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A bright future

Although the US captive market continues to face various challenges, industry participants are confident that the country has a bright future ahead

Emerging Talent

Megan Moore

Underwriter trainee

Beazley

Climate Change

Alex Gedge of Marsh discusses how a captive can help to insure against risks associated with climate change

People Moves

Belinda Fortman joins TDCI as captive insurance section director

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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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SunTrust

IRS petitions court to enforce a summons against Delaware DOI for captive docs

The Internal Revenue Service (IRS) has petitioned the US District Court for the District of Delaware against the Delaware Department of Insurance (DOI) to enforce a summons for documents related to its micro captive investigation.

In the filing, the IRS said it was looking for documents related to its micro captive investigation of Artex Risk Solutions or Tribeca Strategic Advisors from the Delaware DOI.

Christina Haas, senior policy advisor at Delaware DOI, explained that the state has provided non-confidential information to the IRS, and has worked with the industry to provide a collection of confidential documents with the consent of those companies.

Haas said the only exceptions were "those cases where consent was given by the company, we must act within the confidentiality confines of Title 18, Chapter 69 of the Delaware Code".

She added: "Our office has cooperated with their requests to the extent that our statute allows. The department continues to feel strongly that the confidentiality provisions of our state law are critical to both the state-regulated industry, and to public policy as a whole," Haas noted.

Commenting on the case, Ben Whitehouse, senior counsel at Butler Snow stated: "Confidentiality of captive regulator papers in the face of a subpoena from a federal agency has not been tested by the courts before."

He noted that state captive insurance laws typically give extraordinarily broad confidentiality protections to documents filed with captive regulators and the regulator's own work papers.

He explained: "When the appropriate government agency or private litigant has grounds to subpoena these records, it is usually easier to obtain the documents from the captive insurance company itself, or the captive manager, or the parent company."

Whitehouse highlighted that "a breach of these confidentiality protections could have troubling repercussions for our industry".

In August last year, Artex Risk Solutions and other captive insurance providers, including Arthur J. Gallagher & Co, TSA Holdings and Tribeca Strategic Advisors, secured a victory in a class action lawsuit at the US District Court for the District of Arizona—Phoenix Division.

The companies were accused of devising a conspiracy to promote and sell tax-advantaged captive strategies that were viewed as illegal, according to the IRS, which disallowed the offered tax benefits. ■

UK set to bring forward review of Solvency II

The UK Government has revealed it will bring forward a review of certain features of Solvency II, according to a statement from Rishi Sunak, the chancellor of the exchequer. On 23 June, Sunak confirmed several major updates to the UK's Brexit plans for adopting EU rules frameworks in a written statement.

In the statement, Sunak said the review would ensure that Solvency II is properly tailored to take account of the structural features of the UK insurance sector.

The Solvency II directive, which came into effect on 1 January 2016, is an EU law that codifies and harmonises the EU insurance regulation. As part of EU regulation, the UK had to adopt and follow the EU's Solvency II rules for their insurance market, including captive insurances.

The EU is currently undertaking a review of Solvency II, however, due to COVID-19, the European Insurance and Occupational Pensions Authority (EIOPA) extended the deadline of the holistic impact assessment for the 2020 Solvency II Review by two months, to 1 June 2020.

The UK Government's review of the framework will consider areas that have been the subject of long-standing discussions while the UK was a member state, some of which may also form part of the EU's intended review.

Sunak outlined that these will include, but are not limited to, the risk margin, matching adjustment, operation of internal models and reporting requirements for insurers.

