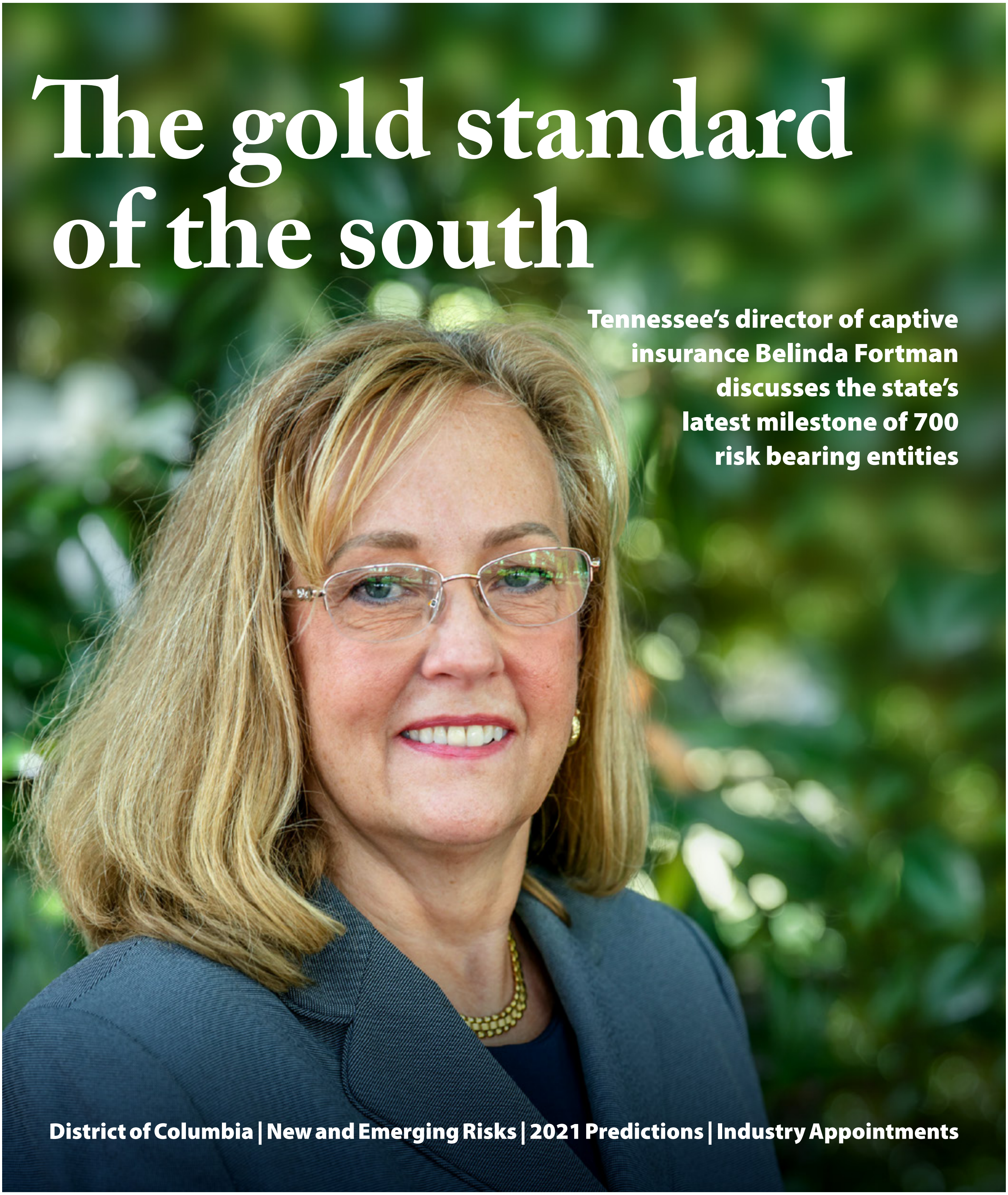
www.captiveinsurancetimes.com

captive insurance times

The primary source of global captive insurance news and analysis

06 January 2021 - **Issue 214**



The gold standard of the south

Tennessee's director of captive insurance Belinda Fortman discusses the state's latest milestone of 700 risk bearing entities

District of Columbia | New and Emerging Risks | 2021 Predictions | Industry Appointments

captive insurance times

Issue 214

www.captiveinsurancetimes.com

Published by

Black Knight Media Ltd

16 Bromley Road, New Beckenham
Beckenham, BR3 5JE

Editorial

Editor: Becky Bellamy
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)208 075 0927

Reporter: Maria Ward-Brennan
mariawardbrennan@blackknightmedialtd.com
Tel: +44 (0)208 075 0923

Contributor: Maddie Saghir
maddiesaghir@blackknightmedialtd.com

Designer: James Hickman
jameshickman@blackknightmedialtd.com

Marketing and sales

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com

Associate Publisher: John Savage
johnsavage@captiveinsurancetimes.com
Tel: +44 (0)208 075 0932

Office Manager: Chelsea Bowles
Tel: +44 (0)208 075 0930

Follow us on Twitter: @CITimes

In this issue

WRCIC to host in-person captive conference in June

The Western Region Captive Insurance Conference (WRCIC) is moving forward with plans for a multi-state in-person conference scheduled for 14 to 16 June, in Salt Lake City, Utah. Last year's conference was cancelled due to the COVID-19 pandemic. According to WRCIC, organisers will monitor and assess the safety of an in-person event being possible and keep all registered attendees updated as summer approaches.

At next year's event, WRCIC said new educational content will be offered including an enhanced captive 101 boot camp, more networking opportunities, and sessions in advanced topics that focus on hot topics, trends, and the next level in captive insurance.

Brandy Alderson, president of the Utah Captive Insurance Association, and WRCIC conference chair, said: "We are very eager to host the 2021 WRCIC conference in Utah in June if it is safe to do so. The WRCIC continues to serve the entire western US, working together to enhance collaboration, cooperation, and best practices."

Rae Brown, president of the Arizona Captive Insurance Association, and WRCIC board chair, stated: "We are honoured to continue to be part of this great conference and look forward to having the 2021 conference in Salt Lake City."

