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In this issue

Reinsurance Collateral Trusts

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

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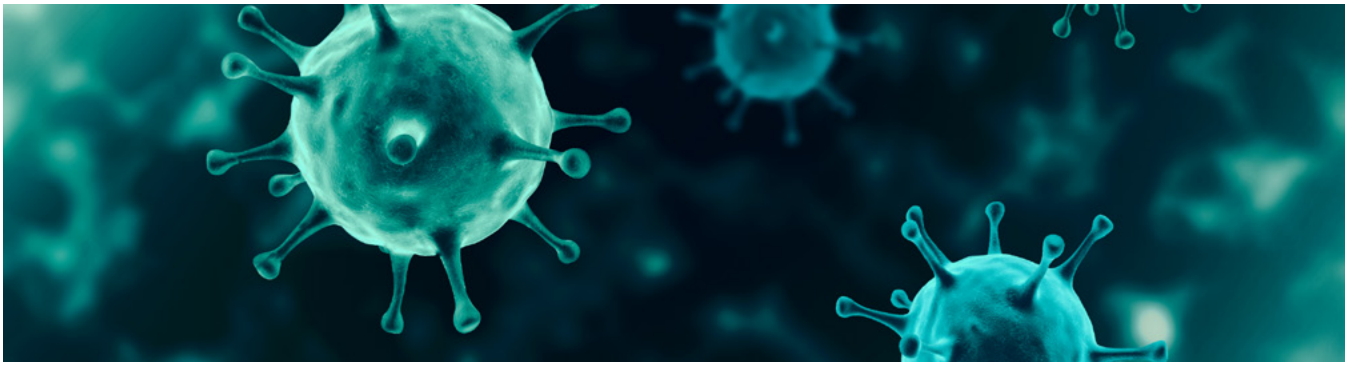

SIIA advocated for captive participation in the Pandemic Risk Insurance Act

The Self-Insurance Institute of America (SIIA) advocated for the Pandemic Risk Insurance Act of 2020 (PRIA) to include captive insurance participation in its early stages, according to Ryan Work, vice president of government relations for SIIA.

In April, Work sent a letter addressed to Maxine Waters, a US representative for California's 43rd congressional district and chairwoman of House Financial Services on the proposal to create a pandemic risk reinsurance pool.

In his letter, he outlined that SIIA supported a federal framework for a pandemic risk insurance programme that would create a risk-sharing model similar to Terrorism Risk Insurance Pool (TRIP) that is between policyholders, insurers and the federal government.

He said: "Also, as with TRIP, SIIA supports a PRIA model enabling captive insurance companies to have access (along with the commercial insurance companies)."

Work explained the functions of a captive insurance company and highlighted that "the flexibility of captives is important, as a one-size-fits-all approach does not oftentimes work for the complex risk management needs for a captive owner."

He noted: "In the case of captive insurance, policyholders would be responsible for losses up to a specific deductible."

"A captive insurance programme would then provide business interruption coverage beyond that to a certain threshold, with the federal government offering an overall financial backstop", he continued.

However, Work stated that "the creation of a pandemic risk pool would create a needed market for pandemic risk coverage, capping the total insurance losses that insurance companies, including captive insurers, would face".

Recently, the PRIA bill was introduced by Carolyn Maloney, US representative for New York's 12th congressional district and a senior member of the House Financial Services Committee, alongside several stakeholders.

The aim of the legislation is to create a programme that will cover losses and protect the US economy in anticipation of a resurgence of COVID-19 and future pandemics.

Commenting on the introduction of PRIA, Work said: "SIIA is pleased to see the inclusion of captive insurance as an option in the PRIA proposal, and applauds Congress for taking the first step towards the creation of a needed pandemic reinsurance programme."

He highlighted that "much like TRIA, PRIA would ensure coverage for a number of unique coverage situations made apparent during the COVID-19 pandemic. Since the beginning of policy discussion on this proposal earlier this spring, SIIA has advocated for both its creation and the ability of captive participation".

"We appreciate Maloney's leadership on this and will continue to support legislative efforts to this effect," he noted.

Work added: "More importantly, the creation of PRIA would allow American businesses access to needed risk protection for future pandemics. As we have seen time and time again, many businesses are already utilising captives to deal with claims directly related to COVID-19, even now, something that will be even more important to consider in future potential disruptive events to the business supply chain and customers in general." ■

Willis Towers Watson launch group captive solution

Willis Towers Watson (WTW) has launched the Homestead Insurance Company Incorporated Cell (Homestead), a group captive solution designed for upper middle-market companies.

Homestead will reinsure The Hartford, which will issue admitted insurance policies to members selected for this group programme.

The programme aims to provide companies with a better and more cost-efficient way to purchase insurance over a five-to-10-year period while eliminating the peaks and valleys of the standard market and giving members ownership of their underwriting profit otherwise retained by an insurance company.

According to WTW, an individual member's results will be directly related to its loss performance along with the group's shared experience collectively.

Homestead said it will offer "value to its members" through up-front premiums that should be competitive with traditional market programmes and long-term cost that will be significantly lower than traditional programmes if members maintain good loss experience.

The programme also aims to provide opportunities for additional savings through dividends, greater impact and efficiency in the handling of claims, and control over all administrative decisions of the group programme.

Homestead will add value by providing true insurance for adverse losses from The Hartford, avoiding the cost and time commitment involved in either a single-parent captive or traditional group programme.

