to design and plan effective programmes, using the captive as an incubator in which to develop future insurance capacity.

A combination of Aon's industry data and advanced analytics are used to identify the aspects of the emerging risks most likely to cause significant loss, and then to identify the point at which such losses would breach the corporation's key performance indicators (KPIs), such as a drop in earnings per share. Captive programmes are then designed to retain risk up to the point of that breach. Truly catastrophic events are either left self-insured by the parent, or are transferred to the alternative risk finance market.

One of the advantages of funding via a multi-line captive insurance company is that the portfolio of uncorrelated risks helps to remove some volatility from the programme. A poor year in workers' compensation experience will not necessarily directly correlate into losses across other lines.

Haddleton: In our view, captive service providers should be the leaders in educating risk managers and captive owners about the types of emerging risks that may affect their business. At Kane, we see our role as being instrumental in helping to identify emerging risks and to create customised policies to address them and to optimise coverage for the captive. Because we have the benefit of being exposed to numerous clients and their risks, we provide real-time risk information to our clients and prospects.

How essential is an alternative risk vehicle like a captive when it comes to tackling emerging risks? Why are traditional insurers not comfortable with the exposures?

Jones: Here's one example. In about 1990, the commercial insurance marketplace decided that they were not going to write coverage for blood banks any more as HIV liability was perceived as too risky. Some 25 of the community blood banks explored the possibility of putting together a risk retention group (RRG). Due to the rapid development of HIV testing—to such an extent that blood supplies was not actually contaminated or tainted—we put together the RRG, then convinced German reinsurers that this risk was being misunderstood in the market. Today, this group captive continues to insure the liability exposures of about 35 blood bank members. That's a good example of where there was almost no choice but a captive because there was just no commercial insurance available. Also, keep in mind that we've experienced a soft market for the last seven or eight years now. When the market hardens (as inevitably will happen), then everybody runs for a captive.

Haddleton: Captives can be an essential risk management and mitigation tool for emerging risks. Those companies that are more sophisticated have robust risk management frameworks that help their senior managements identify, quantify and mitigate risks to the organisation. A captive provides access to the reinsurance market, which is often the most innovative when it comes to these types of coverage and generally for new lines of coverage.

These types of coverage may not be available in the commercial market, or may be too costly, or severely limited by various exclusions. Captives are therefore critical to emerging risk management because they allow companies to fund for future losses regardless of the uncertainty present in the commercial marketplace.

Generally speaking, most captives are established to write more predictable lines of business such as workers' compensation, medical malpractice and property. It would be very unusual for a captive to be started for the sole purpose of treating emerging risks, as it would likely be very difficult to quantify the risk and premium. This is why, typically, only the more sophisticated and mature captives write such risks.

Utilised properly, however, captives provide an ideal method for funding these risks.

A captive can be used to 'build the bank' for an emerging risk, by limiting the liability to the value of funding to date, in the early years. While this may not meet 'risk transfer' rules for accounting or other purposes, this may not be relevant to the captive owner. What is more relevant is getting their arms around the risk and at the same time both building an insurance fund and protecting assets that are earmarked for other more traditional liabilities of the captive. For example, an environmental clean-up policy might be issued with premiums of $300,000 per annum for three years, with the limits of liability, assuming no claims during those three years, being $300,000 in year one, $600,000 in year two and $900,000 in year three. By year four, the captive is in a position to offer true risk transfer, and the owner is in a better negotiating position when exploring newly developed commercial insurance products for the risk.

Most insurance companies are not able to offer coverage for a certain risk unless there is some certainty on the risk and they can adequately quantify that risk. Most emerging risks do not have significant loss history from which an insurance company can determine expected loss ratios and premium rates. As a known risk develops and becomes more mature, the traditional insurance marketplace begins to underwrite it more broadly.

Bauman: I believe a well-run captive can provide its owner with the flexibility and agility to respond to an emerging risk more rapidly. At the same time, a traditional insurer with a strong captive services perspective and global reach is also likely to be much more comfortable in partnering with a customer facing an emerging risk.

