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19 August 2020 - **Issue 205**

Building momentum

The latest developments in the European captive insurance market

Cell Captives

How they can provide regulatory structure to support innovation

Emerging Talent

Ariel Ballard
insurance client services manager
Advantage Insurance Management

The Bahamas

CG Captive Managers' Guilden Gilbert discusses the current captive trends in the Bahamas


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In this issue

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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

South Africa FSCA proposes new requirements for cell captives

The South Africa Financial Sector Conduct Authority (FSCA) has published a revised draft conduct standard setting out requirements relating to third party cell captive insurance business.

The statement supporting the draft conduct standard identifies specific risks in conducting insurance through third party cell structures, which the proposal seeks to address.

The risks raised in the position paper included, conflict of interest risk where the cell owner is a non-mandated intermediary; the risk of regulatory arbitrage, resulting in uneven playing fields for non-mandated intermediaries and underwriting managers; and the risk exacerbated by the nature and business models of cell captive insurers.

In an statement from Ernie Van Der Vyver, partner, and Nicole Britton, senior associate at Clyde & Co, the pair explained that this proposal addresses the "imposition of stringent proactive governance and oversight requirements on cell captive insurers, including that a cell captive insurer undertakes due diligence investigations in respect of a cell owner prior to entering into a new cell structure".

It continued: "Where the cell owner is a non-mandated intermediary, the cell owner meets the fit and proper requirements in terms of the Financial Advisory and Intermediary Services Act, 37 of 2002."

The statement also said that a non-mandated intermediary and their associates who are cell owners will be restricted to rendering services as an intermediary (including advice) in respect of only policies underwritten in the cell structure of that cell owner.

It stated: "The non-mandated intermediary must be a tied agent of the cell captive insurer."

"In addition, the draft conduct standard requires cell owners who are non-mandated intermediaries to be registered as financial services providers as contemplated in the FAIS Act."

"Accordingly, cell owners who are non-mandated intermediaries will not be allowed to be a representative on the cell captive insurer's license," it added.

The draft will also require cell captive insurers to disclose the exact nature of their relationship and remuneration arrangements (including profit shares and dividends), to the policyholder prior to the inception of any policy and when such arrangements change.

The draft conduct standard provides for specific transitional periods, namely, any cell structure entered into prior to 1 January 2020 must, within two years of the commencement date of the standard, comply with the requirements delineated therein.

Submissions to the FSCA on the draft conduct standard using the submission template are requested by 22 September 2020.

In August last year, a report from Cenfri highlighted how cell captives have the potential to help address some of the structural constraints faced by many insurance markets in sub-Saharan Africa.

It provided examples of those countries in sub-Saharan Africa that have already introduced the cell structure, such as Mauritius, where cell captives have successfully been leveraged for first-party insurance, and South Africa where they have demonstrated their ability to drive retail innovation and provide an entry path into the insurance market. ■

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R&Q acquires interest in New York-based managing general agent

Randall & Quilter Investment Holdings (R&Q) has reached an agreement to merge its wholly-owned subsidiary, Sandell Re, with Tradesman Program Managers in return for a 35 percent interest in the combined entity.

The transaction is subject to the approval of the Bermuda Monetary Authority (BMA).

The initial book value of R&Q's interest in the combined business will be $43.4 million, which is equal to the estimated book value of Sandell at completion. Proforma pre-tax earnings of the combined business for the full year 2020 are estimated to be $17.2 million.

As part of the deal, Ken Randall and Stewart Ritchie will be joining the board of the newly combined business as representatives of R&Q.

Based in New York, Tradesman is a managing general agent which underwrites construction-related liability insurance known as the ARTISAN Contractors' General Liability insurance programme through insurance policies which are issued by Accredited Surety and Casualty Company, R&Q's A- 9 rated subsidiary. It is currently owned by Daniel Hickey Jr., the CEO of Tradesman, and various affiliated entities and individuals.

In the year to 31 December 2019, Tradesman generated earnings before interest, tax depreciation and amortisation of $8.06 million, an increase of 99 percent from 2018.

Sandell was acquired by the group in October 2019 for $25 million and has been one of the reinsurers of the ARTISAN Contractors' General Liability programme since its inception in 2017.

As at 31 December 2019, Sandell Re had total assets of $116.7 million and incurred a loss for the year of $1.3 million after making a $3 million provision against third party loans and strengthening reserves on acquired legacy portfolios by $2.6 million.

Following the completion of the transaction, the group will deconsolidate Sandell and reflect its 35 percent equity interest in the enlarged Tradesman group on its balance sheet.

Commenting on the proposed merger, Ken Randall, executive chairman of R&Q, said it was a "fantastic deal for both parties".

He explained: "For the owners of Tradesman, it provides access to the expertise and management within the R&Q Group, facilitates participation in the profitable underwriting results from the Tradesman programme and creates alignment with the risk assumed by the reinsurer panel."

"The growth of Tradesman's ARTISAN programme has and will continue to be a tremendous driver of value both for Accredited's fee-based programme management business and through our strategic minority interest in the Sandell risk carrier.

"Tradesman's ARTISAN programme has experienced consistent and profitable growth since its launch in November 2017," Randall added.

Daniel Hickey Jr., CEO of Tradesman, commented: "We are thrilled to partner with R&Q on this transaction which aligns the interests of Tradesman and R&Q in the development and growth of Tradesman's business and programmes, Accredited's US programme management business and Sandell Re as one of our reinsurance panel members."

Davies Group expands offering with Citadel Risk acquisition

Davies Group has acquired Citadel Management Bermuda Limited and Cedar Consulting (Citadel Risk).

Led by CEO Steven Crabb, Citadel Risk will become part of Davies' insurance services practice.

As part of the deal, the businesses will be rebranded and will trade as part of Davies Captive Management.

Senior executives Tom McMahon and Mick Larkin, who are both based in Bermuda, and Dennis Silvia, who is based in Ohio, will join Davies and report to Nick Frost, president of Davies Captive Management.

The deal marks Davies' third acquisition in 2020 following the acquisitions of Keoghs, a provider of dispute resolution and risk services for the UK insurance industry and Codebase8, the automation, modernisation and digital solutions provider and consultancy firm.

Dan Saulter, group chief executive of Davies, said: "I'm delighted to welcome Tom McMahon, Mick Larkin, Dennis Silvia and the wider team to Davies, and I am thrilled that we have been able to work with Citadel Risk to get this deal done."