"The WRCIC committee works hard to create conference sessions that are structured to provide substantive captive education for owners, providers, regulators, and friends."

"We invite you to attend this outstanding conference and share insights and challenges with your peers and industry experts," Brown added. ■

GFSC introduces scheme for pre-authorisation for insurance cells

The Guernsey Financial Services Commission (GFSC) has introduced a pilot scheme for pre-authorisation for insurance cells. Artex in Guernsey has already implemented a captive cell solution within 48 hours of its introduction.

The scheme applies to insurance-licensed PCCs owned by an insurance manager and is available for captive cells writing a single line of general insurance business to meet an urgent business need.

It must meet the standard formula minimum capital requirement and prescribed capital requirement, with no regulatory adjustments available.

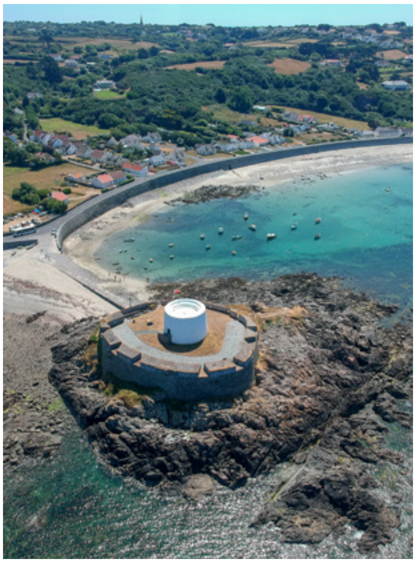
GFSC consulted with the Guernsey insurance industry and the Guernsey International Insurance Association (GIIA).

The pilot is expected to run until the end of this year.

The GFSC, said: "We are happy to work with industry on this type of initiative in instances where it can be done without endangering policyholder protections."

GIIA chairman, Mike Johns, noted that the pilot would give managers a route to act quickly and avoid missed opportunities to assist clients with urgent issues.

"This flexible approach to regulation enables brokers and their clients to react to adverse market developments right up until the renewal date. This will be an invaluable tool to enable buyers to increase their control over difficult renewals during the current hard market

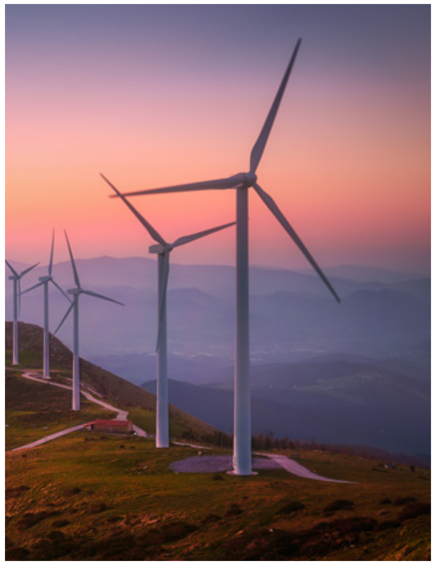


cycle. Guernsey's proactive approach to cell formation works," he added.

Kate Storey, partner at law firm Walkers in Guernsey, who was involved, as part of GIIA, in the initiative, said: "We proposed this new, swift-authorisation regime in response to the huge increase in demand for captive insurance vehicles, particularly over the last 12 months, due to commercial insurers raising their rates and restricting available cover in the so-called 'hard market'."

She continued: "Using a captive vehicle, a business can self-insure in a way tailor-made to its business, and more cost-effectively than through commercial insurers."

"Guernsey is already a global leader in the captives market and now offers the ability to set up and start writing insurance in as little as 48 hours on a pre-authorised basis, provided the documentation complying with the regime is provided to the Guernsey regulator within 14 days of commencement of business," Storey added. ■



ESG is rising up the agenda of European captive owners

Environmental, social and governance (ESG) considerations are rising up the corporate agenda of captive owners amid increased scrutiny from consumers and regulatory authorities, according to an A.M. Best report on European captives.

The report explained that a captive's approach to ESG is often closely linked with that of its parent.

In Europe, the implementation of the EU Directive 2014/95/EU sets out the disclosure requirements of non-financial and diversity information for large companies.

The directive does not apply directly to captives, but A.M. Best revealed an increasing number are considering incorporating ESG factors into their operations.

The report suggested there has been a rise in the number of captives owners that have integrated ESG factors in their operations, influencing areas such as corporate governance and investments.

images by bonandbon/stock.adobe.com and mimadeo/stock.adobe.com

Truist Corporate Trust & Escrow Services

Collateral Trust Services

Our Advantage

Truist has a long history of trust, escrow and risk management excellence with both domestic and international coverage. If you're choosing a cost effective and convenient collateral trust as part of your captive and reinsurance solution, we have a broad range of specialties that can help mitigate risk in your insurance business:

- Collateralized Reinsurance
- Regulation 114 Trusts
- Captives
- Surety Bonds
- Insurance-Linked Securities
- Deductible Trusts

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

- Single Point of Contact
- Comprehensive Servicing
- Rapid Response Times
- Team of Reinsurance Specialists
- Extensive Carrier Relationships

To learn more about how Truist can support and enhance your collateral posting requirements, please contact:

Donny Tong
Senior Vice President
212-590-0976
donny.tong@suntrust.com

Barbara Aubry
Senior Vice President
212-303-4164
barbara.aubry@suntrust.com

Joseph Monaco
Vice President
212-303-1746
joseph.monaco@suntrust.com

TRUIST

Zurich set to acquire MetLife's US P&C

Zurich Insurance Group subsidiary Farmers Group has agreed to acquire MetLife's property and casualty (P&C) business in the US together with the Farmers Exchanges for $3.94 billion.

Zurich will contribute $2.43 billion through Farmers Group and the Farmers Exchanges $1.51 billion.

The transaction is said to give Farmers Exchanges a nationwide presence and access to new distribution channels with the potential to accelerate growth.

The transaction also includes a 10-year exclusive distribution agreement through which the Farmers Exchanges will offer their personal lines products on MetLife's US group benefits platform, which today reaches 3,800 companies and 37 million employees.