Jim O'Connor, head of middle market and specialty broking, WTW, said: "I'm thrilled to expand on our current middle market solutions with Homestead."

O'Connor added: "Homestead is another valuable risk transfer option, in addition to our industry-specific Differentiated Broking Solutions strategy, that provides unique advantages to our clients beyond standard risk transfer."

"We're excited to partner with Willis Towers Watson on this captive solution," said Mo Tooker, head of middle and large commercial at The Hartford.

"We understand the needs of midsize businesses and how critical it is to take a flexible and consistent approach in managing risk to create better economic outcomes for clients," Tooker noted. ■

Artex launches new transportation rent-a-captive

Artex is set to launch a new alternative risk programme designed for the transportation industry. The new rent-a-captive, Transportation Owners Protection Insurance Cell (TOPIC), will offer the advantages of captive ownership but with the ease of renting, according to Artex.

Artex suggested that advantages include the potential return of underwriting profit, as well as unbundled claims handling, loss control and claims advocacy services.

TOPIC coverage include workers compensation, commercial auto and general liability, with a minimum annual premium of $250,000 for all lines.

It was noted that dry van, refrigerated goods, grain and agricultural products, flatbed operations, and sand and gravel exposures are excellent candidates for TOPIC.

Martin Hughes, executive vice president of underwriting at Artex, commented: "The transportation industry is facing a number of challenges, ranging from restricted insurer capacity, expanded regulations and driver shortages, to name just a few."

He added: "Our clients are looking for expanded alternative risk options to service their insurance needs. TOPIC provides for the addition of a rent-a-captive solution, which combined with other Artex products, further rounds out the range of solutions available to the transportation industry." ■

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DIFC sees 'sustained performance' in reinsurance sector

The Dubai International Financial Centre (DIFC), a financial hub for the Middle East, Africa and South Asia markets (MEASA), has revealed the region has seen a sustained performance in its reinsurance sector. The DIFC outlined that in 2019, the reinsurance sector grew by 17.4 percent, which represents the highest volume of premiums ever written in the market. It explained that this reinforces the "centre's position as the leading reinsurance hub in the region".

Additionally, the DIFC confirmed that gross written premiums (GWP) for Q1 2020 reached $472 million, on par with the same period during Q1 2019, which reflects the industry continued "stability and resilience".

The premiums cover different areas including marine, aviation, transport, health, property damage and liability, alongside other sectors. This growth was characterised by reinsurers, coverholders, managing general agents, and reinsurance brokers prioritising DIFC's business environment over other global financial centres to gain access to the MEASA region.

There are now more than 100 registered insurance, reinsurance, captive firms and insurance-related entities serving the market, including three of the top five global insurance companies. At the end of 2019, Dubai had a total of two captives.

The centre has welcomed companies including Munich Re, Lloyd's, Berkshire Hathaway Specialty, RGA, Korean Re, AIG, Zurich, Marsh, and Aon.

As part of DIFC's vision to shape the future of finance, insurtech is transforming the industry through developments through digitalisation, innovation and collaboration. Insurtech pioneers now represent a total of 10 insurance-related institutions registered at the centre.

Start-ups are able to collaborate with insurance and reinsurance leaders to deliver solutions that address the growing requirements for the future insurance industry including AIG, AXA Gulf, Cigna Insurance Middle East, Insurance House, MetLife, Noor Takaful (Ethical Insurance) and Zurich Insurance Company.

DIFC said it plans to attract further reinsurers from Europe and Asia to increase the centre's capacity, and provide an international platform to regional players for their global benchmarking growth plans. Memorandum of understanding's (MoUs) has been signed with Lloyd's, as well as UK-headquartered Chartered Insurance Institute (CII) to develop talent within the local insurance and reinsurance landscape in line with international best practice.

Commenting on the performance, Arif Amiri, CEO, DIFC Authority, said: "Our strong performance in [the] reinsurance sector in Q1 2020 and throughout 2019 stems from our long-standing commitment to the sector. Whilst providing the most proven legal and regulatory frameworks for insurance and reinsurance leaders in the region, our approach also allows insurtech start-ups to collaborate with top reinsurance leaders in DIFC to address tomorrow's requirements."

"As part of our focus on shaping the future of finance, we are embracing digitalisation, collaboration and talent which can deliver large-scale changes in the sector and create the next generation of financial services professionals."

"This is especially important as the insurance sector continues to evolve which requires us to be in a position to meet the industry's evolving requirements, underlining our commitment to leading reinsurance sector growth in the region," he added.

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R&Q acquires NationsBuilders Insurance captive

Randall & Quilter Investment Holdings' wholly-owned Vermont subsidiary ICDC has entered into a stock purchase agreement to acquire NationsBuilders Insurance Company (NBIC), a Washington DC-domiciled captive from NationsBuilders Insurance Services (NBIS).

The transaction is subject to customary closing conditions and regulatory approval in Washington DC and Vermont.

NBIC participated as a reinsurer of the business underwritten by its parent, NBIS on casualty exposures including worker's compensation, general liability, auto liability and inland marine until it went into run-off in 2019.

The sale of NBIC provides full finality for NBIS.

Commenting on the acquisition, Paul Corver, group head of mergers and acquisitions at R&Q, said: "We are delighted to have agreed [to] terms on which we will acquire NBIC."

He continued: "While this transaction remains subject to regulatory approval and normal closing conditions, our track record in executing captive acquisitions in the US, with our Vermont-based acquisition vehicle gives counterparties confidence in our ability to complete transactions in a timely manner."