"The businesses have an excellent reputation and bring a wealth of experience and deep captive expertise. Following the very challenging start to 2020 caused by COVID-19, many US and global insurance buyers are now grappling with capacity reduction and rate increases, making it a good time for us to increase our captive capability for those clients looking for alternative insurance solutions," he added.

Tom McMahon, president of Citadel Management Bermuda, commented: "We are delighted to be joining Davies and look forward to integrating our team and client base into an expanding and dynamic global business."

Tony Weller, group CEO at Citadel Risk, noted: "The Citadel Management team is a great asset for any group, and we're delighted that McMahon, Larkin and Silvia will continue to provide their exceptional captive experience and expertise to Citadel Risk, with the added resources of the wider Davies team: our own group captive, segregated cells and clients will benefit from the pooling of resources. Citadel Risk's ongoing commitment to Bermuda is unaffected, and we look forward to working with the new[ly] integrated team to ensure that all our segregated accounts clients continue to receive the high level of service they expect," he added.

DARAG makes first Luxembourg company acquisition

DARAG Group has acquired Arisa Assurances, an automobile and travel insurance company based in Luxembourg. This transaction will be conducted through DARAG's German risk carrier, DARAG Deutsche Versicherungs- und Rückversicherungs-AG, and is subject to regulatory approvals.

Arisa is a subsidiary of ADAC Versicherung AG, belonging to ADAC SE, a public company limited by shares under EU law offering mobility-oriented services and products.

The transaction will be DARAG's first company acquisition in Luxembourg. It will provide ADAC Versicherung AG with legal, operational and economic finality in regard to Arisa as it focuses on its core business.

Tom Booth, CEO of DARAG, said: "DARAG's presence and expertise in the German-speaking markets [are] already unrivalled and we have been growing our business here significantly in the past few years. Arisa will be our first acquisition in Luxembourg and demonstrates our firm commitment to clients in the region."

He continued: "The deal provides legal and economic finality to ADAC Versicherung AG, secure in the knowledge that insureds will be looked after by a carrier with an outstanding reputation in Europe."

"ADAC Versicherung AG [has] been relentlessly professional throughout the process and it was a pleasure working with the team. We are very pleased to announce this transaction and we look forward to expanding our footprint in continental Europe and all our global markets in the coming months and years," he added.

UK aviation captive initiative for future pandemics knocked back by government

A conceptual initiative for a government-mandated captive for the UK airline industry covering a second pandemic-style or other 'black swan' event has not been supported by the UK Government, according to Nigel Weyman, global executive aerospace at Gallagher Aerospace.

Weyman explained that in order to attract certain large insurers every airline ticket sold in the UK would have a £2 surcharge, generating guaranteed revenue for insurers.

The initiative was a Gallagher's concept as they worked with some major insurance companies to put it together. They took this initiative to the UK Government in May.

It could have seen insurers provide cover via a special purpose vehicle, which could then be used to assist the airlines if the world faced a second wave of events that caused business interruption for the airlines.

Weyman said: "What is happening at the moment is that the airlines may just survive this event without the government and their own resources/cash reserves. However, if there was a second event and they had not had time to rebuild their cash resources they would need help."

"This insurance backed initiative was designed to give them the cash they would need to deal with grounded operations and avoid the need for the government to step in."

Although the idea was backed by many in the aviation industry, the UK Government has not approved it. He commented: "The insurance industry is trying to work with both the airline industry and the government to find a solution. The problem may be that the government is loath to find a solution for an individual industry and be accused of favouring the airline industry over others, so they will probably instead try to find a solution for all industries."

Weyman said although it was "frustrating" the idea was not "a complete waste of time," as the concept does demonstrate the insurance industry is keen to help and is willing to be innovative in order to do so.

He commented: "If it did get traction, they may plagiarise some of our ideas to make something that might help the UK airline industry. We are concerned about this being copied as we are all about pooling ideas to come up with helpful solutions."

Weyman explained airlines that currently do not have a captive, might consider setting one up as preparedness for whatever lies ahead.

He suggested that there is currently a lot of interest around non-damage business interruptions coverage and COVID-19 and questions if a captive is the answer for businesses.

"A captive could work quite well in that situation if you convene retention with possible capital available in the insurance market," however, "in reality the sums insured needed to be meaningful cover are so massive, most companies cannot find a way to earmark that into their captive".

Ryskex start-up wins Lloyd's Lab Fusion programme

The Lloyd's Lab Fusion programme has named Ryksex startup Ten C's as this year's event winner.

The aim of the startup was to develop an idea for a parametric risk transfer solution for events, however, changed direction during the programme to focus on developing cover for widespread, long-lasting power outages in the US power grid.

It proposed to bring together insurers, customers, and capital markets to develop parametric coverage for this systemic risk.

Ten C's was founded by Patrick Kelahan of H2M and Marcus Schmalbach, CEO of Ryskex GmbH.

Additionally, Joerg Proeve, an insurance veteran and consultant, joined Ten C's to further build out the solution and establish a global team of data scientists, artificial intelligence, insurance, blockchain, and risk transfer experts.

Lloyd's Lab ran a new three-day programme from 21 to 23 of July and was designed to test early-stage start-up ideas aimed at dealing with COVID-19 and other systemic risks.

Ryskex had the highest overall score from the market judges and was recognised for its plan which supports Lloyd's commitment to progressing solutions for global industry and government partnerships to fast-track society's recovery from COVID-19 and provide greater resilience to future systemic risks.

As the winners, Lloyd's and its syndicates have invited Ryskex to join the fifth cohort of the lab, where Schmalbach noted that they "will grind, market and launch the product".

GEB UK and Bupa agree commercial partnership

Generali Employee Benefits (GEB) UK and Bupa have agreed a commercial partnership initiative to drive forward wellbeing programmes designed for UK employers who are part of a multinational group.

The initiative aims to give employers access to the back-to-work support they need with a specific focus on risk assessment, testing and support mechanisms to improve an individual's COVID-19 risk factors. The partnership also covers GEB's multinational pooling, global underwriting programme (GUP) and captive clients. It affords the potential for joined-up thinking on a local UK level with regards to health, wellbeing and risk data collection and analysis. Beyond the pandemic, the intention is to provide a sustainable framework for an ongoing focus on supporting employee physical and psychological wellbeing long-term.

The commercial partnership will see a range of Bupa's employer-funded wellbeing services made accessible to GEB UK's group income protection (GIP) clients, where a specific need is identified, via part-funding from Generali. This will allow the parent company increased central visibility of local actions, allowing for best practice sharing, global engagement reporting and more targeted budget allocation.