Quinlivan: Traditional insurers look for homogeneity of risk and volume of insureds in order to create a pool of similar exposures to insure. Commercial underwriting is predicated on a carrier's ability to model the risk and develop a pricing structure that will deliver a return on the allocated capital. For emerging risks, this is a challenge, as there is no rearview mirror to assist and the exposures are hard to gauge in terms of scope and potential cost. When a market does start to emerge, capacity is likely to be restricted compared with the client's needs, and subject to coverage restrictions and exclusions.

Captives play a key role in helping new lines of insurance to develop, usually, without the parent corporation taking on additional risk, as there is no possibility of risk transfer anyway. The captive issues a policy designed to cover the applicable occurrence and premiums are estimated on available information. As losses occur, a profile develops and policy wording can be improved. In time, the company is able to demonstrate accurate loss experience to underwriters, allowing development of a true risk transfer product. Typically, successful captives will be seeking catastrophic protection at this stage, which is where the initial commercial appetite is likely to be.

What should captives consider when taking on emerging risks?

Quinlivan: Although insuring through a captive does not necessarily affect the corporate risk profile, it can increase the cost of funding for uninsured exposures. This is because capital will be required to support the programme and losses will be prefunded through payment of premiums. The cash flow impact must be measured against any structural advantages, such as access to reinsurance, portfolio advantages from pooling risks and potential tax advantages if the captive qualifies as an insurance company in the eyes of the tax authorities.

Another consideration is the capacity of the captive to bear a loss. Emerging risks are hard to measure, so it is possible that losses could greatly exceed available funds. As long as it is understood that the parent may still have to fund some of the losses, this is not a problem. However, if emerging risks of third parties are included, such as subcontractors, it is vital to understand the worst-case scenario, ie, is any additional income generated sufficient to justify taking on the exposures.

Bauman: Captives should consider moving into emerging risk with the best possible data, solid insights into the nature of the risk and an incremental step-up plan. Additionally, captives should consider having a good balance of diversified risks, which can include the emerging risks. However, in any risk management scenario addressing an emerging risk, it's important to have some top-end, integrated protection to limit catastrophic and/or adverse, clustered occurrences.

Haddleton: Captives should develop a comprehensive, business enterprise-risk management plan to identify the emerging risk they face. This should encompass how best to deploy capital to mitigate the risk through the purchase of insurance, self-insurance, or changes in business strategy.

As with any new line of business, it is essential not to expose years of prudent captive operations to the potential of a large shock loss. A company must quantify the risk that it is planning to assume, and consciously determine whether it is best to keep it within the captive structure or to transfer it to the traditional market. This quantification exercise can be very difficult when there is a lack of loss data.

Jones: Public companies should consider if the level of risk retention being considered might affect their share price. This is not just the reality, but how the increased exposure to company profits will be perceived by securities analysts. Assuming a comfortable amount of risk retention compared to risk transferred to the commercial markets, however, this issue should be manageable. A second issue is whether the type of risk is considered to be 'insurance' risk or 'business' risk by the IRS in the US. Only the former qualifies for insurance tax benefits in the eyes of the IRS.

What sort of role can reinsurers play in helping to cover these risks?

Haddleton: The reinsurance market remains very competitive across most lines of quantifiable risks. Reinsurers may be able to assist by including elements of emerging risks in lieu of premium reductions, especially when minimum premium levels have been reached.

In addition, reinsurers can help with modeling for major events by working with governments and the scientific community to quantify the risk. Individual businesses typically lack the resources to accomplish this on their own.

Quinlivan: If the commercial market has no appetite for an emerging risk, there might be pockets of related exposure that are not so concerning. An example of this is where a captive issues a manuscript policy to cover all of the exposures that are desired, and then approaches the reinsurance market to see if there is protection for any of the perils after a significant retention. This can ensure that some protection is in place, even if the whole programme cannot be reinsured. One example of this is where a manufacturing company could only sell its product to its vendor if it gave wide guarantees of performance. No underwriter was prepared to issue cover that would meet the contract terms. In this instance, its captive tailored a policy and reinsured the more standard exposures to the marketplace.