"We have enjoyed working with NBIS and Piper Sandler to find a finality solution for NBIS's captive operations. More broadly, we continue to see a growing number of opportunities with respect to captive insurers as captive owners seek full finality solutions to free trapped capital – a trend we expect to continue regardless of the continuing disruption caused by the COVID-19 lockdown," Cover added. ■

Cayman International Insurance cancels December forum

Cayman International Insurance has cancelled the Cayman Captive Forum due to uncertainty around the COVID-19 pandemic, economic downturn, border closures, and current state of the hospitality industry on the island.

The conference was scheduled for 1 to 3 December at the Ritz-Carlton, Grand Cayman.

In the statement, Cayman International Insurance noted that they are working to provide content to the Insurance Managers Association of Cayman (IMAC) members and others in the form of webinars or virtual events later this year.

It was noted that once these events take shape, they'll reach out with more information.

The IMAC said that they are grateful for all the speaker submissions they have received to date.

Cayman International Insurance said: "Many thanks for all the speaker submissions received to date. Please continue to send these in if you are willing to deliver these as webinars or virtual events - which provide greater opportunity for Q&A."

The final speaker selection and agenda is expected to be available in September 2020. ■

‘Excellent’ ratings for Waste Management’s captive

A.M. Best has affirmed the financial strength rating of A- (Excellent) and the long-term issuer credit rating of “a-” of National Guaranty Insurance Company of Vermont (NGIC), based in Burlington, Vermont. The outlook of these credit ratings remains stable.

A.M. Best noted that the ratings reflect NGIC’s balance sheet strength, which they categorised as very strong, as well as its strong operating performance, limited business profile and appropriate enterprise risk management.

The ratings support NGIC’s role as a captive insurance company of Waste Management (WM), a provider of comprehensive waste management environmental services in North America.

A.M. Best explained that the captive benefits from the parental support and robust risk management strategies afforded to it from WM as important factors of the company’s overall financial assurance programme. The active risk management has benefited capitalisation through loss prevention to generate consistently positive earnings.

“Partially offsetting these factors is the large percentage of policyholder surplus loaned back to WM in the form of a 24-hour demand note that has caused liquidity measures to underperform its peers” the rating firm outlined.

“This factor is mitigated partially by WM’s balance sheet size and operating cash flow, which could fulfil the loan obligation readily if required. Capital levels also are monitored by the Vermont Department of Financial Regulation, which requires the company to maintain a certain aggregate exposure to capital ratio,” A.M. Best added.

The ratings also noted that NGIC’s expense ratio compares unfavourably with the surplus lines composite due to the nature of the financial assurance line of business and expenses focused on risk mitigation.

However, A.M. Best suggested the company has been able to reduce underwriting expenses significantly over the past five years to further benefit operating and net income.

Due to the nature of the relationship between NGIC and WM, changes in WM’s credit risk can have an impact on NGIC’s ratings, as it is dependent on WM’s ability to support its credit risk profile, competitiveness and risk management.

The captive continues to be an integral component of WM’s risk management platform, according to A.M. Best.

A.M. Best’s view of third-party credit ratings and market-based credit risk measures of WM indicates stability, resulting in NGIC’s outlooks remaining stable. Additionally, it was noted that NGIC’s balance sheet remains very strong and its operations remain strong and profitable as an essential business in the COVID-19 environment, while meeting waste management needs of its customers. ■

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The captive showcase

Newly appointed Derek Bridgeman of SRS says the captive industry should consider the hardening market as an opportunity to showcase the suite of benefits a captive can offer irrespective of the status of the insurance cycle

What trends are you currently seeing in the captive insurance market?

Historically, captive utilisation has been a discretionary purchase to further a range of strategic objectives, but with the contraction of capacity and the subsequent increases in prices mean that we are seeing the necessity of large retentions in either the primary or excess markets, in particular around financial lines such as professional liability and directors and officers (D&O) liability.

The use of alternative reinsurance protection products is becoming more widespread as captives look to reduce volatility and downside risk from the increased retentions that they assume.

As market terms harshen and capacity decreases the approach to risk management is becoming more sophisticated with an increased focus on not just insured property and casualty (P&C) and employee benefits exposures but also risks which were historically uninsured (e.g. non-damage business interruption, cyber, reputational and other pandemic related risks).

You have really got a continuation of trends in captive use during a soft market continuing into renewed interest in captives for traditional uses as the commercial market hardens. What we were seeing in the soft market was more strategic and entrepreneurial use of captives – third party use such as warranty or customer-related coverages, as well as medical stop-loss. Traditional P&C lines now getting added back into the mix.

COVID-19 is resulting in increased pressure from parent organisations to access cash thus more focus on surplus reserves in a captive which means it may be time to re-examine and optimise the structure!

How will a hardening market impact the captive space?

The hardening market presents an opportunity for risk managers (and CFO's) to consider what their insurance needs are and as mentioned earlier, buy limits appropriately. Groups need to ensure that their capital is deployed in line with their needs and demands. There is certainly potential for alternative capital to support the (re)insurance market, however, getting the right risk profile can be problematical. Captives in their simplistic form allow organisations to utilise their own capital and complement capacity available in the traditional market.