Simon Thomas, director, GEB UK, said: "This is a proud day for GEB UK. We're delighted to be a commercial partner with Bupa. Everything GEB UK does is underpinned by principles of commercial partnership working and sustainability. The announcement helps demonstrate loud and clear that we are walking the talk."

A.M. Best: captives to thrive in current market

Firming commercial insurance prices and impacts from the ongoing COVID-19 pandemic could present opportunities for the US captive insurance segment to increase its footprint in several lines of business, according to a new A.M. Best report.

The report suggested that the difficulty and expense of placing insurance in a hard market may encourage enterprises to expand the use of their existing captives, form new captives, or a combination of both, as part of their risk management strategies. As a result, captives are balancing risk appetites with self-insurance savings in determining whether, or how much, to increase net retention or to participate in the reinsurance tower to manage costs, according to A.M. Best.

The rating firm said: "Firming commercial insurance prices and reinsurance capacity shortages are examples of recent market developments that are contributing to market dislocation and could continue for years to come."

Elsewhere, the report also highlighted captives may also provide an opportunity to write traditional lines of business where rates have climbed following catastrophe losses as well as for ongoing uncertainty related to COVID-19.

A.M. Best noted that rate increases for lines such as directors and officers and errors and omissions, and commercial auto could also encourage captive interest and help reduce claims costs.

COVID-19 brings forth not only a new set of challenges but also new opportunities, particularly for insureds seeking to include coverages for communicable diseases as part of their commercial property policies, including business interruption and contingent business interruption, the report noted.

The report stated: "Few if any commercial carriers are currently offering this coverage –this, in and of itself, presents a huge opportunity for captives and their insureds."

Additionally, the report addressed the Pandemic Risk Insurance Act of 2020 (PRIA), which was introduced in May 2020. It explained that "should PRIA be signed into law, it may provide captives with an opportunity to write pandemic risk if the federal backstop is available to them, similar to the public/private partnership protections currently available for terrorism risk and flood insurance".

A.M Best outlined that the number of captives continues to grow suggesting that the "insurance market challenges aren't new to the captive segment".

The rating firm explained: "These challenges create opportunities for enterprises and focused management teams that allow them to restructure their exposures, limits, and retention, and to make their operations more efficient and economical."

The report also highlighted key regulatory issues suggesting that disruption is often described as an opportunity for commercial insurers, but it also presents an opportunity for captives.

It explained: "Captive domiciles, in turn, aim to establish legislative frameworks that not only provide for efficient and effective regulation but also encourage captives to do business in their jurisdiction."

A.M. Best also noted that the Internal Revenue Service (IRS) "continues to scrutinise micro-captives, despite removing them from its "Dirty Dozen" list in July 2020".

It stated: "IRS activities have reportedly had the effect of slowing the number of new micro-captives being licensed; however, many of these captives will continue to exist and operate as insurance companies."

"Given the knowledge of IRS activity, ensuring that elements such as risk transfer, risk distribution and arm's length pricing are in place is highly prudent for not only micro- captives, but for captives of all sizes", it added.

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Gossmann & Cie. receives risk carrier license in Malta

Gossmann & Cie., the liability management company specialising in digitally intuitive capital optimisation and ongoing portfolio refinement for the insurance industry, has received the license to operate its risk carrier, a protected cell company (PCC) from the Malta Financial Services Authority. The new insurance carrier, named Gossmann & Cie. Insurance PCC, is authorised under the Insurance Business Act (Cap 403) to carry on the business of insurance.

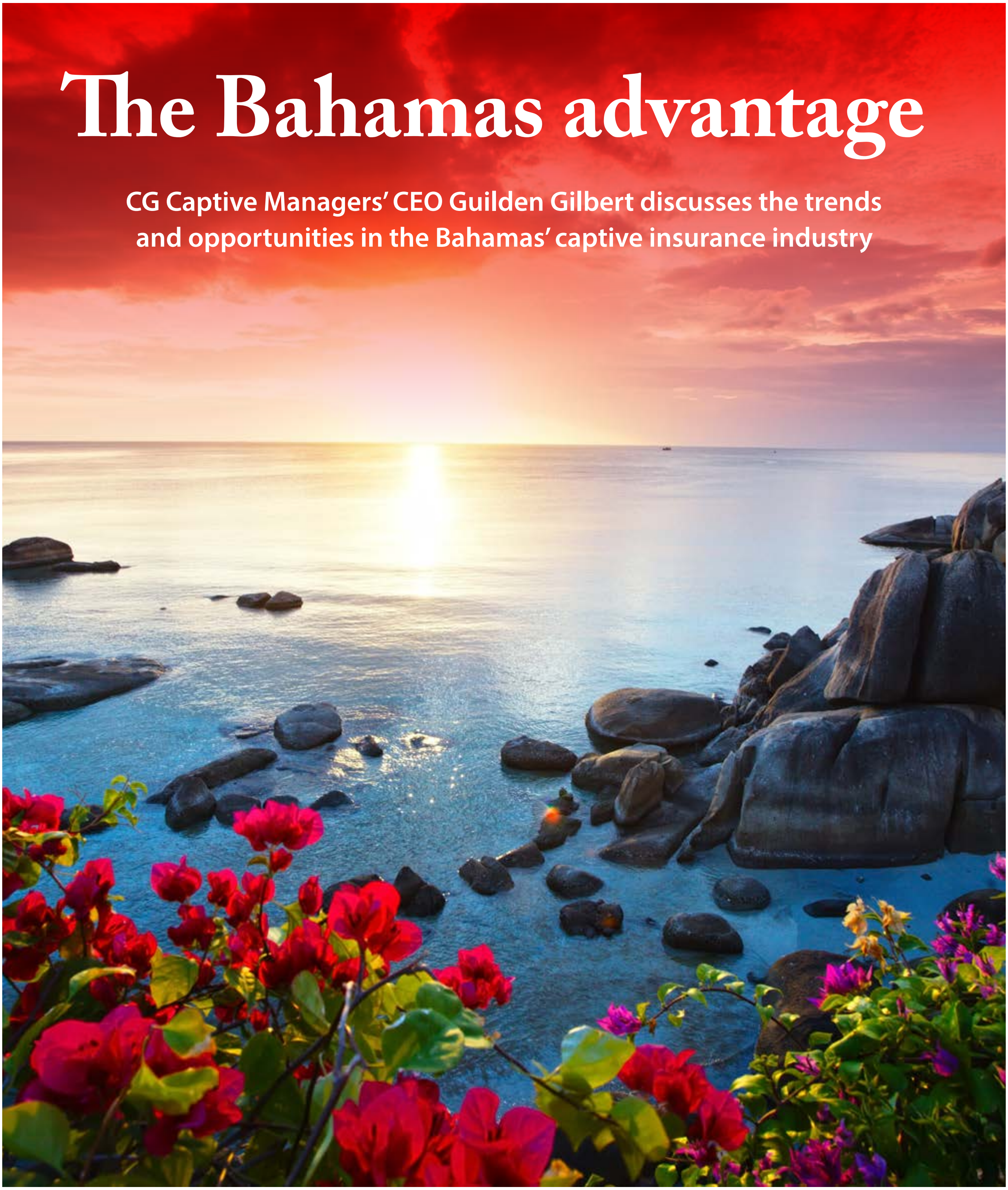
The PCC is fully operational and able to create customised cell-based solutions as well as manage the relevant insurance portfolios transferred to Gossmann & Cie., with immediate effect. The board has appointed Joanna Aquilina as CEO of the PCC. Aquilina is a chartered accountant and expert for PCC structures and has been part of the Gossmann & Cie. Group since 2019.