The government is expected to publish a call for evidence in autumn 2020. ■

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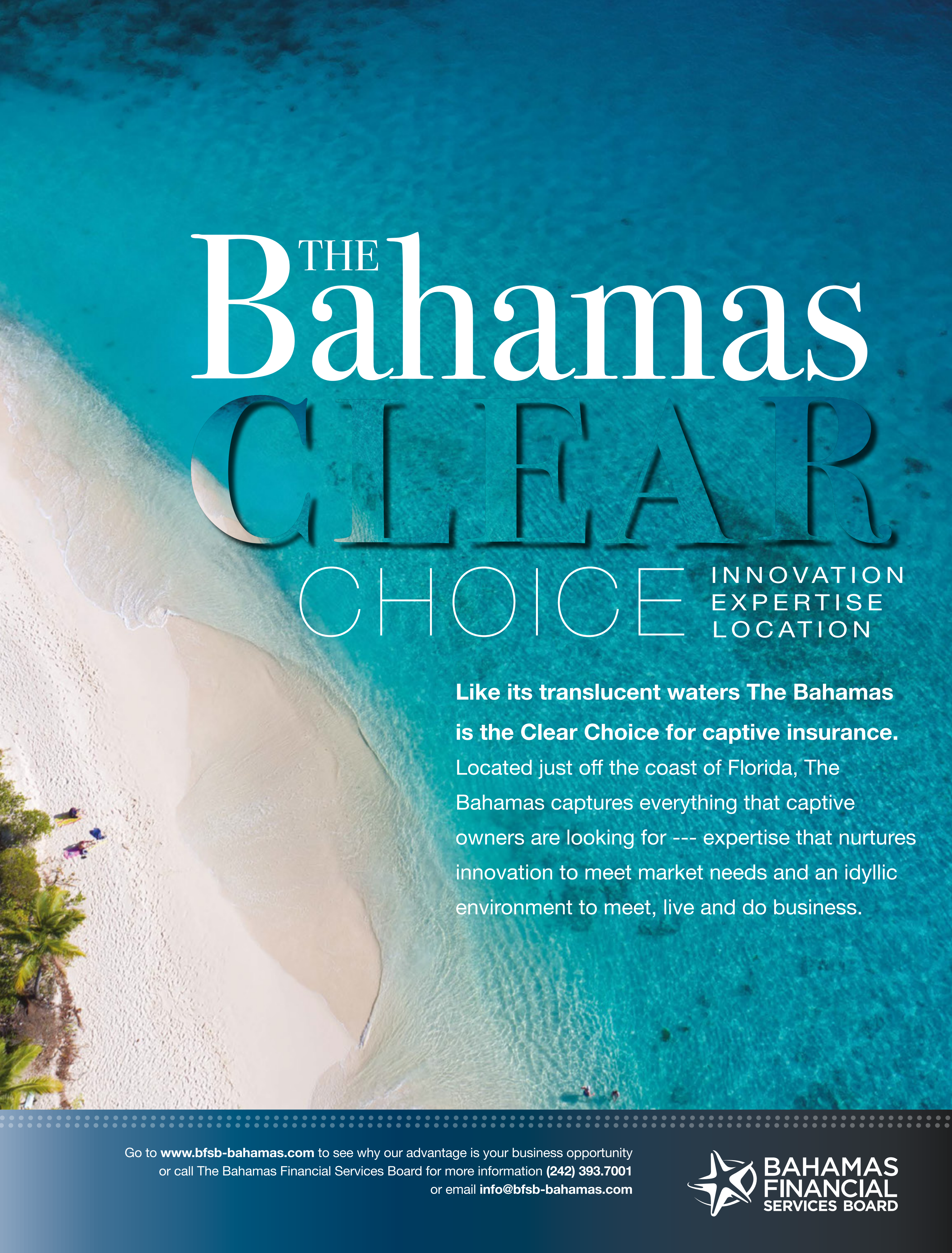
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Alturki Holding appoints Braxtone as captive manager

Braxtone Insurance Management has been named captive insurance manager for Alturki Holding's new captive insurance company based in Bahrain.

Saudi Readymix Concrete Company, a subsidiary of Alturki, has established Masheed Captive Insurance Company, which is licensed by the Central Bank of Bahrain to provide insurance to Saudi Readymix and all entities under Alturki Holding.

Alturki said by utilising the captive insurance model, it aims to improve its risk management framework and insurance programme.

As part of its appointment, Braxtone will provide full management of Masheed to service Alturki Holding and all its subsidiaries.

According to Braxtone, this further strengthens its team to be even more equipped to offer effective alternatives to traditional insurance by managing risk exposures via better control of how risks are managed.

Ayman Al Ajmi, CEO of Braxtone (pictured right), said: "Our proven track record is a testament to the people in our team, the value of our insurance technical expertise, and the attractive regulatory environment of Bahrain."

Al Ajmi added: "With the diversity in the services and wealth in human capital, Bahrain is the ideal domicile for any captive set up in this region."

Alturki explained that Bahrain is the natural gateway to the Gulf, with particularly favourable access to Saudi Arabia, as well as the $1.5 trillion market of the Gulf region.

It also noted that Bahrain is a key domicile for captive insurance and well-positioned as an attractive option for international captive owners needing a set up for the Middle East and North Africa (MENA) or Asian regions.

President and CEO of Alturki Holding, Rami Khalid Alturki (pictured left), commented: "We are keen to position the right resource in the right place, which maximises the value created by Masheed for our group and all subsidiaries. Braxtone will enable our vision further to improve our control over the risk management programme."

"The outcome will add to the long-term sustainability of our businesses."

A.M. Best affirms Toyota's 'excellent' captive ratings

A.M. Best has affirmed the financial strength rating of A (Excellent) and the long-term issuer credit rating of "a" of Toyota Motor Insurance Company (TMIC), based in Cedar Rapids, Iowa.

The outlook of these credit ratings is stable.

A.M. Best stated that the ratings reflect TMIC's balance sheet strength, which they categorised as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

The rating firm outlined that TMIC continues to maintain balance sheet strength at the strongest level supported by risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), low underwriting leverage, organic and steady growth of policyholders' surplus, excellent liquidity with metrics outperforming the industry and positive cash flows.

A.M. Best assessed the company's operating performance as adequate and expects it to return to historical levels following the volatility in results, which is attributed to losses from its guaranteed auto protection (GAP) business and the rise in frequency and severity, mitigated by rate increases to address the issue.

"Amid the COVID-19 pandemic, the overall weakening of the economy has caused demand for vehicle purchases to decline; therefore, the true effects of rate increases and underwriting initiatives on the company's GAP business could take some time to be realised", the rating firm explained.