History demonstrates the potential for captives to be utilised to access capacity in markets which would otherwise not be accessible. As was the case with terrorism risk in the US post 9/11, captives are being considered as appropriate

"Captive owners should, therefore, consider how to structure their risks to ensure they maximise benefits from diversification whilst limiting exposure to extreme volatility which carries significant risk charges"

mechanisms to access government-sponsored pandemic backstop arrangements. The expectation is that captives could be used further to structure reinsurance from capital markets. With a continuing market trend of decreased capacity, there is a strong argument to explore how captives, cells and the mutualisation of risk could sustain retraction of capacity on an industry by industry basis.

What will be the biggest challenges of a hardening market?

If we accept the hardening market as a correction (albeit potentially an overcorrection) then this further justifies the use of a captive as a complementary tool to risk transfer. Two primary challenges with the hardening market are; lack of capacity which manifests with captives stretching their appetite to accommodate gaps in the insurance market; and, stacking of limits and exposures which can drive up collateral and regulatory capital which ultimately can withdraw cash from the parent organisation.

Captive owners should, therefore, consider how to structure their risks to ensure they maximise benefits from diversification whilst limiting exposure to extreme volatility which carries significant risk charges. Often times there can be significant capital and reserves associated with the servicing of historical liabilities within a captive programme. This can impact or limit the captive's ability to include risks which are uninsurable in the hardening market. Therefore companies are likely to explore ways in which they could remove these historical liabilities so as to recycle capital to enable new risks to be written. We are currently having several discussions with clients to better understand their options to deal with these legacy risks.

Do you think a hardening market represents a big opportunity for the captive industry?

Intuitively yes, opportunities should continue to present themselves, however, there will still exist a need to truly demonstrate how the captive can provide both financial and strategic benefit going forward. Although there has been year-on-year growth in captive numbers through the soft market the key to attaining buy in from C suite has been the ability to demonstrate financial efficiencies of retaining risk in a captive. Higher premiums will increase the opportunities for the captive to mitigate these challenges therefore it is logical to assume growth of new and expansion of existing captives.

In many circumstances, however, we are seeing the decision being driven by strategic factors, particularly for groups with global programmes. The ability of the captive to manage the volatility of smaller business units is relevant at a time when markets are enforcing substantially higher deductible levels. The option of simply retaining this additional risk at local P&L level is not appealing to many groups, as a single large loss would have the potential to bankrupt business units with lower risk tolerances. Simply retaining the higher deductibles through the use of a corporate balance sheet fund can be an effective means to retain frequency risk in a single jurisdiction. However, this model can result in increased tax focus for higher severity risk and particularly around cross border transactions.

The scarcity of capital and rising cost is increasingly making captives and cells a viable option to the mid-tier of organisations that may have historically considered such a structure as uneconomic or inefficient.

What do you expect to see from the captive industry as the hardening market continues?

The captive industry should consider the hardening market as an opportunity to showcase the suite of benefits that a captive can offer irrespective of the status of the insurance cycle. Naturally, it will be important to evaluate whether a captive can provide financial benefit so as a first step we recommend groups ask the question, does it make financial sense to retain risk? Once this is understood then the most efficient way to retain this can be evaluated.

It is a great opportunity to expand captives, utilise surplus capital within captives to ensure that they secure the most economic deals. Optimisation reports can consider how captives can assist in exploring how its capacity can be deployed and more sophisticated products can be structured. There is potential for groups within a single industry to come together to evaluate group captives and mutualise risk. Groups within industries where cover is unavailable at an efficient price are likely to become more open to the idea of sharing risk, perhaps within a captive or cell. The co-mingling of this insurance and credit risk particularly at XS layers may be more palatable particularly if it provides an access point to more efficient capacity.

How will the COVID-19 pandemic affect the decisions of those in the captive market? Do you think the pandemic will have an impact on market conditions?

We are still to see the full extend of the COVID-19 pandemic on the global economies and so we can't fully understand the pressure on captives, though we are seeing conflicting demands being placed on captives. On the one hand, we expect demands from parent organisations to release cash into the core business to increase. At the same time, we also see greater use of captives to address shrinking capacity in the commercial market and increased pricing.

It is likely that captive owners will pay greater attention to both their overall insurance placement together with the captive structure to ensure its optimised and that the capital is utilised efficiently. Historically there were huge limits being purchased in the market or insured within the captives particularly on lines such as property damage/business interruption, quite often these limits were in excess of probable maximum loss but were only bought or included as the cost was cheap. As the market hardens the appropriateness of such limits will be considered.

How do you expect the next 12 months to play out and do you expect the hardening market to continue?

The hardening market represents opportunity and historically we have seen new organisations grow from such bleak outlooks (i.e. the emergence of the Bermuda class of reinsurers following the US Mainland Hurricanes), the potential to enter hardening markets without legacy is compelling. Nevertheless, we are likely to see the hardening market conditions continue.

Pandemic and/or reputational risks are topical, and we see potential for cells or captives to support the insurance industry and ultimately governmental backstops to create a viable solution.

Although there has been a lull in recent months it is probable that climate change will be high on the risk agenda, and irrespective of how it is viewed from an insurance or a corporate standpoint, businesses will be under pressure to act and a captive structure may allow them to act quickly and efficiently.

It is likely that as the lines of risk within captives increase so too will the demand for structured reinsurance offerings such as multi-line/year programmes. Although structured programmes don't necessarily need to operate as a reinsurance of the captive, often case it can be a more efficient approach to use the captive as an aggregator of their parent's global insurable risks.