Arndt Gossmann, liability management expert and founder of Gossmann & Cie., commented: "With our risk carrier now licensed and open for business, we are fully operational and ready to close first transactions. The timing is perfect as interest in ongoing portfolio refinement combined with disposal of legacy and non-core insurance businesses and portfolios, has risen noticeably among European non-life insurers in the current COVID-19 related conditions, which further strain regulatory capital ratios and accentuate balance sheet volatility."

He added: "We understand the mounting interest of insurers to preserve and bolster capital levels, reduce volatility and safeguard against any additional financial uncertainties to the extent possible. Mitigating exposures and refining portfolios are more important now than it has ever been. Digital analytics and customised cell-based structures can offer greater speed and solution flexibility in times like these."

The Bahamas advantage

CG Captive Managers' CEO Guilden Gilbert discusses the trends and opportunities in the Bahamas' captive insurance industry



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There are a number of reasons why people choose to use captive insurance, including:

- Direct access to reinsurance markets
- Tailor-made coverage
- Investment income from underwriting profits
- Controlling cashflow
- Increased incentive for loss control
- Control over claims handling
- Reduced cost of operating an insurance programme
- Stabilising premiums

This is not an exhaustive listing by any stretch and my focus is not on the reasons behind the formation of a captive, rather why potential captive owners should consider the Bahamas as the chosen domicile.

The Bahamas is just a short 50 miles off the coast of south Florida and its geographic locale affords it business advantages with the US, central and south America. The advantages make the Bahamas the ideal destination for the quality of life and the ease of managing financial affairs.

It is home to roughly 250 financial institutions, which has created a well-trained and experienced workforce with many years of hands-on experience. The Bahamas has over 80 years of financial services experience as a domicile.

This year the Bahamas celebrated 47 years as an independent nation and over this time, it has demonstrated a strong commitment to international tax transparency, anti-money laundering and counter-terrorist financing initiatives. The strong public and private sector collaboration, via entities like the Bahamas Financial Services Board, has ensured that the Bahamas is well-regulated and is committed to adhering to international best practices. This is supported by strong independent regulators inclusive of The Insurance Commission of The Bahamas (ICB).

The ICB works very closely with the private sector through broad consultation on legislation and policy. In 2005, for example, the Domestic Insurance Act was completely re-written to modernise it and have it match the needs of the domestic insurance market.

The re-writing of the domestic act was done through weekly round table dialogue and input from the domestic insurance market from both the insurance carrier side and the intermediary side. Again in 2009, the ICB did the same thing with a review of the External Insurance Act.

The ICB has recently advised that it will be undertaking an initiative to merge the two legislative regimes into one comprehensive Bahamas Insurance Act and it has stated very clearly its intention of seeking broad private sector input with this endeavour.

The ICB has proven to be extremely flexible in its approach to insurance matters as while it recognises the need for prudent supervision it is also cognisant that it must play a part in the ease of doing business in the Bahamas in order to grow the domicile as an international insurance jurisdiction.

The Bahamas is a relatively low-cost captive domicile with an application fee of $250 for each captive application or for each cell in a segregated accounts company.

There is an annual license fee of $2,500 for a restricted insurer and $3,500 for an unrestricted insurer.

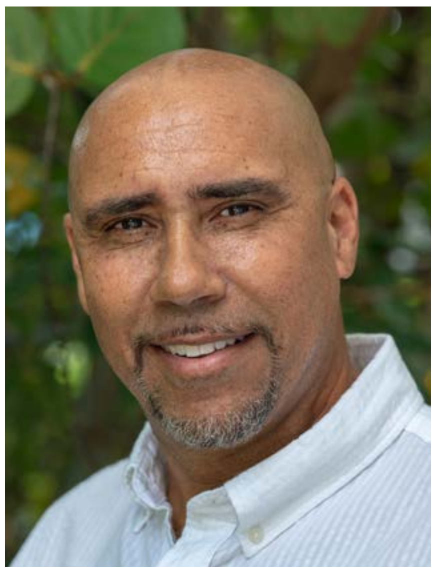
We see the Bahamas as ideally positioned for growth in captive business and we have a number of new enquiries ranging from health care to renewable energy.

Finally, the Bahamas ranks high as one of the most popular tourism destinations.

What better place for a captive owner to conduct board meetings and then enjoy all that the Bahamas has to offer afterwards?

"We have a number of new enquiries ranging from health care to renewable energy"

Guilden Gilbert
CEO
CG Captive Managers



Building momentum

Find out the latest developments in the European captive insurance market as industry participants discuss the ongoing COVID-19 pandemic, the Solvency II Review and the importance of remaining competitive

Like the rest of the world, Europe has been badly affected by the ongoing COVID-19 pandemic with millions people losing their jobs, businesses closing, and countries like the UK crashing into the deepest recession of any major economy. Within the insurance industry, captive insurance companies have been highlighted as an option for coverage for future events similar to the current global pandemic.

Andy Hulme, executive vice president, director of underwriting at Strategic Risk Solutions (SRS), explains that the captive market is seeing increased interest at this time and there are compelling reasons to consider captives.

Hulme says: "The capability to design coverage which will ensure losses are settled is compelling."

"We will see interest in non-insurable risks, such as non-physical damage business interruption (NDBI)/contingent business interruption coverages post-COVID-19 and captives are a great vehicle to incubate such a policy."

Although the obvious answer should be yes, in terms of setting up a captive, Shruti Vyas, captive manager, insurance at SES Satellites, suggests there is a catch.