Another role for reinsurers is creation of integrated risk programmes—these attach at a high level, providing protection across several lines, and sometimes for multiple years. At these attachment points, the risk is less related to the underlying policy terms and more related to the financial performance of the parent entity, so different underwriting techniques are utilised.

Jones: They are crucial because in general emerging risks tend to be of a high severity and low frequency nature, meaning they are serious risks that don't happen very often but when they do they cost a lot of money. And so you almost necessarily have to have commercial reinsurers as part of the programme so that the captive will respond up to some limit, then there would be a stop loss or other excess policy that would step in. Of course, many companies have no coverage whatsoever for these emerging risks, so one might speculate that some coverage is better than none.

Bauman: Reinsurers have a role to play, but I would suggest working with a strong captive services provider rather than simple reinsurance. The insured's captive could then quota share an emerging risk with a financially strong insurance carrier sharing the same long-term goals toward mutual success.

How has the rise of the internet and progression of technology added new risks? On the flip side, how are they helping to solve the problem?

Haddleton: Electronic record keeping is an essential component of risk management. The use of electronic medical records in healthcare elevates associated risks because they are intended to help mitigate potential medical errors and aid in the reporting and risk identification process. Stringent controls are required to avoid the unintended release of such confidential information. The costs and consequences associated with such data breaches can be extremely large.

Furthermore, globalisation is changing the business model, and the demand for goods and services. Many companies are just reacting trying to keep up with the demand. New technologies are helping meet the demands of a changing planet (both demographic and environmental), but at the same time are posing new threats and exposures. Companies that have embraced social media, for example, have possibly exposed themselves by not clearly defining clear usage policies. Also, companies using nanotechnologies have created new environmental threats. Use of cloud computing and new platforms for IT has also created exposure from cyber threats.

The collection, use and management of data are incredibly important in our present day society, and they create risks for all of us. When used properly, data can prove very useful from a risk management perspective.

Increased information on reported losses helps risk managers better document existing risk exposures and plan future insurance spend more efficiently. In the case of the medical community, the early identification of potential claims can lead to a speedier resolution of incidents that may give rise to a claim, which also helps to drive down the overall cost of risk.

Quinlivan: The speed with which information can be transmitted has created expectations of immediate results, which, in turn, has led to fickle customers. If a corporation fails to fulfill an order by return, the choice of alternate suppliers is plentiful and only one click away. This has increased the need to reduce outages and the requirement for more increased cost of working cover, rather than traditional insurance.

Increasing reliance on independent developers for creation of applications or providing technical support can expose organisations to many risks, including errors and omissions and reputational damage. Managing these independent contractors in order to minimise exposure is challenging, especially as most will not be able to provide their own insurance protection.

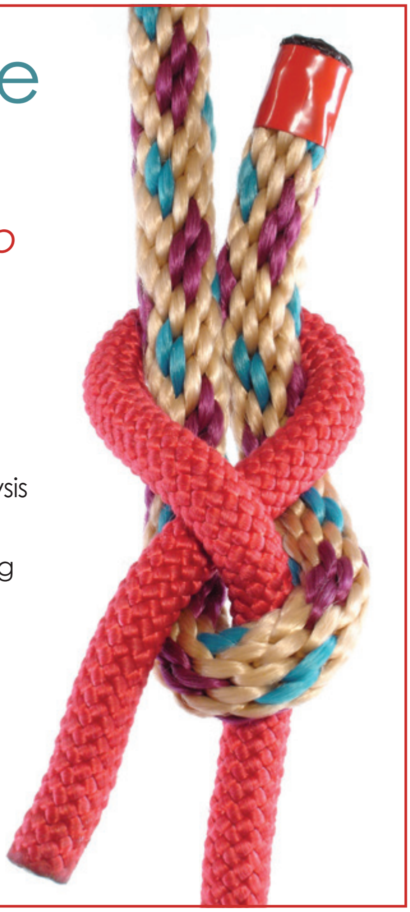
Defamation, brand damage and loss or reputation can occur instantaneously. The necessity to control what is released into social media, or to have pre-planned public relations responses is essential.