This enables the group to sell the unwanted and uncorrelated volatility of the risk portfolio to a specialist market. Sophisticated risk managers will likely continue to explore structured captive reinsurance programmes as a mechanism to capture the inherent economic value of risk diversification.

Captive utilisation has been increasing for a while as the market was hardening even before the pandemic. It is logical to assume, therefore, that the additional pressure on the insurance market from COVID-19 will provide more opportunities for captives to respond accordingly. ■

> "It is likely that as the lines of risk within captives increase so too will the demand for structured reinsurance offerings"

Derek Bridgeman
Managing director
Strategic Risk Solutions

The Grand Canyon of captives

Arizona Captive Insurance Association president Rae Brown says the state's captive service providers are not only seeing an increase in captive formations but also inquiries to determine the use of captives as a strategic tool in risk management programmes

What trends have you seen in the Arizona captive market?

After years of a flat or falling insurance market, Q1 2019 saw an increase in premium rates in nearly all commercial markets except workers compensation. Hardening markets are being attributed to sustained low investment rates of return and higher than expected losses not to mention pandemic losses for high severity/low-frequency coverages. The result for Arizona is an increased interest in alternative risk transfer options. Arizona captive service providers are not only seeing an increase in captive formations but also inquiries to determine the use of captives as a strategic tool in risk management programmes.

Along with new formations, existing Arizona captives have sought to expand the capacity of their existing lines of coverage and add new lines to their captive. Arizona has historically seen a steady year-over-year increase in the numbers of captive insurance company formations and I expect the trend to continue.

What has the AzCIA been working on over the past few months?

The Arizona Captive Insurance Association (AzCIA) has been very busy over the last couple of years. In 2020, as a domicile association member of the Western Regional Captive Insurance Conference (WRCIC), we made the decision to postpone our annual regional conference until May 2021. However, we are committed to continuing to educate and engage our local captive community and will be announcing a summer series of webinars available to the WRCIC community. We also kicked off a monthly WRCIC virtual happy hour recently with guests from all over the country.

Early in 2019, AzCIA participated in drafting and submitting the amicus brief to the 10th Circuit Court of Appeals in support of the Reserve Mechanical v. IRS appeal. AzCIA was pleased to join a total of 11 captive industry associations and the Self-Insurance Institute of America (SIIA) in those efforts.

AzCIA also drafted a response to the recent IRS letter 6336 targeting small captive insurance companies. The response was sent to each of the Arizona congressional delegates expressing our discontent with the requirements and timing of the letter's content.

Most recently, we pledged our support to join a coalition of captive insurance associations and advocates to support the Supreme Court appeal efforts of CIC Services.

Have you seen an uptick in interest around captive insurance since the COVID-19 pandemic?

I believe the uptick in activity related to the COVID-19 pandemic will occur as an after effect. For practical purposes, losses are still occurring. It may not become abundantly clear which captive coverages are the most applicable until thoroughly vetting captive policy language. I have experienced increased inquiries, but I believe that when parent company operations begin to return back to normal there will be a call for a refresh of risk management strategies and that is when we will see the true uptick of interest in the solutions the captive industry has to offer.

How is the state's insurance department helping the captive industry during the pandemic?

The Arizona Department of Insurance, Captive Division (DOI) has always maintained an open-door policy and is available and responsive to the local community. The captive division team has many years of tenure with the DOI and are a telephone call or email away to help when needed. Specifically, during the isolation period of the pandemic, they have remained open for business and are working remotely without much disruption to captive owners and service providers.

In response to the pandemic, the DOI has communicated that they are as flexible and accommodative as they can regarding captive filings and are offering extensions on a case by case basis.

Also, based upon the CDC's recommendations related to the risk of air travel and the need for social distancing the requirement that a captive insurer's board of directors meet at least once each year in Arizona can be accomplished by means of a telephonic meeting presided over by the Arizona resident Director.

Does the Arizona Captive Insurance Association work close with the insurance department? How important is this?

The AzCIA has always maintained a close relationship with the DOI. We are the conduit between the captive owners and the DOI and are invested in fostering the relationships between the two.

The captive owners and service provider members of the AzCIA are the eyes and ears of the industry for the DOI. Its membership and allies are involved in many different domiciles helping to drive industry stability both domestically and offshore. The interdependent relationship between the AzCIA and the DOI is essential for keeping the DOI apprised of industry trends and statute changes that give them a platform to determine what is best for the Arizona domicile.

> "In response to the pandemic, the DOI has communicated that they are as flexible and accommodative as they can regarding captive filings and are offering extensions on a case by case basis"

Currently, the Governor of Arizona has started interviewing candidates for the director's position after Keith Schraad's departure in early 2020. When the appointment is finalised, the AzCIA will actively work to educate the new director on the benefits of the Arizona captive industry and the importance of the DOI captive division. We understand the intricacies and benefits of captive insurance and will promote them to the new Director for the benefit of our clients and colleagues.

“At this point in 2020, the biggest challenge for the captive industry as a whole is two-fold: COVID-19 fall-out and IRS scrutiny”

What are the biggest challenges for the captive industry right now?

At this point in 2020, the biggest challenge for the captive industry as a whole is two-fold: COVID-19 fall-out and IRS scrutiny.