Vyas says: "A difficult market is not the time to think about setting up a captive. To make the most of the captives they need to be set up in a soft market so the benefits can be seen in a difficult market like now."

However, Guenter Droese, executive director of European Captive Insurance and Reinsurance Owners' Association (ECIROA), notes: "Captives may reduce the impact of huge financial losses especially by building up technical reserves and buffers which the parent company may not be allowed due to tax reasons but these solutions are also limited to pay out to the limit insured and for a self-determined time frame, not for whatever will happen in the worst case."

Even before the pandemic, the European captive market was gaining significant interest. A report by the Federation of European Risk Management Associations (FERMA) confirmed that levels of interest had almost tripled from 2018.

Some of the reasons behind the increase included the current market conditions with the industry looking at a hard market after a very soft market for several years. A continued trend from last year is the increase in rates and inclusions and the reduction of capacity is on the rise.

Hulme explains that interest in alternative risk financing remains high in Europe as it is fueled by the capacity contraction and the premium increases in the traditional (re)insurance space.

He says: "We are seeing increasing consideration of captives by European organisations as they continue to encounter severe challenges in their upcoming renewals."

Another trend in the European captive market, according to Droese, is captive owners and captive managers checking their business model, the business rationale and the targets and mapping how to improve the captive performance.

Droese says he expects to see a lot more employee benefits programmes underwritten by captives during the coming years.

Hulme also notes that they are seeing interest from existing captive owners looking to leverage their captives further, whether it be to better utilise capital within the captive or to facilitate new lines of business where the insurance market is pushing rate and retention increases.

"There are also numerous considerations how to optimise the use of the capital invested and whether alternative risk transfer (ART) in combination with rather so-called NDBI/supply chain risk and cyber, will add value for the parent company," Droese adds.

Captive competition

As the level of interest around captives picks up, so does the competition around domicile selection. Vyas suggests the "eternal challenge" is to remain competitive.

She states: "I see many jurisdictions across the ocean realising the attraction in the business and trying to promote the captives."

Europe is home to some of the larger captive domiciles, with Luxembourg having the biggest reinsurance market in Europe and Guernsey, the Isle of Man, Ireland and Malta being popular domiciles of choice.

Even countries that have had little activity in well over a decade saw movement this year as the French Prudential Supervision and Resolution Authority approved a reinsurance captive for the first time in 20 years.

In order to attract captives, Vyas explains that the biggest role is played by the local regulator. She explains that all the European captives are governed by a single regulatory framework, but how they are implemented in individual countries very much depends on the interest of local regulators.

Droese suggests that captive owners "primarily decide to establish a captive in countries where the experience of the local supervisor with these special purpose vehicles has been developed over the years".

Hulme notes that countries like Ireland, Malta and Luxembourg have the perception of being a captive friendly domicile. Which is further supported by the growth of the captive service industries including banking, legal, secretarial, audit, insurance management and insurance specialists, who are willing to provide INED services.

Droese said: "It's rather a surprise that companies in some so-called industrialised/high-developed countries are not using this instrument of a captive to optimise their risk management structure and tools as companies in other countries."

He said they recognise a difference in understanding, education and experience of entrepreneurs and on the C-level of big corporations regarding the business rationale and the use of captives. There may also be a gap in consulting and advisory experience and skills.

Vyas also suggests that she would not discount the need for greater education and openness for captives in general.

"My observation has been, more often than not, it is the fear of the unknown that prevents entrepreneurial setups like captives from flourishing," she adds.

Hulme suggests: "I think it is fair to suggest that some European domiciles have focused more directly on captives (perhaps to the detriment of the traditional insurance or reinsurance market) and it is those markets that are trending as the most popular domiciles."

Solvency II Review

With competition strong within Europe, Vyas also emphasises the importance of Europe as a whole remaining competitive with global captive domiciles.

Vyas comments: "Hopefully the upcoming Solvency II Review will be a step in the direction of maintaining the position of European captives in the market. It is a long shot but maybe this review will help captive owners to respond to the evergreen question of the substance of captives much more easily," she adds.

After coming into effect in January 2016, the European Commission called on the European Insurance and Occupational Pensions Authority (EIOPA) to provide technical advice for a comprehensive review of the Solvency II Directive in 2019 as the European captive industry had some issues with the regulations.

The review was due to be published this year, however in order to take into account the importance of assessing the impact of the current COVID-19 situation on the Solvency II Review, EIOPA will deliver its advice to the European Commission at end December.

It will focus on long-term guarantees measures and measures on equity risk; methods, assumptions and standard parameters used when calculating the solvency capital requirement standard formula; member states' rules and supervisory authorities practices regarding the calculation of the minimum capital requirement; and group supervision and capital management within a group of insurance or reinsurance undertakings. Beyond the minimum scope, other parts of the Solvency II framework were also identified by the EC services or by stakeholders as deserving a reassessment, such as the supervision of cross-border activities or the enhancement of proportionality principles, including as regards reporting, and among others.

Commenting on the review, Droese says based on the recommendations provided by various stakeholders, including ECIROA, he expects "some simplifications for the captive market".

He notes that this should help to reduce workload and cost and that it should be "at least a further step in the development and understanding of their captive activities".

"Based on the principle of proportionality there is more room and there are a lot of single issues which may allow the exemption from some requirements for captives in the future."

"We understand the Solvency II evolution as permanent development progress," he adds.

Vyas states that the captive industry would welcome from the review of Solvency II a simplification in reporting and one way to do that could be to pay more attention to the use of the principle of proportionality.

According to Hulme, Solvency II has had an "interesting impact" on captives.

He says: "The go-to thought when assessing Solvency II impact would be capital adequacy, though the industry will often report that captives remain some most prudently capitalised structures around, therefore, I suspect that the impact has been on strategic planning and impact assessment for the positive, and cost and time impacts for the negative."

However, Hulme says that the minimum capital requirement within the Solvency II framework is too significant and acts as a barrier to entry for many companies thinking of a captive – especially when there are high-quality domiciles that have lower minimum capital requirements.

Going forward, he suggests that there needs to be a recognition that captive vehicles and commercial vehicles may share regulation but are wholly different structures operating for wholly different purposes, most importantly regarding the relationship with the recipient of the insurance protection.

Hulme says: The proportionality application is an important tool in applying regulations and discerning those structures working to the benefit of a related party, a sophisticated risk financier, and those offering insurance products to consumers."

"I'd like to see a carve-out remain for the captive class recognising their limited purpose and ensuring that they continue to focus on the aspects of the regulation, such as substance, value creation, governance and of course, adequate risk-based capitalisation."