TMIC's neutral business profile supports the Toyota organisation as a wholly owned subsidiary and single-parent captive of Toyota Motor Insurance Services, a California corporation. TMIC provides vehicle service agreements, GAP agreements, excess wear and use coverage, and tyre and wheel protection coverage for Toyota, Lexus and Mazda customers, dealers and affiliated companies. A.M. Best said it considers TMIC's ERM to be appropriate, as the captive has leveraged the robust and formal corporate management practices that have been established and implemented by its US parent, Toyota Motor Credit Corporation. According to A.M. Best, the stable outlooks reflect the expectation that the company will maintain its balance sheet strength assessment at strongest and adequate level of operating performance, while managing its volatile GAP product line and neutral business profile without divergence from its risk profile. ■

R&Q acquires Vermont-domiciled captive

Randall & Quilter Investment Holdings (R&Q) has acquired a Vermont-based captive insurer.

The company, which is now in run-off, wrote workers' compensation, general and auto liability coverage to its parent and affiliates.

The acquisition provides full legal finality and has received regulatory approval from the Vermont Department of Insurance.

R&Q will merge the newly acquired company into its Vermont captive consolidator insurer ICDC, subject to prior regulatory approval.

Paul Corver, group head of mergers and acquisitions at R&Q said: "We are pleased to have completed this acquisition which required collaboration amongst R&Q, the fronting carriers, and the seller in order to provide full finality."

"This marks the third captive acquisition so far in 2020 and we are delighted to continue to serve the captive market, throughout a variety of domiciles in North America," he added. ■

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Bermuda Captive Conference will take place virtually in September

The 2020 Bermuda Captive Conference will be hosted on a virtual platform due to the continued uncertainty from COVID-19, on 9 to 11 September.The theme of the 2020 Bermuda Captive Conference is 'Vision' and the agenda has been developed to give a forward-looking view of the market. In an announcement from the Bermuda Captive Conference, it noted the unprecedented developments and seismic impact of the global pandemic on key markets around the world, highlighting that the industry's future is more important than ever before.

The conference aim is to demonstrate to risk managers who may not have considered captive insurance before, and owners of existing captive insurers, how they can innovatively tackle the risks faced by all sizes of business in this new environment.

It was noted that registration will be launched in the coming weeks. The virtual conference will feature educational sessions, a keynote speaker and a trade floor showcasing industry support services and related organisations.

The event is expected to attract new captives, as well as captive insurance managers, brokers and service providers, corporate risk managers, and owners of captive insurance companies.

Leslie Robinson, Bermuda Captive Conference chair and senior vice president, head of underwriting and claims at Willis Towers Watson (WTW) in Bermuda, commented: "Bermuda is known for its innovation and operational resilience and so, in light of the difficulty to plan for a physical event this coming September, we have decided to host a virtual conference."

Robinson continued: "We are pleased to confirm attendees will hear from the same top-quality speakers providing informative industry perspectives that are a staple of our conferences."

"We have ensured there is an ability to network and connect directly with other captive owners and service providers, and have made it easy to do so on the new virtual platform."

"We're excited about the opportunity this gives us to reach an even broader captive audience," she added.

Roland Andy Burrows, CEO of the Bermuda Business Development Agency (BDA), said: "Despite the challenges presented, Bermuda's international business sector remains completely open, delivering optimal service to clients and key markets."

Burrows outlined: "The Bermuda Captive Conference is no exception and has transitioned itself to a virtual environment with impressive ease. At a time when the market is hardening, and amid the current uncertainty, captives may well be an attractive option for businesses in a range of industries reexamining their risk management solutions."

"Given the timeliness and relevance of this event, it is pleasing to see the organisers have been able to provide an engaging platform for these important discussions and connections to continue," he stated.

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ABA requests FHFA to overturn ban on captives

The American Bankers Association (ABA) has written a letter to the Federal Housing Finance Agency (FHFA) requesting it to overturn its decision on banning captive insurance companies from its membership.

In January 2016, FHFA banned captive insurance companies from being members of the Federal Home Loan Bank (FHLB) system and at the time, they received widespread hostility to the move.

The ban came as a result of an increase of real estate investment trusts (REIT) setting up captive subsidiaries as a means to access the system.

Joseph Pigg, senior vice president and senior counsel at ABA, noted in his letter to the FHFA that it shares FHFA's concerns about the use of captive insurance companies as conduits for otherwise ineligible members to gain entry to the system.

"However, we took issue with FHFA's approach, raising concerns that deeming captive insurers as ineligible for membership ran counter to the clear meaning of the statute," he added.

Pigg outlined: "As FHFA appropriately notes, the categories of eligible system members are established in the statute by Congress. FHFA should not, unless clearly and specifically directed by Congressional statute, authorise expanded membership to other entities that are not already authorised by statute."

He stated that the FHFA should revisit their decision of denying all captive insurance companies and the FHFA "should be guided by Congressional intent to allow these insurance companies membership in the system, but FHFA should limit each captive insurer's ability to access the system based upon its potential to impact the safety and soundness of the system".

According to the ABA, the FHFA should factor differences in prudential regulation and supervision into its regulation of member access to the system and adjust eligible members' system access as needed to protect all members' capital investment.