There will be much to learn from the pandemic for captives and it will take time to sift through the details to learn the lessons and plan for our future. Just a few of the questions that we are asking: What captive coverages are applicable to the pandemic; what commercial coverage restrictions will the already hardening marketplace place on future captive coverages; will a Pandemic Risk Insurance Act (PRIA) become available as a federal backstop? The answers to these questions and countless others will be the drivers in the near future of the captive industry.

The other continued challenge for the industry is the outreach of the IRS to place captive insurance under intense scrutiny. The amicus brief submitted on behalf of Reserve Mechanical and the captive association coalition forming to respond to the CIC Services 10th Circuit Supreme Court appeal are excellent examples of our efforts to show support and put forth efforts to respond to the unreasonable demands placed upon captive insurance companies for the last few years.

How do you expect the Arizona captive market to change over the next 12 months, what do you expect to see?

As I have mentioned, I foresee a shift in the types of companies that want to participate in alternative risk transfer programmes such as a captive insurance company. The pandemic will undoubtedly expose risks that companies are unwilling to continue to self-insure but are also unavailable in the commercial market. It is only logical to forecast an increase in captive formations, for both mid-size and large corporations. I would also expect to see established captives with more traditional lines of business adding enterprise risk coverages.

Arizona has a reputation as a solid domicile, and with no premium tax or statutory exam for pure captives, I would expect to see a higher year-over-year increase in 2020 captive formations. Prior to the dramatic change, COVID-19 brought with it the state was already experiencing an uptick related to the hardening market from both new formations and expanded lines in existing captives.

What will AzCIA be working until the end of the year?

Given the current global circumstances related to COVID-19, AzCIA will spend the remainder of 2020 engaging our local captive community. Our challenge is to creatively adjust how we engage the community and an upcoming summer webinar series is only the first step in serving our membership and allies. Our talented board members are working through ideas that provide value in formats which do not require in-person contact. We also continue to work with the DOI in their efforts to market Arizona as an attractive captive domicile. We have collaborated on their increased marketing exposure and we look forward to continuing those efforts.

Lastly, we will continue to be actively involved in the lobbying efforts with our fellow captive associations on behalf of the industry. We feel that coming together as a collective voice in support of the captive insurance industry is one of our most important missions. ■


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France Outlook - Maria Ward-Brennan reports

A new awakening

Earlier this year, the French Prudential Supervision and Resolution Authority approved a reinsurance captive in France for the first time in 20 years, Laurent Bonnet of Gras Savoye Willis Towers Watson outlines what the French market currently looks like, and the future

What does the captive market look like in France?

Until last year, the captive market in France was relatively calm. There were only five captives, which is very few compared to other domiciles in Europe like Luxembourg, Ireland or Malta. The past year in Europe, the captive market has been more restricted, mainly due to the soft market effect, with numbers of captives decreasing.

But the hardening of the market last year started clients/groups thinking about a retention strategy. It increased the need for a captive to make their insurance and insurance budget programme comply with regulations, in order to fight the hardening market.

In this context, France became an attractive place due to two major events.

The first event was the coming of Solvency II, which led to common regulations for all European countries. This means the captive insurance regulations are now the same for every European country. In this respect, there is no real difference between a domicile in Ireland, Malta or France.

The second is the issue of the Base Erosion Profit Shifting (BEPS) paper by the Organisation for Economic Co-operation and Development (OECD) which led to the move to combat the erosion of profits in various countries and to counter tax evasion. This paper highlights the special nature of the insurance sector and captives. Moreover, it led to attention being focused on the different countries where captives' assets are held, and to consideration of and protection of the divisions around captives. This resulted in an examination by French authorities of captives based outside France.

These main events sparked the interest of French groups to implement captives in France. Thus, France has now become a likely candidate to welcome more captives in the future. The advantages of implementing a captive in France are many. Some companies might even consider moving their existing captives to France.

What are the biggest challenges/opportunities for the captive insurance industry in France?

At the present time, the captive insurance industry is facing numerous challenges in France.

One of these is educating people, many of whom are not yet convinced that the regulator is keen to have captives in France. However, this issue is marginal compared to our main challenge which relates to the tax issue. It is vital to understand the need to have a specific treatment of the captive's reserve capacity. As opposed to a professional insurer who can write and mutualise various lines of business and are able to compensate a loss from one insurance policy using profit from other policies or risks. In addition, a captive does not have the objective to male profit - a captive should be able to take into consideration mid-term or long-term stability of the insurance programme. So, as permitted by the Solvency II regulation, a bad year could be counterbalanced by a good year, which means that the captive should be able to create equalisation reserves, "Before COVID-19, due to the hardening market and its consequences, a lot of people considered moving their captives to France or setting up a new structure"

placing profit into a reserve in good years to allow for bad years, and not supporting tax during the good years and leading to a tax deficit when the years are bad. In other words, avoiding cash flow out and cash flow.

The main opportunities for France lie in the captive having the same address as the company headquarters because it gives access to all the resources of the group. It offers faster communications for the captive space, as you are close to the insurance department and the finance department. You can also involve more people than you would if, for instance, the group's captive was in Ireland, Luxembourg or elsewhere. Moreover, this allows the CFO or deputy CEO to take part in the captive meetings. Also, this configuration gives the group the opportunity to raise awareness of the captives' cost efficiency and enables potential discussions about how to reduce loss or to make retention.

I personally had the opportunity to participate in a captive meeting with a CFO, speaking to the head of operations about a real situation in the field, what happened and how the issue could be solved.

These conversations only happen when you have everyone around the table, because when people are in other countries, clearly they can't all be at the table together.