On the positive side, the creativity of internet and technology stakeholders has led to many solutions to help to prevent losses, both traditional and non-traditional. For example, the ability to share experiences and identify emerging trends is key to the development of early solutions.

Bauman: The progression of technology, including the proliferation of the internet, has helped to secure better, faster and more manageable data around all sorts of risks and exposures. Ready access to information enhances our ability to evaluate, control and contain risks, and allows more opportunity or better planning for decisions aimed at risk assumption or distribution.

At the same time, however, the progression of technology has had the effect of condensing the time horizons to respond to emerging risks. This can require much greater agility to more quickly evaluate risks in order to effectively control and contain them.

Jones: I think in terms of the solution side of technology, the ability to data mine, have access to more information for modeling purposes and to correlate numbers quicker, speeds up the whole cycle in terms of underwriting. So now you can have detailed information on a global basis at your fingertips. Of course, the ongoing challenge is intelligently interpreting and applying this information to improve accuracy of predictions. It's far too early to know the extent to which this newfound wealth of data will actually be used effectively. **CIT**



Learning the craft

Education continues long into a career. CIT finds out about the International Center for Captive Insurance Education from executive director Mitch Cantor

JENNA JONES REPORTS

When and why was the ICCIE formed?

The official launch date was in August 2004, with our initial course offerings beginning a month later. But the genesis of the International Center for Captive Insurance Education (ICCIE) goes back to the beginning of the last decade, when a number of captive insurance professionals—noting the lack of a formal training programme and professional designation for the industry—banded together to begin the process of overcoming this shortcoming. The effort was spearheaded and initially funded by the Vermont Captive Insurance Association, but the intent was, and always has been, to serve as a programme for the risk management industry everywhere, for both onshore and offshore domiciles and to provide these services to people around the world.

Now in our ninth year, we have had nearly 1000 enrollments, with students coming from almost every state in the US and nearly two dozen other countries and territories, including, of course, Bermuda and the Cayman Islands, but also the UK, Switzerland, Dubai, Jordan, Malta, Singapore, Canada, Mexico, China, India, and many others. And we're proud to note that we also have board and faculty members from many different onshore and offshore domiciles—to ensure that ICCIE is truly representing the international captive industry.

Last year was recorded as the ICCIE's best year since its launch. How has the company grown since its inception?

Success is measured in several ways. The ICCIE needs to provide high-quality educational programmes at an affordable price; it also must address the current needs of the industry. And, at the same time, it needs to be financially viable. By all of these measures, 2012 was a landmark year. Still, we can always provide more offerings, attract more students, and continue to strengthen our internal structure. To that end, there is plenty of work to do. And there are still huge potential student pools that are relatively untapped.

But the most encouraging indication is that the ICCIE has become ingrained in the fabric of the captive industry and the general risk management industry. It's essential for the success of the programme to have the support from a wide range of geographic and industry sectors. In the first few years, we often saw passive support. Recently, what we are seeing is more active, and that is exciting.

Is it important to provide the industry with extra education and training?

If you talk to almost anyone in the industry, there is solid agreement that there needs to be a higher level of training among those in the industry. Captive managers, captive board members, and others servicing the industry—investment advisors, actuaries, attorneys, and so on—all seem to concur that the bar can, and should be raised. That has to be balanced against the fact that people in the captive industry are extremely busy and pressed for time, and having them participate in additional education means a time tradeoff.

It's vital that the Associate in Captive Insurance (ACI) designation represents a good value and a good use of employee time. So far, the people who have gone through the programme have given it a very strong thumbs-up.

Also, this is an industry that changes quickly. The landscape today looks very different from the captive industry of 10 years ago. Those who don't keep up with current trends and developments are quickly left behind. That's why we're always updating our courses, developing new ones, and offering 'hot topic' seminars to be sure that we are giving people the opportunity to stay ahead of the industry curve.

The ICCIE was present at this year's CICA conference. How important are conferences in promoting the centre's message?

The conferences are very important to spread the word about the ICCIE and the ACI designation. People don't rush in to our programme; it's usually a decision people make after many exposures to the programme, either through web blasts, hearing about it from colleagues, reading about it in articles and/or press releases, and being exposed to it at conferences. All of these elements are part of the mix that brings people to the ICCIE.