As an example, he explained that member access standards should differ for a captive insurer owned by a federally regulated and supervised depository institution versus a captive insurer owned by an entity not subject to prudential regulation and capital standards sufficient to protect against the potential losses that member could present to the system and its members.

Pigg noted in this example "it is conceivable that a captive insurer, owned by a parent without sufficient regulation or capital, could be technically eligible for membership in the system but effectively unable to borrow, due to the risks such borrowing might present".

In addition, Pigg also recommended that FHFA establish clear, consistent, and risk-based member access standards that account for differences in prudential regulation, such as for less stringently regulated credit unions and non-depository community development financial institutions. ■

GIIA commits to sustainable finance

The Guernsey International Insurance Association (GIIA) has enrolled in a United Nations green programme as part of its pledge to the development of sustainable finance.

As a supporting organisation of the United Nations' Principles for Sustainable Insurance (PSI) Initiative, GIIA will address environment, social and governance (ESG) opportunities and risks.

This adoption follows GIIA's partnership last year with Guernsey Green Finance to develop a coherent strategy for green insurance products in the domicile.

Mike Johns, chairman of GIIA, said: "This demonstrates Guernsey's insurance sector's commitment to the green and sustainable agenda and this aligns with our commitment to develop bespoke products and services to cater for this growing market."

Andy Sloan, chair of Guernsey Green Finance, added: "The participation of the insurance sector is key to ensuring we become the leading jurisdiction for green finance in Europe. This is possible given the unique breadth of our island as a specialist financial services sector." ■

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At melting point

Climate change is fast becoming the biggest crisis the world will face, Alex Gedge of Marsh discusses how a captive can help to insure against risks associated with climate change

What trends are you seeing around this risk?

The World Economic Forum, with support from Marsh & McLennan, published The Global Risks Report 2020 which provides a perspective on the major threats in 2020 and over the next decade.

Climate change is a big concern from both likelihood and impact. This could broadly impact upon all areas of business, from physical damage to delays in shipping or trade routes and impacts on healthcare. It is a hugely prominent risk for most businesses.

What role can captives play in insuring against climate change?

Captives can provide support for those lines of business which will be negatively affected by environmental events (such as physical damage), particularly where commercial insurance rates may become too expensive or less cost-efficient.

A captive can also provide access to alternative markets and risk financing to transfer exposure, such as reinsurance. Additionally, it can also be used to fill gaps in coverage where none is available in the commercial market.

Captives and commercial insurance work well together; the benefit with captives is the flexibility in coverage, while the commercial market is essential in terms of the scale of the risk.

A combination of captive and commercial insurance can optimise a company's response to climate change. Understanding the risk is the first crucial point, before secondly calculating what exposure the organisation is willing to take, and what it wants to transfer.

Have you seen an increase in interest around insuring against climate change using a captive?

Climate change has far-reaching impacts across many industries. Over the last decade, more firms are taking weather-related events – such as physical damage, supply chain disruption and business interruption – into account in their captives.

What are the biggest challenges associated with this?

Naturally, the biggest concern is the threat to life and impact on livelihood.

This can be from more extreme weather events (such as storm or flooding) and in turn, how people, governments, and industries respond to these challenges.

figure 1 © World Economic Forum

Some of the most heavily impacted areas could be uninsured or have improper coverage, so it is essential to receive the right advice on mitigating these risks. Proper resilience and defence plans will need to be considered and implemented. For example, in the UK, more focus has been put on standardising flood resilience requirements.

How do you expect climate change coverage to expand in the coming years?

The impact of climate change is different for each company but would expect to see climate change become a larger part of the risk management conversation.

This will both be from environmental impairment liability being more prevalent, and from these exposures increasing (as seen by Figure 1 in the previous email showing 'climate change' and 'extreme weather' on both likelihood and impact). This means that the damage caused by climate-related events could be huge, and unfortunately, increasingly common. Climate change has fundamentally changed as a risk and companies will need to be aware of how it will affect them, and the insurance industry – both captive and commercial – will have a huge role in mitigating the associated risks.

How do you expect this coverage to expand in coming years?

Per The Global Risks Report 2020, Figure 1, climate risk is expected to be one of the biggest future risks in terms of likelihood and impact. More so than many other risks, this crosses classes of insurance and industry and will affect property damage and business interruption, supply chain, liability, employee benefit covers, and more.

Companies will have to be increasingly sophisticated in understanding its impact on their businesses, and seeking advice on the ways to manage this risk will be crucial. Captives can sit at the centre of this and are likely to increasingly play a role in these areas in the future.

Firstly, captives have always been essential vehicles for managing companies' risks. Given their flexibility and bespoke structures, captives could be at the forefront of a company's risk management plans given the potential to access reinsurance markets, insure the difficult to insure or uninsurable, and participate in multiple levels of a company's insurance programme. ■

A bright future

Although the US captive market continues to face various challenges, industry participants are confident that the country has a bright future ahead

The US has worked hard to become a home to the captive insurance industry, and now as a whole is the largest domicile in the world having close to 3,400 captives licensed as of the end of 2019.

States such as Delaware, Vermont, North Carolina, Tennessee, Montana, Nevada, Arizona, Hawaii, and South Carolina are some of the largest in the US captive domiciles.