Farmers Exchanges stated that they expect to become the sixth-largest personal lines insurer in the US with access to MetLife's network of agents. The business to be acquired includes 2.4 million policies, $3.6 billion net written premiums in 2019 and 3,500 employees.

The acquisition is expected to contribute to Zurich's earnings from the first full year after completion and is expected to deliver Zurich a return on investment of approximately 10 percent from 2023.

Zurich expects to fund Farmers Group's portion of the acquisition through a roughly equal combination of internal resources and hybrid debt.

Following the transaction, Zurich's capital position is expected to remain strong with the pro-forma Swiss Solvency Test ratio as of September 30, 2020, at around 190 percent.

Completion of the transaction is subject to regulatory approvals and is anticipated to occur in the Q2 2021. The purchase price is subject to certain adjustments.

In November last year, Zurich confirmed it was in discussions to acquire MetLife's US P&C business. At the time, they refused to comment on the cost of the transaction.

Commenting on the transaction, Mario Greco, Zurich Group CEO, said: "The acquisition significantly increases the potential for growth at the Farmers Exchanges and will further boost the share of Zurich's profits linked to stable fee-based earnings."

He continued: "Together with the continued increase in rates in commercial insurance, this transaction will strengthen our ability to achieve our 2022 targets."

"The acquisition of MetLife's P&C business is a unique opportunity to accelerate growth and to achieve a significant presence in all 50 states," said Jeff Dailey, CEO of Farmers Group.

He concluded: "MetLife's distribution channels complement the Farmers Exchanges' existing strength in the exclusive agent channel, deepen their presence in the fast-growing independent agent channel and provides entry into the worksite marketing channel via a leading platform, with the 10-year exclusive distribution agreement through MetLife group benefits." ■

A.M. Best said: "This has an indirect effect on captives, with many of them holding a large part of their investments in inter-company loans, with the underlying assets invested by their parents."

A change in a captive parent's operations, in an effort to manage transition risk in industries such as oil and gas, can have a knock-on effect on their insurance needs.

"Ultimately, this would require a captive to adapt accordingly," the rating firm added.

Captives might also consider including ESG into their operations because of the growing number of commercial (re)insurers formally integrating ESG factors in their strategy.

The report explained that a consequence of this might be capacity shortages in some lines of business or sectors, which could create business opportunities for captives in so-called "toxic" industries.

It was noted that captives should assess ESG exposures as part of their risk management activities and be able to recognise, measure and address the impact on their business.

A.M. Best suggested that failure to do so can "present significant risks", be they financial or reputational.

Cyber risk and environmental liability are just some of the new areas of coverage for captives,and as such will require a fresh consideration of ESG factors for operators.

"Captives will need to be conversant with the potential impact of aspects like these on underwriting and investment exposures," A.M. Best added. ■

Maiden Holdings forms new solution led by former SOBC DARAG specialists

Maiden Holdings, a Bermuda-based holding company, has formed Genesis Legacy Solutions (GLS).

GLS will specialise in providing a full range of legacy services to small US insurance entities, particularly those in run-off or with blocks of reserves that are no longer core, working with clients to develop and implement finality solutions including acquiring entire companies.

The new team will be led by Brian Johnston as CEO and chief financial officer, joined by Tom Hodson as deputy CEO and general counsel and Stephanie Mocatta as executive vice-president, leading GLS's business development.

The GLS team has extensive experience in the finality and legacy solutions segment, most recently at SOBC DARAG, and specialises in solutions-oriented for smaller insurance companies.

Maiden's co-CEO Patrick Haveron stated: "The formation of GLS is highly complementary to our overall longer-term strategy. GLS, along with other recent insurance industry investments, are enabling Maiden to leverage its knowledge base while not re-entering active underwriting and maintaining an efficient operating profile."

Lawrence Metz, Maiden's co-CEO, noted: "We believe the GLS team will not only enhance Maiden's profitability through both fee income and effective claims management services, but it will also increase our asset base through the addition of blocks of reserves or companies that can be successfully wound down."

Haveron added: "This should further enhance our ability to pursue the asset and capital management pillars of our strategy. The GLS team brings a wealth of knowledge, experience and well-known market presence that should enable them to quickly activate its strategy."

"We are excited to have the GLS team join Maiden and look forward to supporting Brian Johnston, Tom Hodson, Stephanie Mocatta and the team in developing and growing GLS," Metz concluded. ■

Citadel Risk

INSURANCE | REINSURANCE | SERVICES

WHEN BIG ISN'T ALWAYS **BEAUTIFUL!**

If you are looking for a reinsurer who can handle small deals and really 'partner' with you, come and talk to us.

- B++ rated Bermuda carrier
- Niche reinsurance
- Fronting
- Captive management & consulting
- Legacy and finality solutions

Financial Strength Rating A.M. BEST B++ Good

Contact Citadel:

Tony Weller
+44 (0)207 042 7968
tony.weller@citadelrisk.com

Mike Palmer
+44 (0)207 042 7969
mike.palmer@citadelrisk.com

www.citadelrisk.com

EIOPA: Solvency II needs a number of adjustments

The Solvency II framework is "working well and no fundamental changes are needed at this point in time", according to the European Insurance and Occupational Pensions Authority (EIOPA), but it has said a number of adjustments are required to ensure that the regulatory framework continues as a well-functioning risk-based regime.

The comments were made in EIOPA's opinion on the Solvency II 2020 Review to the European Commission (EC).

On captive insurance, EIOPA stated that the EC should clarify the specific requirements applicable to captive insurance and captive reinsurance undertakings.

In its technical advice, EIOPA asked for the introduction of a new article requiring insurance and reinsurance undertakings, other than captive insurance and captive reinsurance undertakings, as a minimum to subject the balance-sheet to audit or similar requirements as decided by the relevant member state with a report submitted to the supervisory authority.

It was highlighted that for captive insurance and captive reinsurance undertakings member states should be allowed to decide if audit requirements should apply or not.

Captive undertakings, "due to typical international nature of their business", most of the time based on reinsurance, should not be required to fulfil the crossborder and reinsurance criteria.