"This will allow Europe to continue to grow to ensure that Europe's corporations recognise and retain their risk financing structures within the continent," he concludes.

Cell Captives - By Maria Ward-Brennan

Celling the future

Although it is suggested cell captives do not promote innovation, industry experts explain that they can provide the regulatory structure to support innovation

A cell captive is structured as a way for a corporate entity to access the benefits of captive insurance without setting up its own captive insurance company. However, first-party business is not the only application for the cell captive model. The cell captive structure can also be used to cover the risks of the clients or members of the cell owner.

The structure is frequently used by a lot of consulting firms, insurance/reinsurance companies, brokers and insurance agents who use cell captive structures for their clients and prospective clients. However, they are also used by larger organisations that use cell captives to insure and reinsure programmes where, for a variety of reasons, they do not want to commingle assets and liabilities from certain programmes or lines of coverage.

Michael Rogers, chairman and CEO of Risk Services Companies, suggests that firms forming cell captives are usually doing so due to either size or time constraints.

Rogers says: "Firms that are not quite big enough to justify the fixed cost of owning their own captive often choose the cell captive route as a stepping stone to a future owned captive. Many cell captives write fully funded policies for unavailable, unaffordable or uninsurable coverages."

Richard Eales, managing executive at Guardrisk Insurance, adds that a cell captive facility offers clients "all the benefits of a single-parent captive, without the inherent legislative and administrative burdens".

Cell captive insurers provide underwriting, reinsurance, claims management, regulatory, investment, actuarial and accounting functions for cell owners, which keeps costs down and gives clients access to a broad base of insurance skills.

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An argument can also be made that the cell captive insurer draws on innovation and experience across a wide range of sectors, passing the benefits on to other cell owners. Single-parent captives require a certain economy of scale to make these structures feasible, while cell captives tend to have a much lower entry-level, making them more affordable across a much broader range of clients.

Rogers highlights that speed to market is a "major benefit" of forming a cell captive. He says a cell is a "one-stop-shop whereby the cell facility typically charges a fee that includes all necessary services".

"For companies forming a captive to reinsure a traditional fronting carrier, a cell captive is a quick and easy solution to providing the necessary reinsurance entity," he adds.

Another benefit is the use of different cells for different exposures and coverages thus segregating the assets and liabilities from other cells, according to Courtney Claflin, executive director, captive programmes at the University of California.

Claflin explains: "Once the core company is completed, it is very efficient (time and money) to continue to prop up different cells for different reasons versus building multiple stand-alone single-parent captives."

Promoting innovation

Reflecting on whether cell captives allow for innovation, Eales states that the flexibility inherent in the cell captive structure facilitates the delivery of tailor-made insurance programmes and products to suit the cell owner's specific needs in the case of self-insurance or the needs of the cell owner's customers, when the cell is used to sell insurance products to the owner's customer base.

Although Claflin does not believe that cell captives can promote innovation, he suggests that they can provide the regulatory structure to support innovation.

He explains: "The cell captive structure can support this innovation by giving the parent the ability to segregate different risk financing arrangements to best finance organisational risks."

"This will then allow the parent the ability to carve out different exposures and place them into different captive cells without exposing them to the assets/liabilities of other cells," he adds.

Additionally, a cell captive structure can also provide brokers, sponsors, insurers and reinsurers with the ability to not only segregate their risk financing arrangements on a cell to cell basis but to expand their offerings to clients via the cell structure.

He says: "The ability to do this allows both parent organisations and service provider organisations to broaden their risk financing platforms through a cell captive structure. This results in the opportunity to be innovative in just what risk financing opportunities the parent/service provider can offer."

The opportunities a cell captive offers businesses are endless, as businesses can launch different programmes with the ability to segregate assets/liabilities from cell to cell, according to Clafin.

He explains: "This gives businesses the comfort that if one cell captive fails, the entire cell structure won't, thus exposing the entire cell structure to one cell's failure. It also allows a business to quickly and efficiently (financially) put up additional cell captives to address the shifting landscape of new/varied risks and risk financing arrangements."

An increase post-COVID-19?

With many small- and mid-sized businesses struggling from the financial impact of the ongoing COVID-19 pandemic, could there be an increase in cell captive formations?

Claflin suggests that the cell captive market is no different from the general captive market in that it will grow.

He says: "The pandemic, coupled with a very hard insurance market, is driving business to solutions and potential solutions."

"As we all know, captives give you a distinct advantage versus traditional insurance in so many ways, and more businesses are looking for solutions (and hurting financially) than at any time in my career. I'm anticipating a significant increase in interest in captives and the industry is poised and well positioned to respond," he adds.

Also weighing in, Eales says that it's "difficult to make predictions right now" given the prevailing climate of uncertainty and the extraordinary economic fallout of the pandemic.

However, he explains that the cell captive market has been around for nearly three decades; it is a well-established sector of the insurance market and has the resilience and substance to weather the current storms. He predicts that the cell captive market "will play a major role in assisting clients to insure in times where conventional insurance will either not be available or simply unaffordable".

Ariel Ballard

Insurance client services manager
Advantage Insurance Management

"I aspire to learn more about the different operational aspects of all types of captives"

Personal Bio: I am originally from New Jersey, but I've spent my adult life in Charlotte, Vermont. I have been passionate about horses and riding since middle school. Having recently found CrossFit and yoga, I'm working to improve my overall fitness so I can keep up with my teenage daughter.

Professional Profile: While studying for a Bachelor's degree in Equine Business Management at Johnson & Wales University in Rhode Island, I worked part-time at a local bank. The bank offered me a job after my graduation. My love of horses and outdoor activities brought me back to Vermont, where I worked at a large bank servicing many captive insurance companies. My Rhode Island banking experience was very focused whereas I got to do a lot more during my Vermont banking days, mainly due to the variety of captive clients that we serviced. That got me curious about the captive industry.

How did you end up in the captive industry?

During my time in banking, I assisted many captive insurance clients with their banking needs. Being in Vermont with a well-known investment banker specialising in captives was just what I needed to learn some basics of captive insurance. I also have a life insurance background which helped me understand basic insurance principles. When there was an opening at Advantage Insurance, I jumped at the opportunity to meet a few of the folks I had previously communicated with only by phone and e-mail while at the bank. And I am so happy to have been in the right place to learn and make the connections that I had.