At conferences, not only are people exposed to the ICCIE via seminars that we stream online and podium time that is afforded to me, but people often get to see individuals receive their ACI diplomas, and that has a powerful effect. People can see themselves achieving the same accomplishment.

Also, the conferences have done much to bind us to the different domiciles and industry segments. We have had cooperative agreements with nearly all the

domicile organisations, and that linkage has been a cornerstone of our mutually beneficial relationships.

How do you develop the syllabus of a particular course? How reactive are they to industry events?

There are several ways that our courses are developed. Sometimes we internally generate the topic, and sometimes someone comes to us with a proposal. But, in any case, all of our courses and webinars (and instructors) are vetted by a panel of professionals serving as our curriculum committee. Because the people who populate this committee are full-time professionals working in the captive industry, they have a pretty good finger on the pulse of what is of interest to potential course participants.

That being said, we often field ideas generated from outside our organisation, so it doesn't feel like we're completely insulated. It's a good mix of feeling connected yet being open to input from the outside.

How are ICCIE courses taught?

All of our courses are taught online. We initially offered face-to-face courses, too (and still do, occasionally), but our audience has spoken loud and clear: there is an undisputed preference for online offerings, so we are very careful about the face-to-face courses we offer.

One of the wonderful things about the structure of the ACI programme is its flexibility. Every course is completely self-contained and doesn't require knowledge from any of the other courses. This means that the courses can be taken in any order, which is very convenient for those going through the programme. Also, matriculates can start and stop the programme to accommodate personal or professional time crunches that they may have. For example, people often do a course or two, disappear for six months, then jump right back in.

And finally, since the courses are taught online, students can keep up their course schedule while they are traveling. As long as they have access to a telephone and the internet (or even only one or the other), they can complete our webinars 'live' and participate as if in a classroom. The feedback from our students has been strongly supportive of the interactive component of our courses.

Who are your target students?

There is a huge pool of people who would benefit greatly from obtaining our designation or at least taking individual courses. The most obvious candidates are those who work full-time or predominantly in the captive arena on a day-to-day basis: captive insurance management firm employees; regulators in the captive industry; and those who sell their services to the captive owners and managers, including actuaries, investment advisors and attorneys. Many of these people are individuals who are clearly experts in their one area of the captive industry but who don't necessarily have a great understanding of the rest of the industry—the big picture, so to speak. Unquestionably, having an understanding of the complete industry helps them to do their jobs better and to sell their services.

Captive board members certainly need to understand how their industry works. I am told often that there is glaring inadequacy in the captive board member knowledge base, and we are continuing to work to reach these individuals as well.

Beyond that, there are many in the broader risk management world who would benefit greatly by understanding captives simply because they represent another tool in the risk management toolbox. Even companies that do not have a captive and have not yet committed to one need to understand them to know if a captive might represent a good option for them. The ICCIE programme is an excellent, cost-effective way to get a solid baseline understanding of the industry.

How does the ICCIE selection process for instructors work?

As with the ICCIE courses, our instructors are vetted through our curriculum committee. Our instructor pool is one of our most valuable assets—many of the top participants in the industry have lent their expertise to teach ICCIE courses, and students have let us know that their access to these terrific individuals is one of the high points of the programme. We are extremely grateful to all those who have taught for the ICCIE—our faculty have been stellar. CIT

Mitch Cantor
Executive director
ICCIE

Count on more

Michael Luderer of Severn Consultancy UK looks at why the number of regulators is increasing, and how captives should deal with the consequences

As everyone in the financial services industry is no doubt aware, 1 April saw the advent of a new era of regulatory reporting as the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) took over from the UK Financial Services Authority (FSA). For the captive insurance industry, the regulatory environment in the insurance sector is challenging enough already, but under the new regime it's going to get a whole lot tougher.

So little is known about how the FCA and PRA are going to go about their business that it is almost impossible for risk and compliance specialists to hazard any kind of guess about the scale of additional reporting requirements they are likely to face. But think the worst and double it seems to be the consensus.