Regarding captives, EIOPA proposed the EC to introduce the following limitations and exemptions into the supervisory reporting on top of the limitations/exemptions given to captive insurance and reinsurance undertakings under Article 35 following a risk-based approach.

Limitations included reporting on investments and derivatives; reporting assets and liabilities by currency; reporting Information on annuities stemming from non-life Insurance obligations; reporting information on annuities stemming from non-life insurance obligations; on Solvency Capital Requirement - non-life and Health catastrophe risk; and reporting on variation analysis.

EIOPA stated that captive insurance undertakings and captive reinsurance undertakings as defined in points (2) and (5) of Article 13 of the Solvency II Directive may use the proportionality requirements if certain requirements are met.

In relation to the insurance obligations of the captive insurance undertaking or captive reinsurance undertaking, these requirements include all insured and beneficiaries are legal entities of the group or natural persons eligible to be covered under the group insurance policies of which the captive insurance or captive reinsurance undertaking is part, as long as the business covering natural persons eligible to be covered under the group insurance policies remains immaterial;

For reinsurance obligations of the captive insurance or captive reinsurance undertaking, requirements state that all insured and beneficiaries of the insurance contracts underlying the reinsurance obligations are legal entities of the group of which the captive insurance or captive reinsurance undertaking is part.

Finally, the insurance obligations and the insurance contracts underlying the reinsurance obligations of the captive insurance or captive reinsurance undertaking do not relate to any compulsory third party liability insurance.

EIOPA added that with regard to further proportionality measures applicable to reinsurance undertakings may only be used if captive reinsurance undertakings meet the criteria and other conditions. The further conditions were noted as: the policyholders of the reinsurance contracts are legal entities of the group (i.e. the parent company or other entities of the industrial group to which the captive belongs); loans in place with the parent or any group company do not exceed 20 percent of total assets held by the captive, groups cash pools included; and the maximum loss resulting from the exposures can be deterministically assessed without use of stochastic methods (i.e. limits to losses covered are included in the reinsurance contracts in place).

EIOPA stated that it closely consulted with a wide range of stakeholders when drawing up its opinion.

Commenting on the opinion, Gabriel Bernardino, chairman of EIOPA, said: "EIOPA's opinion on the 2020 Solvency II review achieves all the defined objectives: adapts the regime to the new interest rate market reality; creates conditions for more long-term investment; brings a paradigm shift on the application of proportionality; and completes the European insurance framework with a macro-dimension and proposals on recovery and resolution and insurance guarantee schemes."

He added: "Most importantly, these adjustments will ensure that Solvency II will continue to be a credible and fit for purpose regime, capable of protecting policyholders and contributing to market stability even in stress situations."

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

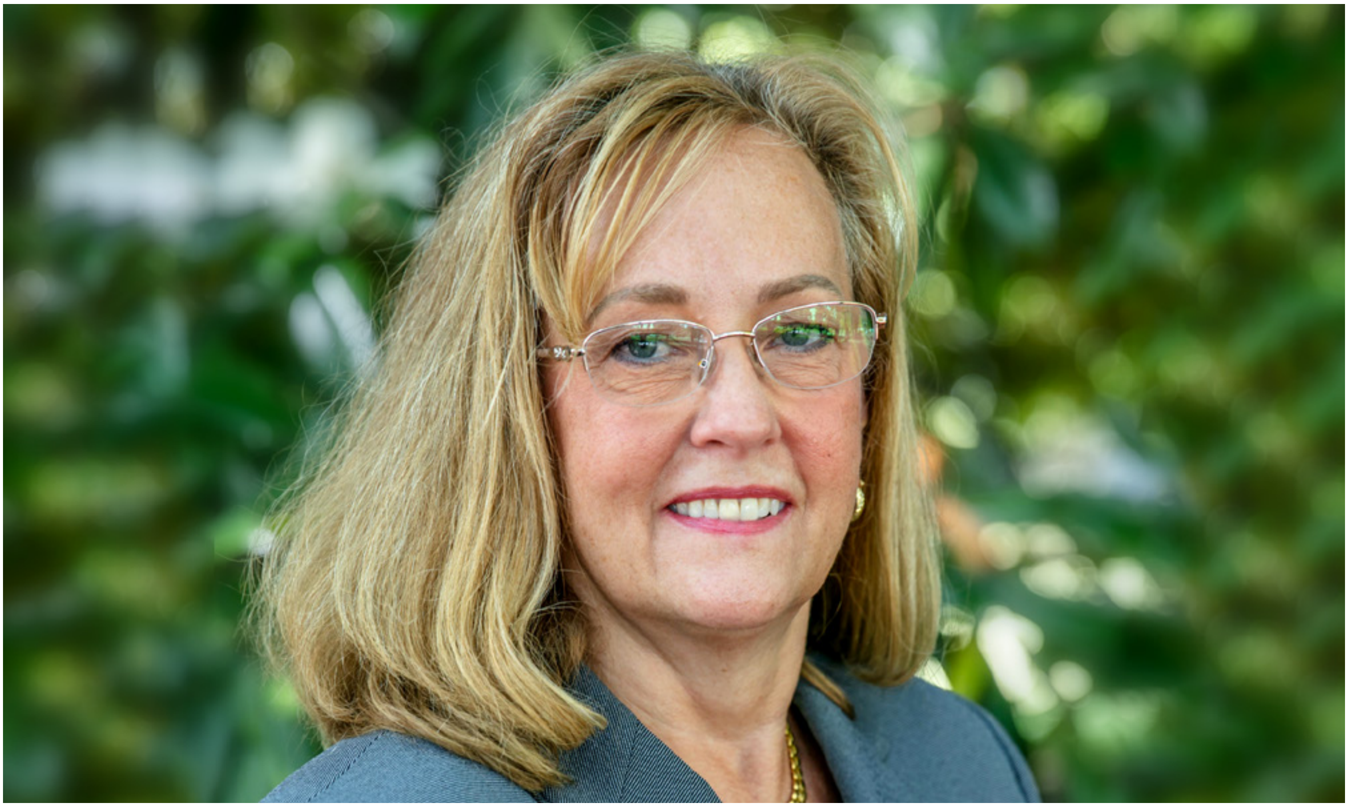
Solvency II was a milestone for European insurance regulation and supervision.