The US has seen a lot of growth within the captive insurance industry in recent years, however, there have been some challenges along the way. One of the biggest challenges includes continued scrutiny from the Internal Revenue Service (IRS) on micro captives, while some more recent challenges have occurred from the ongoing COVID-19 pandemic.

Although challenges are present, industry experts believe there is a bright future of growth within the US captive market.

Adam Miholic of Hylant, Peter Kranz and Jason Flaxbeard of Beecher Carlson, Spencer Poole of Venture Captive Management, Ryan Work of the Self-Insurance Institute of America (SIIA), and Jerry Messick of Elevate Risk Solutions discuss these challenges and more.

The IRS' battle against micro captives

One of the biggest talking points in the US captive industry over a number of years has been the scrutiny received by the Internal Revenue Service (IRS).

The IRS is responsible for collecting taxes and administering the Internal Revenue Code, the main body of federal statutory tax law of the US.

The IRS' specific target is micro-captives, which have made an appearance on the IRS 'Dirty Dozen' list of tax scams since 2014.

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

The IRS has recently won three court cases against captive companies. Following these cases, the service has decided to offer settlements to taxpayers currently under exam.

The IRS recently came under scrutiny from various people in the industry, including associations, after it sent out settlement letters at the start of the COVID-19 pandemic, a few days after the US officially went into lockdown.

The letter was sent to tens of thousands of taxpayers seeking information about their participation in micro-captive insurance transactions. After push back from the sector, the IRS extended the deadline for the micro-captive insurance filing positions from 4 May to 4 June 2020 because of the pandemic.

Adam Miholic, senior consultant, global captive solutions at Hylant, states that the IRS' continued campaign against "transactions of interest" has "muddied the waters" around what is allowable under the current interpretation of insurance operations and accounting.

He says: "While tax should never be the primary driver of captive creation, the potential financial benefits that a captive could provide its owners are indisputable. The absence of a bright-line test in the US Tax Code that outlines specific requirements for the treatment of captive insurance companies continues to cause concern for the industry."

The applicability and enforcement of various states' self-procurement tax have been well documented over the past few months and years. Miholic explains with most of the high-profile cases ending in court or mediation, "this is clearly an area of captive regulation affecting the industry".

On the IRS issue, Peter Kranz, executive managing director and captive practice leader at Beecher Carlson, suggests that it is not a domicile issue, but is a challenge in the industry overall.

"We are glad the IRS is cleaning up because there seem to be abusive structures out there"

Peter Kranz, executive managing director and captive practice leader at Beecher Carlson

Kranz says it is an area "we are glad the IRS is cleaning up because there seem to be abusive structures out there".

He outlines that there is some concern by the leading tax experts in the industry about the approaches the IRS is taking and how that could ultimately be interpreted concerning all those captives that are doing things the right way.

Also weighing in on challenges around the IRS, Spencer Poole, chief compliance officer at Venture Captive Management, highlights that within the captive insurance market, the largest regulatory hurdle is the tax code.

Poole notes that the IRS still has not set defined criteria around risk distribution; the determination remains largely subjective.

Ryan Work, vice president of government relations at SIIA, also notes the IRS as a challenge, however, he views it as an "ongoing and unending campaign against 831(b)s".

Work states that "this is yet another case of regulators not fully understanding or willing to be educated on how a captive structure operates from start to finish".

"That, combined with overaggressive tactics and duplicative industry data requests, have created a perfect storm," he continues.

CIC Services, a captive manager based in Tennessee, has lodged several lawsuits against the IRS and US Treasury in a bid to block Notice 2016-66. However, the firm has so far been unsuccessful.

> **"Congress makes laws, the IRS is tasked with following them, not the other way around"**
>
> **Ryan Work, vice president of government relations at SIIA**

However, in January, CIC Services noted that they wanted to bring the case to the Supreme Court of the US (SCOTUS) and in May of this year, SCOTUS agreed to hear CIC Services' case against the IRS regarding IRS Notice 2016-66.

Reflecting on if this court case will change the IRS positions on micro-captives, Kranz says he doesn't know if this case will "necessarily resolve them".

He explains: "If I understand it correctly, throughout the process CIC Services have lost at every single level they have been at."

"Therefore, the likelihood of them winning at the Supreme Court appears to be very low. But you need to consider the facts and circumstances in that specific case."

On the other hand, Work believes the case before SCOTUS can help clear up the IRS' ability to engage in certain regulatory actions towards the captive industry, such as Notice 2016-66, as well as broader industries across the country, but he adds it will not solve wholesale the scrutiny of captive structures.

Work highlights that the captive industry is here and willing to engage and that they need the IRS to be open to having a forthcoming and honest dialogue about what appropriate federal regulatory guidelines would be. He points out that "Congress makes laws, the IRS is tasked with following them, not the other way around".

On a different note, Kranz lays out his only hope that the IRS doesn't overreach because a vast majority of the industry is made up of compliant structures, created for the right reasons.

He specifies his hope the IRS to focus on the issue in question.