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

The people and the rich experience they bring. I enjoy working with a variety of clientele. My daily client contacts range from hospital risk managers to Fortune 500 treasury department personnel and many people in between. Their captive insurance questions have much in common, but they bring such different perspectives to the discussion and resolution process. The diversity in their approach has made my work interesting.

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

My banking experience has taught me the importance of regulation and compliance which turned out to be of equal importance to captives. The people who hired me at Advantage Insurance, Christina Kindstedt and Sandy Griffith, are both captive industry veterans and have taught me how to bring added value to client services. Meeting standard service requirements is the prerequisite. But I've found that captive clients really appreciate critical thinking and coming up with a better way of doing routine transactions.

What is your impression of the industry?

Collaboration and timely problem solving. When a new situation presents itself, it takes traditional insurers and their regulators a significant amount of time to react. Captives are held to very similar high regulatory standards but the industry is much more agile. Take COVID-19 for example.

It followed on the heels of a hardening insurance market. A number of our clients had to price new insurance risks into their captives in a short time frame. We worked closely with actuaries, regulators and other stakeholders to implement these changes, much to our captive owners' relief. That is what makes our industry so important and interesting. We are the innovators in a fast-changing world.

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

I aspire to learn more about the different operational aspects of all types of captives. That richness in knowledge will allow me to continue providing value-added services to my clients. I would like to continue working with clients from different industry sectors and to help provide solutions when unexpected issues arise and changes are needed. I'm very fortunate to work for a fast-growing captive manager with a deep bench, it gives me many growth and learning opportunities.

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

Network and be open to learning. Do more listening than talking. Attend conferences. Most importantly, be yourself. If you are a people person, you will get to work with a varied clientele from all over the world. If you are a numbers person, there are plenty of metrics and ratios for you to crunch and analyse. The work never gets boring.

> "I met Ariel when she was the bank representative for one of our larger captive clients. Due to its complexity, that captive makes all types of banking transactions and usually on a tight schedule. Ariel always found a way to get it done on time."
>
> "Drawing on her knowledge, she recommended better ways to handle some transactions, saving us and the captive time and expenses. She has performed with the same competence and can-do attitude since joining Advantage Insurance, earning our clients' rave reviews."
>
> **Christina Kindstedt, managing director, Advantage Insurance Management**

William Wood has joined Artex as director of captive and commercial for its Bermuda operations.

Wood joins the office's senior management team in this newly created role.

He will be responsible for leading the Bermuda captive and commercial (re)insurance management operations. This includes supervising a team of managers and account executives charged with management oversight of a portfolio of complex captive and commercial (re) insurance clients.

Additionally, he will be responsible for related financial, regulatory, and administrative work, as well as new business development.

Wood has more than 25 years of experience in the Bermuda (re)insurance market and extensive financial management and analytical expertise.

Recently, Wood was president and CEO of CT Insurance Management (Bermuda), part of Charles Taylor, where he oversaw the delivery of management and consulting services to the company's insurance, reinsurance, captive, and segregated cell clients. He began his career as an accountant in London, before moving to Bermuda and focusing on the captive management field. He has also served as treasurer and controller at Nissan Global Reinsurance Ltd., vice president – corporate development for XL Capital, and vice president for Centre Solutions (Bermuda) Ltd.

Scott Cobon, managing director, Bermuda, Artex commented: "We are thrilled to have William [Wood] join our team."

He continued: "It is an exciting time for Artex. Due to our acquisition of Horseshoe last year, our presence on the island has grown. We created this new role to better manage our captive and commercial business and Wood is a great fit."

Nick Heys, CEO of Artex International said: "Wood's expertise, professionalism and long-standing history within the captive and (re)insurance fields are well-known on the island."

"I'm confident that his addition to the team will keep us poised for continued growth and expansion," Heys added.

Eileen Currie has been appointed president and CEO of eMaxx's insurance operating companies.

Currie will lead the insurance operations in underwriting, client services, and distribution for its alternative risk captive insurance programmes.

Her expertise includes leading a national field and marketing organisation, product design and management, building agent/broker relationships, geographical expansion and creating specialised offerings and services.

Previously, she served in various capacities within Arbella Insurance Group, Crum & Forster, The Hartford Steam Boiler Inspection and Insurance Company, Columbia Insurance Agency, and CIGNA.

Commenting on her new role, Currie said: "Insurtech's are going to dramatically change the commercial insurance industry."

"The technology that eMaxx has developed today combined with what they are delivering to policyholders and Members will reduce expense and loss cost," she added.

Brian McCarthy, CEO of eMaxx Assurance Group of Companies, said: "We are honoured to have Eileen Currie join eMaxx to serve as president and CEO of the insurance operating companies."

He continued: "Her experience in commercial lines insurance, driving scalable long-term growth and digital innovation complements the company's as we continue to grow our existing captive programme and launch heterogeneous captives."

Strategic Risk Solutions (SRS) has named Brian Collins as managing director of its new captive management business in Luxembourg.

SRS's Luxembourg branch will operate within the company's pan-European captive management structure under SRS Management Europe PCC. Collins joins SRS from Stadhold Insurances (Luxembourg), a subsidiary of Randstad, where he was captive manager of both the insurance and reinsurance companies.

Prior to Stadhold, he was general manager of Colonnade Insurance, the Luxembourg subsidiary of Fairfax Financial Holdings.

Collins also spent over 20 years at Marsh Management Services starting his career in Dublin and continuing in Luxembourg for 17 years, where he managed local, French, Dutch and Bermudian captives.

In addition, SRS have also hired Emily Cadby and Yashminn Yanez to the firm's European consulting and management practices.

Cadby joins SRS from Willis Towers Watson as an assistant consultant in the Dublin office. Prior to this role, she worked as insurance manager with Marsh Captive Solutions in Dublin.

Yanez will join the Malta office in October as an account manager. She was previously a finance account manager at Marsh Captive Solutions in Dublin.

Commenting on his new role, Collins said: "I have been impressed by the development of SRS as a leading independent captive manager in the North American market. Joining the firm at the early stages of their European expansion, I feel gives me the right challenge at this stage of my career."

"With market, regulatory and service provider changes, there are opportunities for greater use of captives and Luxembourg, in particular, is well positioned to benefit as a European captive domicile," he added.

Brady Young, President and CEO of SRS, added: "We are pleased to officially open the Luxembourg branch of SRS and to welcome Brian Collins as our managing director."

"We are building a strong presence in Europe and believe Luxembourg to be a leading captive domicile within the EU both now and in the future. Collins brings a wealth of expertise in captive management and knowledge of the local captive market and we are excited to have him on board."

DARAG Group has appointed Elliott Goss as group head of claims, based in London.