The situation is bad enough already, of course. Even if you leave aside the long-rumbling issue of Solvency II, the regulators and Lloyd's request data from so many different departments and functions that it's hard to keep track. Even though most requests are typically channelled through compliance or risk specialists, too often the people involved are simply overwhelmed. They end up operating like postmen, furiously sending out regulators' demands for information in the hope that the recipients will be in a position to handle them.

One thing that is certain about the formation of the FCA and PRA is that information sharing between the two bodies will be the norm. Of course, the captive insurance industry has to deal with regulators communicating with each other already, but this will increase significantly with the FCA and PRA. This will reinforce the imperative for absolute consistency when responding to information requests from the regulators. It will also demand a much more streamlined and coordinated approach to the way captive insurance companies manage both their internal communication and external interaction with the regulators.

Most companies currently deploy a reactive, de-centralised approach to respond to regulators' data requests. This tends to involve risk or compliance managers, in particular, passing on these requests to the relevant department or specialist. This has seldom been a terribly satisfactory way of handling the process because it is prone to error, few have a 'big picture view' of what is going on and risk managers tend to be overwhelmed by what they see as a low-level administrative task.

With the arrival of the FCA and the PRA and a general stepping up of regulatory pressure on the insurance sector, there is a growing risk that under the current model of regulation management, sooner or later someone is going to make a big mistake. It could happen so easily. A slight miscommunication between the capital modelling team and someone in group finance about a regulator's query into some financial data provided to them a couple of years earlier by an employee who has since left the company would be all it took. The wrong (or simply inconsistent) data is supplied, the regulator gets heavy and suddenly there's trouble. And it could be big trouble in a highly competitive international market where no company can afford to gamble with its reputation. This is a genuine danger when responses to regulators are run through silos, rather than being properly managed and coordinated across the company.

But there are countless other risks with this post-room approach to regulator relationships and communications management. Good risk and compliance managers are hard to come by, and if they think they are spending their time farming out a seemingly never ending stream of information requests from regulators rather than actually doing their proper job of managing risk, then they are not likely to hang around for long. There is, of course, a world of difference between being compliant and managing risk.

There is also the problem of key people or teams having to drop what they are doing to deal with complex and sudden information requests from regulators. Sometimes the timing of these demands can be excruciatingly bad, such as a critical moment in a change management project, when a regulatory deadline looms or preparations for the year end are reaching their peak. With nobody in overall charge of the process or managing the day-to-day relationship with regulators, there is little or no scope for negotiated flexibility and nobody is empowered to seek out an alternative source within the company to respond to the regulator's request.

The current ad hoc approach to regulation management within both the captive insurance industry and the broader insurance sector is clearly fraught with potential operational problems and risks. It's also inefficient and costly because there is no overall control over who is doing what and there will inevitably be duplication. Are the right people with the right skills and access to appropriate data being used? What about quality control? This is another problem area because compliance and risk specialists cannot possibly underwrite the quality of information they give to the regulators if they don't fully understand the function where it came from or how precisely it was produced. And with the best will in the world, risk managers cannot have a detailed knowledge of all the activities within a captive insurance company that the regulators may want to probe.

And does anyone have a complete picture of all work in progress regarding responses to regulator information requests? Is there a project management system for keeping track of everything that's going on? 'Probably not' would be the answer to both questions.

So in a nutshell, this tactical, post-room approach to regulation interaction and compliance is expensive, inefficient, demotivating for key people, and distinctly risky. It also has the potential to damage a captive insurance company's relationship with regulators, which would almost inevitably result in closer scrutiny, more demands, less flexibility and much more work and costs for anyone on the receiving end.

With regulation and the number of regulators bearing down on the insurance industry very likely to increase over the next decade, clear indications from the very top of the FSA that its style of engagement will change, and the substantial requirements of Solvency II set to dominate the next few years, this current ad hoc approach is costly and unsustainable.

What's needed is an alternative that can not only resolve all these issues, but would also give captive insurance companies the opportunity to build effective working relationships with multiple authorities, based on better day-to-day communications, mutual understanding and pragmatism.