"Frankly, as an industry, over the last eight to 10 years, we have been trying to self-police. So I think that the IRS push on entities will help clean things up, but I do not know if CIC Services will necessarily have a significant impact unless the Supreme Court rules that the IRS cannot enforce Notice 2016-66", he adds.

He points out that the CIC Services case has a very specific set of circumstances, taking the matter to the Supreme Court about the IRS' requirement to disclose certain transactions. Even if this is granted, this does not necessarily stop the IRS' push to clean up non-compliant structures.

US regulation challenges

In terms of other US regulation challenges impacting the captive insurance industry, Kranz suggests that one of them is jurisdictions that are aggressively pursuing direct placement taxes and where in some cases they might not even have the legal authority to do so.

Kranz highlights that this is a factor that captives and their managers have to consider. However, according to Kranz, in a hard market, premium pricing is increasing so much that direct placement taxing is becoming a lot less of an issue.

Also discussing regulatory challenges, Poole notes the biggest challenge around regulation is the outbreak of COVID-19. ■

Poole says: "For any company, comprehensive compliance requires a cohesive network of internal and external professionals working in tandem, especially in the audit season. This crisis has been a stress test in many ways, as we're finding new and different ways to work together, apart."

Poole states from a coverage perspective, regulators in the US are pushing for indemnity where there was never underwriting intent. He notes that this is most evident in workers' compensation and business interruption.

Jerry Messick, CEO of Elevate Risk Solutions, also echos COVID-19 and the challenges associated.

"I think captives will provide a very important role in providing new and creative solutions. One concern is making sure captives have adequate reserve strength should coverage be found for the pandemic, especially with insured/owners feeling cash pressure due to the economic conditions", Messick says.

Introduction to PRIA

The ongoing COVID-19 pandemic continues to impact not just people's lives but also the financial markets worldwide. In early June, the US introduced the Pandemic Risk Insurance Act of 2020 (PRIA), which aims to cover losses and protect the US economy in anticipation of a resurgence of COVID-19 and future pandemics.

The new legislation would create the Pandemic Risk Reinsurance Programme, which will be a federal programme that provides for a transparent system of shared public and private compensation for business interruption losses resulting from future pandemics or public health emergencies.

The 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 (HFSC), alongside several stakeholders.

Commenting on the bill, Jason Flaxbeard, senior managing director at Beecher Carlson, says: "The bill is important because if you look at the amount of stimulus the government gave to their small business approaches, our economy burned through that in days."

Flaxbeard explains: "The insurance industry has approximately $800 billion of available policyholder surplus and some anecdotal reports have indicated that if you make the insurance industry pay for all the business interruption losses caused by COVID-19, currently excluded in most policies, we would burn through that surplus in a couple of months."

He notes that the insurance industry cannot pay for these losses, and therefore, there is a need to have a governmental backstop.

PRIA will follow the same structure as the Terrorism Risk Insurance Act (TRIA) and provides access to governmental funds when the insurance market is not available for the coverage, according to Flaxbeard. He adds that this provides a screening process for companies and takes out the application process. It also provides capital when it is needed and does so in a mechanism that allows the process to potentially recoup those losses.

Flaxbeard notes: "I think it is a good move, it's needed, and it provides a backstop when there is no insurance available."

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

> **"One concern is making sure captives have adequate reserve strength should coverage be found for the pandemic"**
>
> **Jerry Messick, CEO of Elevate Risk Solutions**

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.

Work states: "With the country not yet having emerged fully from COVID-19, PRIA will necessitate a much larger debate on the federal level as to the necessity for a future pandemic reinsurance programme and what that will look like as a means to help American businesses recover."

> "I'm excited to see how the captive market evolves and the new opportunities it presents"
>
> **Spencer Poole, chief compliance officer at Venture Captive Management**

He explains that PRIA sets up a pandemic risk reinsurance programme that will be triggered when aggregate losses for a covered health emergency exceed $250 million. If that limit is triggered, the federal government will take on an amount equal to 95 percent of insured losses that exceed the insurer deductible, with a cap of $750 billion.

Work highlights that it remains important that private sector insurance and reinsurance programmes, such as captives, remain an important tool for businesses in mitigating future pandemic costs.

"While I believe the HFSC and Congress generally, will have further debates and in-depth discussions on this topic later this year, it may take some additional time for COVID-19 recovery and lessons learned to truly understand if this programme will be enough to handle the risks and costs associated with future pandemics", Work adds.

US outlook

Examining what the next year looks like for the captive industry, Poole expects to see a marked increase in the number of captives in the US.

Poole says: "What will be interesting is how each venue will differentiate itself from other jurisdictions to attract captives; whether this manifests in the form of decreased fees, amended capitalisation requirements or something else, I'm excited to see how the captive market evolves and the new opportunities it presents."

Messick also expects to see growth, suggesting a 20 to 30 percent increase in new captive clients over the next 18 months, if not longer. He says: "We're very optimistic about the captive industry."

Miholic also highlights the trend of increased interest in new captive formations and he sees it continuing well into 2021, given the future outlook both locally in the US as well as the London and global markets.