What changes do you see for France's captive market over the next 12 months?

Before COVID-19, due to the hardening market and its consequences, a lot of people considered moving their captives to France or setting up a new structure. But today we are facing a complicated situation where people are concerned about the market's future shifts.

On the other hand, they are under a great deal of pressure from group head offices to reduce or to end any investment and focus on COVID-19 instead.

We don't know exactly how the market is going to react, apart from the fact that the trend will almost certainly increase. However, we will face somewhat greater losses than expected this year due to the huge drop in activity. We also understand that financial markets have fallen so much that there will be an impact on the balance sheet and on the solidity ratio.

It's difficult to have a vision of whether or not the market will increase from next January and whether clients will be able to relocate some of their cash from investments to a captive.

Do you think there will be a surge of new captive formations in light of the current COVID-19 pandemic?

Captives are a perfect tool to cover all business interruptions. We do have many clients that have put solutions in place that involve captives insuring the pandemic risk.

The only issue with a COVID-19 type of situation is that it's so global that even with a captive solution, there is never enough capacity to compensate for this situation. Since it's so widespread, if you indemnify all your subsidiaries for the loss they suffered, in the end, they will receive just a few euros.

Captives are a good solution for supporting a global strategy and for supporting entities specific loss/exposure.

I have some clients that have decided to not activate their cover reinsured by their captive because it made no sense for the group to use the captive as the indemnity per entity would be very small compared to the loss, each entity suffered, there is no mutualisation between entities, it would weaken their solvency position and as the captive is consolidated it would even not protect the financial performance of the group.

Previously we have had certain situations to deal with in South Korea some years ago. This only impacted South Korea so captives allowed the group to support the financial impact from this situation as it was focused on one region.

All the other subsidiaries supported the impact of the losses supported by this entity, which is the right way to see how a captive can be used as a mutualisation tool for the group.

The French Prudential Supervision and Resolution Authority approved the first captive in nearly 20 years for a client of yours. Do you think this will drive an increase in requests?

Due to the hardening market, since last year we are seeing an increase in the request for new captive and the increase of the role of the captive. There are many questions from companies that so far haven't had captives, as they had a good price for their premium. There will be an increase in captives and I'm sure France will benefit from it. However, as previously mentioned, this was before the COVID-19 impact so perhaps it might not be visible during 2020 until COVID-19 is clear.

Why do you think it has been 20 years since the last licence was approved?

I believe this is mainly due to the fact that a few years ago French regulators didn't properly understand the important role played by captives. It is also because the market over the last 15 years was so soft that captives were not always the solutions for managing insurance programmes. It needed negotiations with the market in order to win very aggressive premiums from the market. Before Solvency II the local regulator was the only one to establish its view on how much capital should be required for the captive and at that time in France, the French regulator had a reputation for asking for a full blended captive, which was a nuisance, compared to other domiciles. Since Solvency II was put into place, I think we have a better understanding of their expectation. With the licensing of the captive of Worldline, France demonstrates that it can be properly positioned against other domiciles for captives.

What do you think can be done to increase the amount of captive activity in France? Is more education needed?

I think if we can benefit from a system which is permitted by the European insurance legislation, like that in other domiciles, to mutualise the good years and the bad years as in other countries, it would be the launchpad for France as a captive domicile. Captives are not in the core business of the group, so they are focused on the right use of capital allocated to a captive. They are focused on the most efficient way to benefit from a risk management tool. For example, they are interested in the capacity to make the captive part of the cash arrangement as all the other entities of the group.

France will never decrease its tax rate or have an aggressive tax rate for captives – that is not the attitude adopted here. So we will never be able to use the same arguments as Ireland, Malta and other countries. But if we can have this mid-term long-term strategy through an equalisation reserve it would be very well welcomed.

I am convinced we are going to see an increase in the French market and thus to increase all the activities around captives. It will also bring into France many more professionals, lawyers, accountants, bankers, actuaries and others working in this area. ■

"I am convinced we are going to see an increase in the French market and thus to increase all the activities around captives. It will also bring into France many more professionals, lawyers, accountants, bankers, actuaries and others working in this area"

Laurent Bonnet
Head of captive and alternative risk transfer
Gras Savoye Willis Towers Watson

Aaron Hillebrandt

Director and consulting actuary

Pinnacle Actuarial Resources

Personal bio: I was born in Springfield, Illinois, attended university and now work for Pinnacle Actuarial Resources in Bloomington. I entered the US Marine Corps in my late teens. My service took me from California to North Carolina and Wisconsin as well as Kuwait to Iraq.

I love my work and making a difference for clients, but my family – my wife Meghan, sons Jackson (7) and William (3) – absolutely come first. I enjoy doing Brazilian jiu-jitsu, which is mentally and physically challenging. I also like reading classic novels and books about business and history.

Professional profile: I am a director and consulting actuary with Pinnacle with over 12 years of actuarial experience in the property/casualty insurance industry with experience in all kinds of assignments including captive feasibility studies, loss reserving, funding studies, etc.

I studied mathematics and received a Bachelor of Science degree at Illinois State University (ISU). I have kept my connection to ISU and returned to be a lecturer while working as an actuary for a commercial insurer.

I am a fellow of the Casualty Actuarial Society (CAS) and a member of the American Academy of Actuaries (AAA), with various certifications from other professional associations and organisations. I currently sit on various committees for different organisations including CAS and the Vermont Captive Insurance Association.