The directive is the first common supervisory framework in the EU and sets global standards. It sets the basis for the integration of the single market for insurance in Europe.

The system is based on a forward-looking and risk-based approach, requiring the highest risk management standards and active monitoring and steering of the risk an insurer is facing. It ensures fair competition and consistent consumer protection across the EU and allows insurers to provide their product cross-border.

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

In February 2019, the EC called for EIOPA to provide technical advice for a comprehensive review of the Solvency II Directive. ■



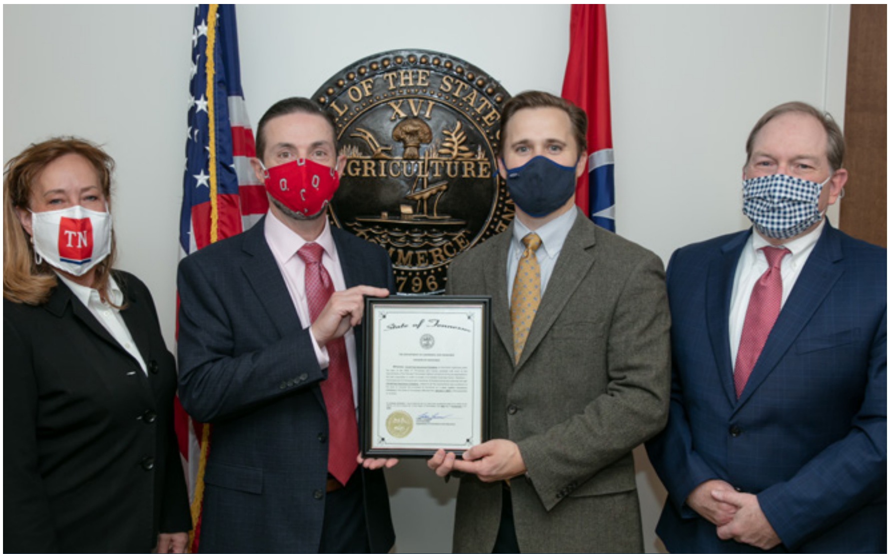
The gold standard of the south

Tennessee's director of captive insurance Belinda Fortman discusses the state's latest milestone of 700 risk bearing entities

Captive insurance companies have found a receptive home in Tennessee — beginning in 1978, as one of the first states to adopt captive legislation, to 2011 when our state's leaders modernised the state's captive laws. Tennessee is experiencing exceptional growth due to these prior and continued efforts. Before updating our captive legislation, Tennessee had licensed only two captive insurance companies. Since then, and as of December 2020, Tennessee has licensed 211 captive insurance companies and 489 cell captives – for a total of 700 risk bearing entities. The growth of the captive insurance industry remains a priority for Governor Bill Lee and Commissioner Carter Lawrence – ensuring a bright future for Tennessee as a captive insurance domicile. From an economic impact perspective, Tennessee has written over $6.4 billion in premium and collected over $16 million in taxes and fees.

The captive insurance sector has an estimated economic impact in Tennessee of $31 million in direct annual spending and continues to project growth.

Tennessee has now emerged as a first choice domicile for companies worldwide looking to create a captive insurance company or to relocate their existing one. The captive division is known for our knowledgeable and responsive team of professionals who are dedicated to serving the needs of our captive companies. Recently, we announced that through our dedication and efforts, International Paper, a Memphis-based company that leads globally in packaging, pulp and paper products, chose to relocate their captive insurance company from Vermont to



Presentation of the authorisation and licensing of Tennessee's 700th risk bearing entity

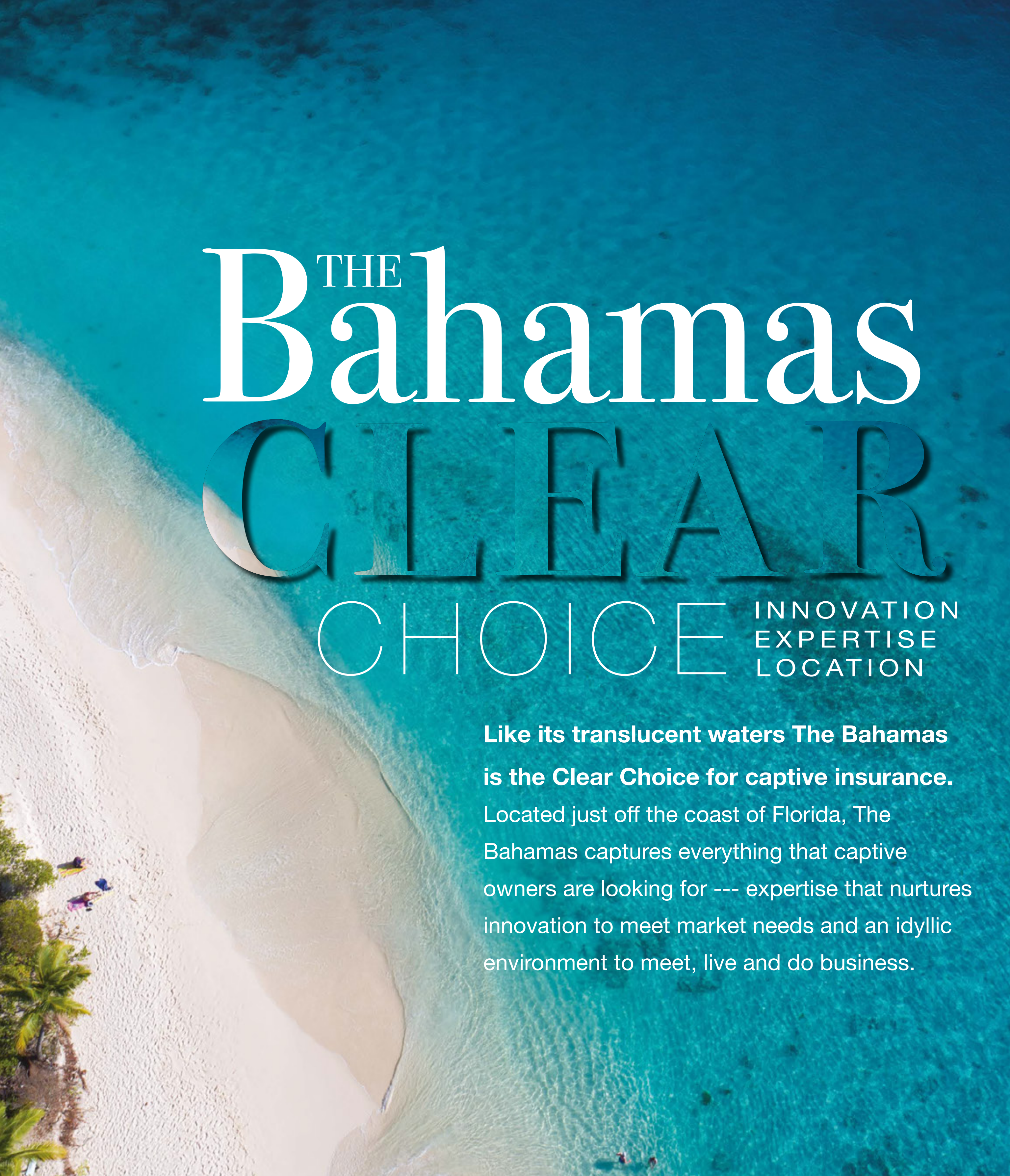
Tennessee. International Paper became our state's 700th risk bearing entity. This is a milestone for Tennessee, and I commend International Paper for choosing to relocate their captive insurance company here as it reaffirms their confidence in us and commitment to their global headquarters' home state. This success is just one example that represents the culmination of years of efforts by former Governor Bill Haslam, current Governor Bill Lee, the Tennessee General Assembly, the Department of Commerce and Insurance and the members of the Tennessee Captive Insurance Association (TCIA) all working together in a productive public/private partnership.