He highlights: "As the environment and political landscapes continue to shift at uncanny speed, the traditional marketplace will still have issues keeping pace. While this is causing pain points with many insureds, the situation is highlighting the benefits that captives can bring to their parent companies. I also see increased interest and participation in cell companies across industries and company demographics."

"The value placed on joining a pre-built facility with timing and cost efficiencies can be immeasurable during these times of uncertainty and capital constraint," Miholic maintains.

Kranz says he expects to see captive domiciles continue to be flexible with their requirements (waiver of physical presence, electronic signatures, etc.). He suggests there will "dramatic activity" in the number of new captives and the programmes being set up.

He also notes that "the insurance marketplace is changing and doing so in a way that is going to put more risk on insureds".

Kranz highlights that this is going to be a primer to the growth we've been seeing in the middle market for captives: groups and other cell structures.

"It's not about trying to get some tax benefit – it is being driven by the fundamental repricing of the insurance marketplace", he adds.

Also weighing in, Work says he is "amazed" at how rapidly evolving the industry is, suggesting that the next year will be an exciting one in this evolution.

He explains that state regulators and others are seeing first-hand the success of captive formation, with new domiciles looking to follow suit.

He also notes that in November, the US will see election results from the 2020 presidential election, which may very well impact the future of tax policy on several fronts, between Congress and the Administration.

"There are numerous issues to track, including a hard insurance market, election impacts, and a potential federal court decision, any one of which will have long-term implications across the industry", he concludes. ■

Megan Moore

Underwriter trainee

Beazley

> "I hope to further my knowledge basis and learn much more about the insurance industry"

Personal Bio: I grew up in Palos Verdes, California, but I'm very excited to move to Atlanta, to begin my career. As a recent graduate from the University of Southern California, I am now working as an underwriter trainee at Beazley. I'm passionate about travelling, meeting new people, and giving back to the community.

Professional Profile: I majored in business administration and minored in risk management at the University of Southern California. Previously, I have interned at Everest Reinsurance Company in New York City and worked part-time at Worldwide Facilities in Los Angeles. Additionally, I was the co-president and co-founder of the Gamma Omicron chapter of Gamma Iota Sigma, a national risk management collegiate fraternity at USC.

As a finalist in the CICA essay contest, how has this helped develop your knowledge of the sector?

Throughout the Captive Insurance Companies Association (CICA) essay contest, I learned so much more about the cannabis industry and the applicability of a captive for an emerging risk.

My teammate, Natalie Kojobabian, and I both researched extensively and read several white documents surrounding these topics. I feel much more experienced and knowledgeable about this sector.

After graduating from university/college, what will your next steps in your captive insurance career?

I have started my career as an underwriter trainee at Beazley, in Atlanta, Georgia. Through this training programme, I hope to further my knowledge basis and learn much more about the insurance industry.

> "With a couple of years of insurance industry experience and already licensed as a California property and casualty broker-agent, Megan Moore has lit a path for a bright future.
>
> Her first-place finish with the University of Southern California teammate Natalie Kojababian in the CICA essay contest confirms her potential. However, her consummate leadership has impressed me the most.
>
> At USC, Megan co-founded the Risk Management Society in fall 2018 and, as co-president, oversaw its chartering as a Gamma Iota Sigma chapter just a year later. Aided by her generous spirit and relentless promotion of insurance across the USC campus, the chapter, one of the largest and fastest-growing in the country, boasts over 60 student members.
>
> Her impact at USC will reverberate for many years to come and signals her future as a leader in the insurance industry."
>
> **Kristen Jaconi, associate professor of the Practice in Accounting**

What is your ultimate goal and career aspirations within the captive space?

As much as I find captives extremely interesting, I do not have any current plans to enter the space. I think that for now, I need to become more knowledgeable about the different insurance segments, in order to establish myself better as an expert.

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

One of my greatest influences has been Professor Ward Ching. Ward is a very experienced captive manager and insurance veteran as he currently also works for Aon in their San Francisco office. Not only have I taken Ward's class, but I also was his teaching assistant for the fall 2019 semester. Through his classes, I have been exposed to how captives can assist with emerging risks and apply creative solutions for problems faced by corporations or associations.

What is your impression of the industry?

I have found the captive industry extremely interesting and engaging. I have always had plans to enter into the risk management and insurance industry. I believe the captive space is growing and becoming a more viable solution for many companies. I am excited to see where my career takes me and to see if I one day end up working on captives myself. ■

The Federation of European Risk Management Associations (FERMA) has elected Simon Grimm from Mid-America Risk Managers (MARM) and Lene Ritz from DARIM to the board.

The remaining five members, Philippe Cotelle of AMRAE, Tapio Huovinen of The Finnish Risk Management Association (FinnRima), Gaëtan Lefèvre of BELRIM, Xavier Mutzig of Airmic, Laurent Nihoul of ALRiM, start their second three-year mandate.

In addition to the board appointments, Dirk Wegener, president of FERMA, outlined the steps that FERMA has been taking to support its members and European businesses in the face of COVID-19.

Wegener noted that FERMA is currently focusing on its proposal for a European Catastrophe Risk Resilience Framework to address future pandemics and other systemic risks across Europe.

"COVID-19 will heighten awareness of the value of sound risk management," stated Wegener.