This is the thinking behind the idea of a dedicated, centralised regulatory office (RO) to manage the corporate relationship with authorities and at the same time control and supervise all responses to requests for information. The RO will project manage the delivery of data to the regulators and guarantee its quality, accuracy and consistency.

At the same time, the RO will be responsible for building a working relationship with all the regulators and developing a detailed understanding of the regulatory environment both now and into the future. Mutual understanding is a wonderful thing in this field. It opens the door to discreet compromises and pragmatic solutions to problems that might otherwise be closed.

Inside knowledge of what is really going on at the regulators is helpful too. It will allow the RO the opportunity to plan, to direct resources where they are likely to be most required and to work out the most cost-effective way of delivering what the regulators will be demanding, not just today, but tomorrow too. Importantly, it would also be able to manage the critical issue of training staff, both up and down the organisation, and identify and implement business process improvement initiatives.

The RO will also be in a strong position to de-risk the whole issue of regulator communications and management, which is quite impossible under the post-room approach. Enterprise risk management best practice, supporting technology and effective project management underpinned by current regulatory intelligence would all play a part in driving cost efficiencies in the process.

It would also create a robust platform to enable any insurance company to run its business as normal and focus on growth without sudden disruption, no matter what the regulators throw at them in the future. And let's be clear: that could be a great deal.

Sounds expensive? Far from it, actually. Given the way most insurance companies currently run their regulatory interaction and responses, with its attendant duplication, misuse of valuable human resources and lack of planning, the return on investment through the creation of an RO will be fast and very transparent.

Nobody ever said that it's easy dealing with regulators. They are powerful and in the ascendancy in the current climate. They too suffer from poor management sometimes and there always has been a high staff churn at many of them. And very often, even they cannot tell which way the regulatory wind is going to blow.

But the closer you get to them, the better you understand them and the way they work, particularly now they have publicly stated their intention to operate in a new way. This is crucial and it comes through intense, day-to-day relationship building between individuals and is a very different proposition from the occasional backslapping 'regulator relations PR' that many companies misconstrue as doing the same job.

A proper working relationship can really only be achieved by creating a centralised RO within your company. How else do you develop a proper knowledge base enabling you to make informed decisions about the most cost effective and efficient way of dealing with the regulators' demands?

Leaving aside all the compelling financial and operational benefits of creating a centralised RO, there's one final point worth making. What would your parent company's shareholders think if they knew the reputational risks you are taking by running a totally ad hoc, reactive, unmanaged approach to dealing with regulators? In the final analysis, this all boils down to shareholder value at risk because there is a vibrant relationship between a company's reputation and its share price.CIT

Michael Luderer
Managing director
Severn Consultancy UK

2013

03 March

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DCIA 2013 Spring Forum

Location: Delaware
Date: 13-14 May 2013
www.delawarecaptive.org

Join captive owners, prospective captive owners, regulators and key service providers for the only educational and networking event for the first half of 2013 organised specifically for those interested in doing business in the Delaware captive insurance domicile. The event will feature a special 'open house' session intended to educate industry stakeholders about the domicile's quality and versatility.

04 April

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Captives and Corporate Insurance Strategies Summit

Location: Toronto
Date: 22-23 May 2013
www.captivesinsurance.com

This summit is the only forum dedicated to providing Canadian risk managers and captive owners with the business intelligence they need to maximise the effectiveness of their corporate and captive insurance programmes.

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Airmic Conference 2013

Location: Brighton
Date: 10-12 June 2013
www.airmicconference2013.com

From 10-12 June 2013, the Airmic Conference 2013 will open its doors to over 800 UK industry buyers and sellers of the insurance market seeking to keep up-to-date with trends, discover new service providers, learn and network with their peers, and be inspired by our keynote speakers.

06 June

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Western Region Captive Insurance Conference

Location: Arizona
Date: 10-12 June 2013
www.westerncaptiveconference.org

The Western Region Captive Insurance Conference is the perfect source to gain understanding by interactions with the regulators from Arizona, Missouri and Utah, experts from all segments of the captive industry and owners and managers of captives and RRGs. The conference caters to those who are both new and old to the captive industry detailing what works and what is important to the industry. Join us as an attendee, session speaker or exhibitor!