Goss has more than 17 years of (re)insurance claims experience, specialising in long tail classes such as international casualty.

Most recently, he served as head of casualty and specialty claims at Tokio Marine Kiln, where he led the team in handling large and complex losses as well as portfolio management since 2018.

Prior to that Goss worked at Ark Syndicate Management where he joined in 2012 as senior claims adjuster and progressed to head of delegated and US casualty claims.

Tom Booth, CEO of DARAG, said: "For a legacy provider, maintaining an expert, efficient, agile and proactive claims function is key. We are entrusted with maintaining the promise of efficient and speedy claims handling throughout the duration of policies to our partners' insureds. As DARAG continues to expand globally, we are therefore investing in growing our scalable and specialist claims team to serve all local markets."

"With his international expertise in multiple lines of business, Elliott Goss will be a valuable addition to the DARAG team. We are very pleased to have Goss joining us and we look forward to welcoming him in due course," he added.

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Joshua Clark has joined the Tennessee Department of Commerce and Insurance (TDCI) as the new director of business development for the insurance division.

He started his new role at the department in late July. In his new role, Clark will focus on expanding the use of captives as a risk management solution for businesses. As part of his new role, Clark will establish objectives with the Tennessee Captive Insurance Association (TCIA) to help them promote captive insurance within the state.

Most recently Clark worked as a consultant for EXL Loss Control. Clark has a background of building, leading, and enabling high performing teams while crafting and implementing successful strategies that he intends to use to drive productivity and strengthen relationships on behalf of Tennessee.

Commenting on his new role, Clark said: "I am honoured to join the incredible team at TDCI as the new director of business development for the insurance division, and I am excited to contribute to Tennessee's continued success and growth in the industry".

"Additionally, I look forward to the opportunity to be a part of maintaining Tennessee's status as a top tier domicile for captives," he added.

Commissioner Hodgen Mainda said: "I am thrilled to welcome Joshua Clark to TDCI as he spearheads our effort to bring more successful companies to Tennessee by taking on the role as director of business development."

"In his role, Clark will build off his current contacts to help bring more insurance companies to Tennessee as he promotes the Volunteer State as a gold standard domicile," he continued.

"His role will focus on cultivating new opportunities separate from insurance regulation by leveraging his experience, contacts in the industry, and diverse regulatory knowledge," Mainda added.

"We're really excited to have a fresh perspective that brings new energy to our efforts in helping businesses find captive solutions right here in the Volunteer State," said assistant commissioner Rachel Jrade-Rice.

Jrade-Rice continued: "Clark is a great addition to our team and is dedicated to our mission and values of serving consumers and responsible regulation."

In late June, Belinda Fortman joined TDCI as a captive insurance section director, replacing Jennifer Stalvey.

Guy Carpenter has appointed Andrea Piatti as a managing director, global risk solutions.

Piatti will be responsible for originating and driving opportunities to better serve their clients in the customised reinsurance space across Europe and Middle East and North Africa (MENA), including structured reinsurance treaties and capital management/solvency-related transactions.

Based in Zürich, Switzerland, Piatti will work closely with Guy Carpenter's broking and analytics teams across the region.

In his new role, he will report to Frank Achtert, head of strategic advisory, Europe, the Middle East and Africa, and Ronnie Carroll, managing director, global risk solutions.

He brings more than 20 years of reinsurance market experience to the role. Prior to joining Guy Carpenter, he was head of European merger and acquisitions at Armour Risk Management and has also held senior positions at MS Amlin, Amlin Re Europe and Partner Re.

Commenting on Piatti's appointment, Ed Hochberg, head of global risk solutions, said: "Andrea [Piatti] is a fantastic addition to our team as his experience and specialist market knowledge will help us to expand further the bandwidth of our global risk solutions capabilities in Europe."

"We are seeing much greater demand for customised reinsurance products across Europe and MENA, and by combining Guy Carpenter's expansive broking and analytical expertise we can ensure the delivery of the precisely tailored solutions that clients demand," he added.

AXA XL has named Elie Hanna, chief distribution officer, Luis Prato, chief underwriting officer, and Martin Turner, chief claims officer, as members of the new leadership team for its UK and Lloyd's region.

The appointments are part of the proposed changes to the operating model of AXA XL's insurance business following a strategic review.

AXA XL also explained that they are in line with the division's payer to partner strategy and plans to create a simplified structure and bring decision-making closer to the regional markets.

Earlier this year, in April, AXA XL announced the leadership team and proposed changes to the operating model of its insurance business following a strategic review.

As part of the new appointments, Hanna will develop and lead the execution of AXA XL's market, trading and external marketing and communication strategies.

These will be aligned to the regional portfolio underwriting and legal entity platform strategies, to support AXA XL's underwriters in delivering profitable growth and enhancing the division's identity and reputation.

Hanna has extensive experience in the industry, spending more than a decade at AIG in underwriting, country management and senior distribution roles in London and across the Middle East.

Prato will define the underwriting strategy and risk appetite for the UK and Lloyd's Market in conjunction with the global chief underwriting officer, while leading the UK and Lloyd's business unit to deliver the underwriting profitability target for the region. He has held senior positions at Allied World Insurance and AEGIS London, before joining AXA XL (then Catlin) in 2008 as head of Downstream Energy, UK and Ireland. He was promoted to head of UK energy and regional product leader for the UK and Ireland in 2016, before being made CUO for the UK region and legal entities in September 2019.

Turner will be responsible for the day-to-day leadership of the claims handling teams, including overseeing technical expertise and local market knowledge in the region.

Turner has been in the London insurance market for more than 30 years. He began his career in 1986 with Reinsurance Broker Alwen Hough & Johnson, before joining AXA XL (formerly Brockbank Syndicate Management) in 1988, where he has remained through various mergers and acquisitions. Most recently, he was head of UK and global specialty claims.

Commenting on the new appointments, Sean McGovern, CEO UK and Lloyd's market, said: "I am pleased to announce the new leadership team for the UK and Lloyd's region. This is the latest step in our journey to optimise our structure by striking the right balance between local and global, in order to ensure we serve our clients and brokers to the best of our ability."

"This leadership team is filled with highly experienced individuals who I'm confident will help to ensure we are the insurance partner of choice in this important region," he added.

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Local Protection
Global Connection
Generali Employee Benefits
The world's leading Network, serving multinational companies in over 100 countries.
A comprehensive range of employee benefits solutions, including Life, Disability, Accident, Health & Wellbeing, Retirement & Savings, for both local and expatriate employees.
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