He explained: "I have no doubt that we will reflect a great deal on the experiences and lessons of this extraordinary period of our lives."

"We strongly believe that it is also an opportunity to heighten awareness of the value of sound risk management."

"Perhaps as never before, risk managers can demonstrate their true potential as the co-pilot on risk and insurance for senior management and the board," he added.

Wegener also set out the broad framework that FERMA has created to strengthen its position as a strategic partner for the European Commission by linking FERMA's workstreams with specific commission programmes.

These include a new sustainability committee for a European Green Deal; a digital committee for a Europe fit for the digital age; the Solvency II and captives committee for the commission programme; an economy that works for people; and in response to the COVID-19 crisis, FERMA has created its resilience taskforce.

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Belinda Fortman has joined the Tennessee Department of Commerce and Insurance (TDCI) as a captive insurance section director, replacing Jennifer Stalvey.

Fortman has previously managed various forms of captive insurance companies including pure, association, agency, protected cell, special purpose, reciprocals and risk retention groups.

She has also worked closely with clients in financial services, healthcare, retail, manufacturing, faith-based and other sectors making her "a perfect fit" for Tennessee-based captives, according to TDCI.

Fortman moved to Tennessee from Vermont in 2013 to support the growth of captive insurance in Tennessee.

During her career in the private sector, while working in Tennessee, Fortman has served as a director for the Tennessee Captive Insurance Association (TCIA).

Commenting on the appointment, TDCI commissioner Hodgen Mainda, said: "Captive insurance is a growing and important part of Tennessee's thriving economy. Belinda Fortman's decades of leadership and experience with captive insurance companies will help ensure Tennessee will continue to climb among the ranks of respected captive industry leaders."

He added: "With her skills, knowledge, and proven track record, I am confident Fortman will help Tennessee become the leader for captive insurance domiciles in the country and the world."

Assistant commissioner of insurance Rachel Jrade-Rice said: "We welcome the creation of new captives and captives moving to Tennessee from other states as well as international domiciles. In fact, any alien (or off-shore) captive will receive a one-year tax holiday if they redomesticate their captive to Tennessee."

"I am confident Fortman's captive insurance experience and expertise will build on Tennessee's reputation as a respected captive domicile and contribute to taking the state to the next level," Jardel-Rice added.

Commenting on her appointment, Fortman stated: "I applaud Tennessee's leadership for having the vision to expand the state's captive statute, and I look forward to working with Governor Bill Lee's administration, the TDCI team and business leaders from around the world to continue to build on Tennessee's position as a global leader in captive insurance."

"Tennessee has grown to become one of the top-tier captive domiciles due to its business-friendly environment, responsive regulatory team, and low operating costs. Serving as the captive insurance section director is a wonderful opportunity to continue to contribute to the captive insurance industry in this state, and I am excited to be joining the TDCI team," she added.

Earlier this week, the TDCI revealed that despite uncertainty this year so far, the state's insurance industry has "continued to thrive".

The department revealed that it has licensed 203 captive insurance companies and 471 approved cell companies in Tennessee for a total of 674 risk-bearing entities compared to 652 at the end of 2019. ■

Allianz Global Corporate & Specialty SE (AGCS) is realigning its board of management focusing on responsibilities for regions and markets as well as for Underwriting and Claims functions.

The number of chief regions and markets officers (CRMO) on the AGCS SE board of management will be reduced from three to two, effective from 1 July 2020.

Henning Haagen, current chief underwriting officer specialty, will assume responsibility for all AGCS regional units outside North America as CRMO regional group 1, including Africa, Asia Pacific, central and eastern Europe, Mediterranean Region, regional unit London, and South America. He will also oversee global broker management.

Bill Scaldaferri, CRMO regional group 2, will continue to head the North America regional group.

Each CRMO will be responsible for approximately half of AGCS' business in terms of gross premium income of €9.1 billion in 2019.

Sinéad Browne and Hartmut Mai, the two current AGCS CRMOs, will both resign from the AGCS SE board of management and from the company with effect from 30 June 2020. Their responsibilities will be merged into one single regional group one under the lead of Haagen.

In addition, AGCS has further board appointments for their underwriting and claims.

Subject to regulatory approval, Renate Strasser has been appointed as chief underwriting officer specialty, succeeding Haagen's current position.

She joins from the Zurich-based New Reinsurance Company (NewRe), a subsidiary of Munich Re, where she is currently CEO. Haagen will retain his existing board responsibility for specialty lines of business (aviation, marine, entertainment, midcorp) on an interim basis until Strasser starts at AGCS on a date which will be confirmed later.

Thomas Sepp, current chief underwriting officer corporate, will assume a re-established board role as AGCS chief claims officer. Subject to regulatory approval, he will be succeeded by Tony Buckle, who will join AXA XL with effect from 1 July 2020. Buckle will oversee AGCS' Corporate lines of business.

Joachim Mueller, AGCS CEO, said: "With the consolidation of regional leadership at board level, we aim to strengthen our global approach at AGCS and to simplify our organisation."

"I look forward to working with both Henning Haagen and Bill Scaldaferri to act as one team at AGCS globally to service clients and brokers effectively in all our key markets."


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