As an industry veteran, my leadership style comes with a unique business perspective that differentiates Tennessee from other domiciles globally. My vision for 2021 is to continue to build on my relationships with industry leaders in order to create successful captive insurance programs and to provide excellent customer service through focusing on an open-door policy. We are trusted by the captive industry to provide flexible and business-friendly regulation through partnering with our captive managers and owners to ensure their captive programs meet their risk management goals. Additionally, my vision includes building out efficient communications through working closely with the TCIA, developing stakeholder newsletters and using technology to improve our interfacing with our industry. While we had a successful and beneficial 2020 TCIA virtual conference, I look forward to 2021 and finding CDC approved solutions to once again meet in person with industry leaders and Tennessee captive insurance stakeholders.

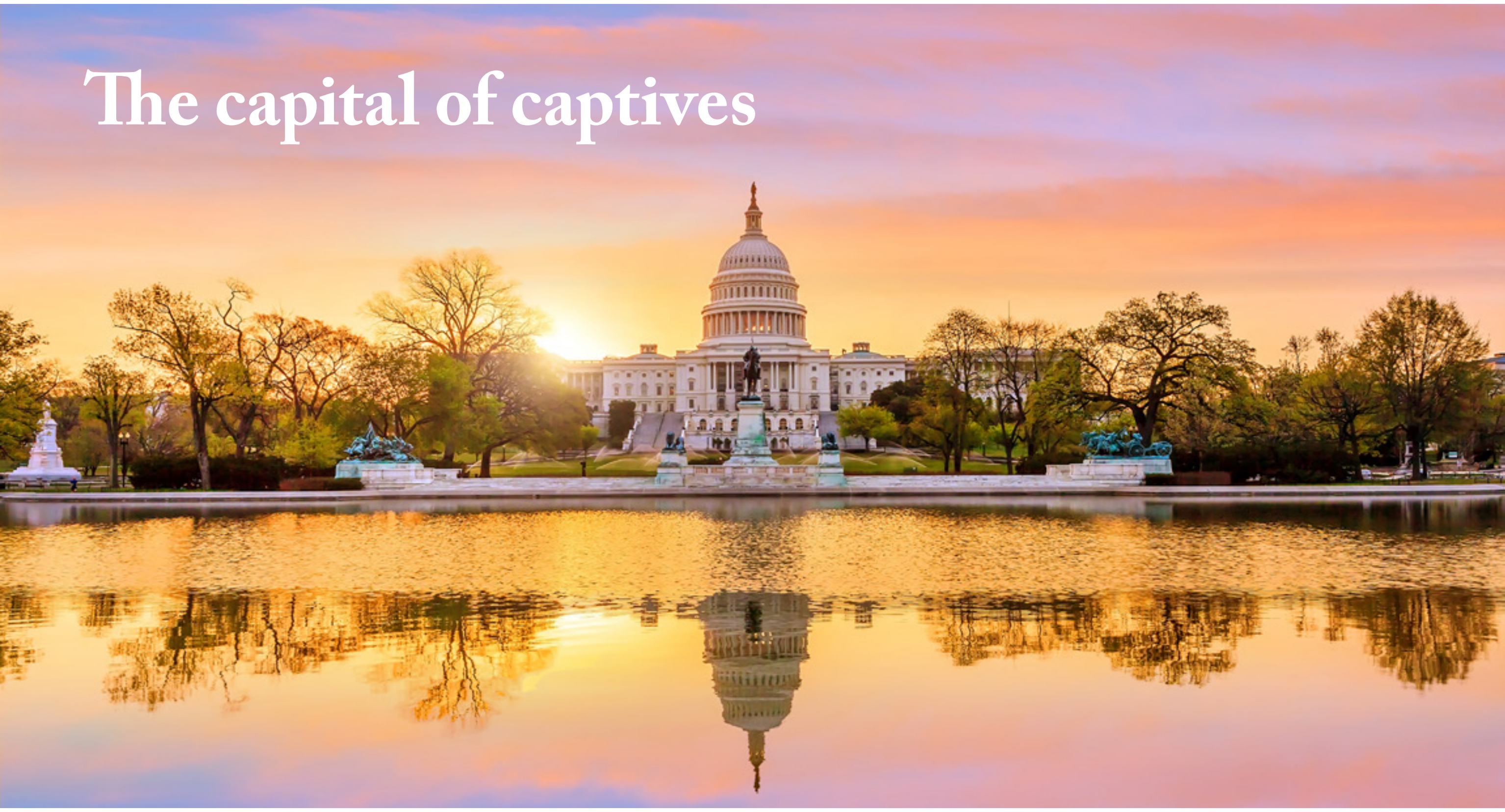
If your company is considering starting a captive or relocating, Nashville, Tennessee is currently one of America's hottest cities – where amenities and opportunities abound. Tennessee offers the crucial infrastructure your captive must have to get started, including approved captive management experts, actuaries, CPA firms, financial institutions, law firms and other service providers, many available locally, to be part of your captive insurance team. When your captive is up and running, we can easily accommodate your travel and entertainment needs with an abundance of five-star hotels, fine dining and there are endless legendary live entertainment options, which is why we are nicknamed 'The Music City'. Tennessee's pro-business environment and our central location in the US as a transportation hub provide an excellent incubator for captive business relocations and entrepreneurial-spirited economic development.