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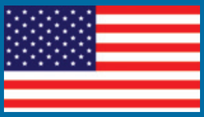

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Industry appointments

Alvarez & Marsal has appointed **John Capasso** as a senior director to lead the captive risk management division within the firm's insurance advisory services practice. He will be based in New York.

Prior to joining Alvarez & Marsal, Capasso held the role of managing director of Captive Planning Associates—a captive management firm that he founded, where he provided alternative risk solutions to middle-market privately held businesses.

Capasso is also a member of the Captive Insurance Companies Association and the Delaware Captive Association, where he serves on the board of directors and its legislative committee.

Alvarez & Marsal also appointed **Thomas Mulhare** as managing director of its insurance advisory services and **Rudy Dimmling**, based in New York, and **Patrick Hughes**, based in Chicago, as senior directors.

Jim McDermott, managing director and head of Alvarez & Marsal insurance advisory services, said: "Clients have been increasingly looking to us for guidance. Expanding our dedicated insurance advisory practice is a natural next step in Alvarez & Marsal's evolution."

"Our operational heritage positions us to provide unmatched advisory and interim management services across the insurance industry spectrum and company lifecycle."

The Self-Insurance Institute of America (SIIA) has formed a new government relations team to be based in Washington DC.

Chris Condeluci has been named as the association's Washington counsel. Reporting to COO Mike Ferguson, he will manage relationships with members of congress and key federal regulators consistent with SIIA's policy priorities.

Previously, Condeluci was a tax and benefits counsel to the Senate Finance Committee, where he was directly involved in the drafting process of the US Affordable Care Act.

Also added to the team is former US congressman **Bart Stupak**. He was a Democrat member of US Congress for 18 years and served on the House Energy and Commerce Committee for 16 years.

Congressman Stupak will serve as special counsel to SIIA.

Lastly, **Kevin McKenney** has joined the team as government relations coordinator and will have multiple responsibilities related to SIIA's political action committee, grassroots coordination, coalition management, monitoring of state legislative developments and membership communications. He was most recently a professional staff member for US Senator Joseph Lieberman.

The National Insurance Producer Registry (NIPR) board of directors has re-elected New Hampshire insurance commissioner, **Roger Sevigny**, as president.

The NIPR—incorporated in October 1996—is a non-profit affiliate of the National Association of Insurance Commissioners (NAIC).

It is governed by a board of directors that includes seven members representing the NAIC and six industry members representing a cross-section of the insurance industry.

Sevigny has been a member of the NIPR board since 2007 and served as president since May 2012. He is a past president of the NAIC and also serves as chair of the Interstate Insurance Product Regulation Commission.

Maryellen Waggoner, NIPR executive director, said: "Sevigny is a leader in insurance regulation and we are pleased to have his continued leadership as NIPR realises its vision of one-stop shopping. With the board's support, NIPR continues to focus on being the technological innovator in producer licensing."

John Fielding, who represents the Council of Insurance Agents and Brokers, was elected vice president. **Sharon Clark** was also re-elected as secretary/treasurer.

Hiscox Bermuda has expanded its US property catastrophe team with the appointment of **Bill Lazzaro** as vice president of underwriting.

Reporting to Bevis Tetlow, senior vice president at Hiscox Bermuda, Lazzaro joins from Aon Benfield where he held a variety of roles over the last nine years, most recently leading reinsurance placement teams with a focus on property treaty reinsurance for US clients.

Lazzaro said of his appointment: "Coming from a broking background I am well aware of what sets the high quality reinsurers apart from the competition in this changing marketplace. To stay relevant, reinsurers must adapt and offer not only competitive risk transfer products but real innovation in terms of risk analysis and the ability to offer alternative products in partnership with the capital markets for example."

"Hiscox Bermuda has built on its London heritage to quickly become a major player in the US property catastrophe market and I am looking forward to contributing to its current and future success." **CIT**

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Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row
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