Before Pinnacle and after the Marine Corps, I worked at a large commercial insurance company.

How did you end up in the captive industry?

I spent my first six or so years as an actuary with a commercial insurer. I left the commercial, or in-house side of the business approximately seven years ago. I was looking to explore what else actuaries might do in the world and was interested in consulting and the contributions consultants can make to the companies they work for.

I started at Pinnacle – which had a fantastic reputation – and jumped straight into the deep end of captive insurance on my very first day.

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

Since the day I joined Pinnacle, I've looked up to our managing principal Joe Herbers. Despite having built one of the largest captive actuarial practices in the country, Joe is one of the most kind, fair, down-to-earth people I have ever met.

He exemplifies what an actuary and a consultant should be with his pragmatic approach to communicating actuarial results to clients. He continues to teach me a lot about many things, including navigating tough or unusual consulting situations.

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

I would like to continue growing my practice, serving more and different types of clients and building upon the insight and value I provide to my clients.

I would also like to continue mentoring and developing Pinnacle's exceptional and talent-rich actuarial staff.

I would like to help them continue to progress and learn to independently advise clients and build their own practices.

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

The most rewarding single event in my career thus far was saving a large client more than $10 million in collateral by discussing the assumptions in our independent actuarial study versus the assumptions the insurance carrier's actuary was using to set collateral requirement. I felt extremely proud and pleased to help my client with that work.

What is your impression of the industry?

It is fun, creative, challenging, fast-paced and rapidly evolving. I am constantly being engaged in conversations about new types of insurance coverages and new events affecting existing coverages in novel ways. It is fun and exciting to me to create a solution with real value that doesn't have an existing mould.

> "As a captive management firm, our relationship with actuaries is critical. We have found Aaron Hillebrandt to have the knowledge and expertise you would expect from him professionally, but also a unique ability to help find solutions to complex risk situations and assist in communicating those to clients. He is an invaluable asset to our practice."
>
> **Charles Spitzer**
>
> **Managing director, HIG Captive Insurance Group, a Higginbotham Company**

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

For an actuarial student or analyst entering a consulting role for the captive industry – be a sponge.

Most businesses in the captive industry gravitate to this market in order to manage and control their cost of risk.

Despite actuaries approaching the needs of many diverse facilities as a variation on that theme, we have to address nuances in every programme.

Actuaries need to be able to apply their foundational mathematics knowledge appropriately for the specific niches they serve.

So read a lot, spend a lot of time with more senior actuaries asking questions and actively listening, take on every assignment you can get your hands on. ■

Strategic Risk Solutions (SRS) has hired Luis Delgado as vice president of Latin America.

Based in SRS's Bermuda office, Delgado will be responsible for developing and managing business for Latin American owned captives across the firm. Brady Young, president of SRS, explained that expanding into the Latin American market is "strategically important" to the business. Young said: "We believe it is an underserved market for captive insurance with an absence of independent management options. We are building out our servicing teams with Spanish speaking qualified accountants with captive insurance experience. I am delighted to have Luis Delgado on board to lead this initiative."

Delgado joins from JLT Insurance Management (Bermuda), where he worked as vice president of finance. He was in charge of Latin American accounts and served as a member of the executive team. Additionally, he spent two years in Bermuda with Marsh IAS, having started his career as an auditor with PwC in Colombia.

Commenting on his appointment, Delgado said: "After a period of garden leave, I am excited to get back into the captive management industry working with Colombian and other Latin American clients. Captive insurance offers a lot of benefits to Latin American organizations and has been growing steadily in its use. With the changes in the commercial insurance market, the demand for captive insurance solutions and trusted advice has never been stronger in the region. I have been impressed with the commitment that SRS is making to this sector of the market and look forward to bringing their independent model to Latin American clients." ■

Xavier Veyry has been named as CEO of AXA XL Asia and Europe, and will be based in Dublin, Ireland.

Reporting to Scott Gunter, CEO of AXA XL, Veyry will join the firm's newly configured leadership team.

Veyry is currently country CEO of AXA China and chairman of AXA Tianping in China and AXA General Insurance in Korea. He will step down from his current role later this year.

Throughout his 24-year career at AXA, Veyry has held several CEO and leadership positions around the world and has lived and worked in 12 countries across the Middle East, Asia and Europe.

At AXA, Very has helped build the firm's healthcare practice in the Middle East and also led the operational transformation of AXA Global Direct. Most recently, Veyry oversaw the process towards full ownership of AXA Tianping.

Commenting on the appointment, Scott Gunter said: "Xavier [Veyry]'s extensive international experience positions him ideally to lead AXA XL's business across Asia and Europe. When we think about Asia and Europe in terms of a business unit, we know that it's incredibly diverse in terms of economies, business and culture. I believe Xavier [Veyry] has the knowledge and importantly, the first-hand experience and mindset to lead our teams in these incredibly important markets."

Gunter continued: "Having the right talent in the right places is key to ensuring AXA XL is the insurance partner of choice across business lines and around the world. Our newly appointed regional CEOs are going to ensure we are an organisation that is easy to navigate so that we can continue to serve our clients to the very best of our ability."

Gordon Watson, CEO of AXA Asia, added: "I would like to thank Xavier [Veyry] for his superb leadership while in China. I am delighted he will continue to support the growth of the AXA Group in China as chairman of AXA Tianping and through his directorship at ICBC-AXA." ■