From a regulatory perspective, Tennessee's captive advantages include permitting virtually all captive licensing types allowable under the captive statues of other leading domiciles. In addition, we are able to write medical stop-loss directly, we have the ability to insure annuities, we have flexible options for the minimum capital and surplus, we provide in-house examinations to minimise your costs, we have options for the re-domestication process and we have competitive premium tax rates. Further, for captive owner's considering re-domesticating their captive from an offshore domicile, the first year $5,000 minimum premium tax is waived for alien redomestications, which allows for a reduction or elimination of expenses. Furthermore, Tennessee is one of the few states offering the series limited liability corporate formation option. Tennessee law provides series cells to be formed and approved as incorporated cells at a lower cost and administrative burden, as well as offering additional flexibility for effective dates than incorporated cells created under other corporate formation types. We welcome your captive insurance company and look forward to listening to your specific needs.

Tennessee is thrilled to have reached the 700th risk bearing entity milestone as we hold true to our title of being the gold standard of the south. We proudly welcome the opportunity to serve as your domicile and reach milestones together — whether you are a corporation based within or outside of our state, or an existing captive moving to Tennessee from other national or international domiciles. ■


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

The capital of captives



With a 'very active' captive market in 2020, DC plans to launch a financial services regulatory sandbox this year that will include captives

The capital of the US, Washington DC, formally the District of Columbia, licensed its first captive insurer 20 years ago and since has earned a reputation of being among the top domiciles for captive insurance in the US.

The initial captive statute was introduced in 2000, it was then updated in 2004 and again in 2015.

DC has a progressive captive insurance and corporations code that meets the needs of captive owners. It is also home to knowledgeable dedicated staff of financial examiners and analysts who are well-versed in the regulation of captives, including risk retention groups.

As of 18 December 2020, DC had 155 licensed captives which represented a total of $1.4 billion in gross written premiums. The district caters to all types of captives, including agency, association, branch, cell, pure, rental and risk retention groups.

Of the 155 captives, DC has 32 licensed risk retention groups (RRGs), 71 licensed non RRGs and 52 licensed non RRG group cells.

The minimum capital and surplus for pure captives has been set at $250,000, while the minimum capital and surplus for most other captives is $400,000. There is no minimum capital for cell captives. Cell minimums are established by the insurance commissioner based on the cell's business plan.

The captive market in DC has been very active this year, with several new formations, restructuring of existing programmes, and growth in cell captives, according to Joe Holahan, attorney at Morris, Manning, and Martin.

Cell captives have become increasingly popular in recent years, with Holahan suggesting that the trends continued in 2020.

While there are a variety of lines being written in DC captive programmes, Holahan highlights some of the most popular, such as deductible reimbursement and coverage for self-insured workers' compensation plans, builder's risk, commercial auto, professional liability, medical stop-loss, and contractual liability of various sorts.

High standards

The leadership of the Risk Finance Bureau have freely admitted that it does not intend for DC to be the largest or easiest domicile but instead is proud of the high standards it applies.

The Risk Finance Bureau does not encourage applications from small-employer health plan stop-loss captives because DC political leadership favours the use of the Affordable Care Act (ACA) exchanges.

It also looks closely at coverages and premium levels projected by small business captives electing IRS Code 831(b) tax treatment.

The Risk Finance Bureau says: "Not everyone will agree with this approach but the bureau believes it should make its priorities clear before a captive entity goes to the expense of application. That said, all applications will receive full professional consideration and courtesy."

The 831(b) captives have been on the Internal Revenue Services (IRS) target list since 2016, as the Department of Treasury clamps down and include them on its 'Dirty Dozen' list of tax scams since 2014.

Holahan suggests that the approach to vet new captives under reasonable standards is "beneficial for the jurisdiction".

He adds: "Captive owners benefit by being able to demonstrate that their regulator applies reasonable and consistent standards for solvency and governance."

Karima Woods, commissioner of the DC Department of Insurance, Securities and Banking (DISB), states that the DISB captive programme is committed to growth.

All captive jurisdictions seek to avoid bad players and we have been successful in doing that, but Woods explains DC decided many years ago that it was in its "best interests to pursue quality over quantity".

"For that reason, we avoided licensing 831(b) captives because we believed these captives were tax avoidance schemes rather than legitimate insurance companies. Our refusal to accept license applications for those types of captives has been vindicated, given the abuses that have occurred in connection with 831(b) captives."

"Similarly, we refused to license stop-loss captives formed by self-insured plans that were attempting to use captives to circumvent the ACA," she adds.

Innovation

As the capital city of the US, Washington has for 20 years been an attractive domicile for forming and managing captive insurance companies. In light of maintaining high standards and a solid reputation, the domicile is keen to keep ahead of the curve.

Woods says DC's biggest opportunity lies in figuring out how to harness the potential of blockchain, smart contracts, artificial intelligence (AI) and machine learning, and other innovative technology in the insurance industry.

She explains that captive insurers have always been at the forefront of providing innovative solutions for commercial insureds.

The DC DISB plans to launch a financial services regulatory sandbox this year that will include captives, Woods reveals.

"The initiative will be instrumental in rethinking the way captives can be used to reshape commercial insurance, by eliminating inefficiencies, reducing costs, analysing data and improving underwriting and pricing decisions," she adds.

According to the DISB, it is "poised to move forward" with the creation of a financial services regulatory sandbox.

The department wants input from innovators and industry experts to ensure that its legislation will be capable of accommodating entrepreneurs interested in fintech, insurtech and regtech.

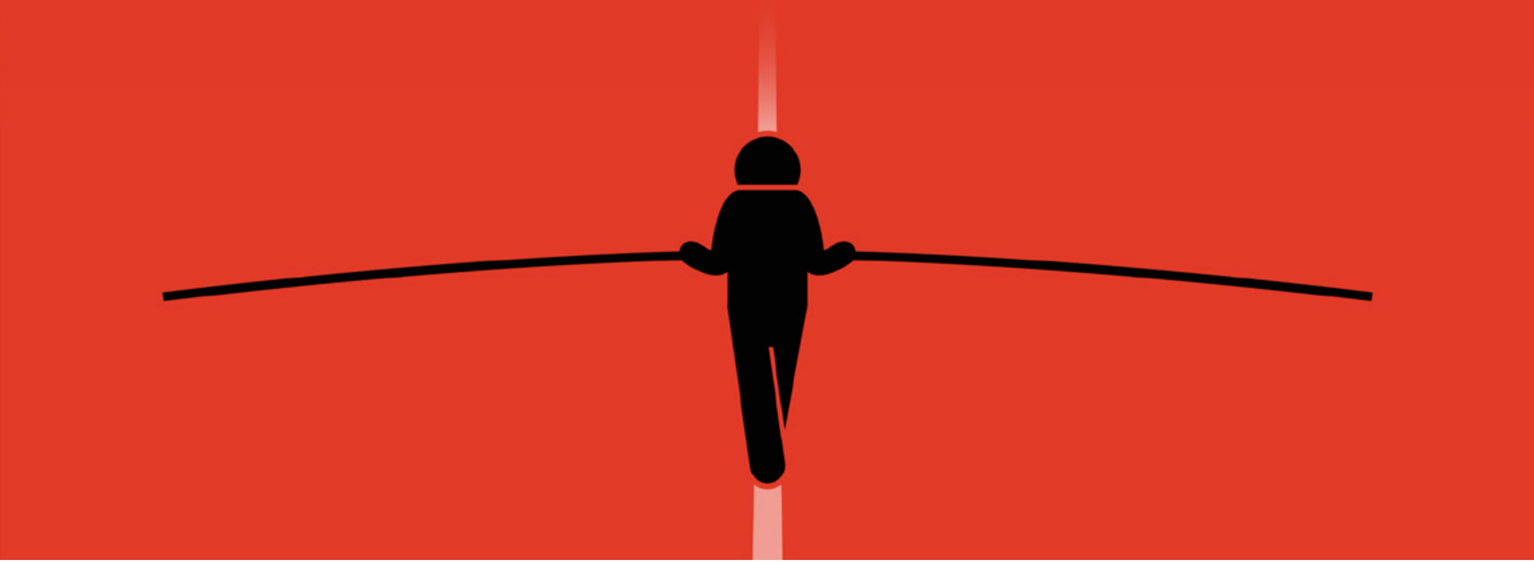
"By fostering innovation and allowing new products and services to come to market, a sandbox can benefit consumers by increasing choice and reducing costs," the DISB explains.

It says: "This is your opportunity to weigh in on the precise features you want to see in the district's regulatory sandbox legislation."

A recent A.M. Best report revealed that innovation is becoming increasingly critical to the long-term success of all insurers, and captives are no exception.

It suggested that well-structured innovation allows companies to develop sustainable competitive advantages and better respond to external challenges such as low investment yields, stagnant growth, and deteriorating expense ratios. ■

Safeguarding with captives



Industry experts discuss the increase in business interruption coverage after the COVID-19 pandemic caused large disruption for many firms worldwide

Last year saw many businesses struggle due to the impact of the COVID-19 pandemic. A lot of companies were not prepared for the impact of the virus which saw some shut permanently or suffer considerably due to months of closure.

The hard market and the outbreak of the COVID-19 has forced companies to take a second look at their risk management programmes to be sure they have adequately addressed business interruption issues and well-designated risk plans, according to Sandy Bigglestone, director of captive insurance, Vermont Department of Financial Regulation (VDFR).

Bigglestone suggests that business interruption issues are emerging and may produce risk that captives can cover.

In agreement, John Mina, CEO of Risk Strategies, believes there will an an "increased focus" on business interruption coverage.

Mina explains: "Pandemic protection will surely be a part of it, but that will spur analysis into what other interruptions the traditional market is not addressing well enough."

Elsewhere, risks such as property insurance, uncovered/exclusions that exist in the traditional insurance policies, and healthcare medical benefits are all being seeded into captives.

Brian McCarthy, CEO of eMaxx Assurance Group of Companies, explains: "The largest emerging area will be from property being assumed into captives and coverages that are not traditionally insured by the traditional insurance market, as there are exclusions and policies. For example, the COVID-19 pandemic, virus exclusions."

Over the last few years, there has also been a "significant rise" in the interest of introducing employee benefits risk to captives in recent years and the COVID-19 pandemic is "destined to accelerate this trend," according to Sven Roelandt, global expert employee benefits financing strategies at Aon Global Benefits.

Roelandt also highlights that if your organisation's captive is well capitalised, "that while pandemic risk requires a specific underwriting approach, captives now have the opportunity to deliver what they have to a large extent been created for – provide cover on unusual risk and help

images by leremy/adobe.stock.com

face extraordinary risk-related challenges such as we are confronted with today".

Pandemics are typically not considered to be an insurable risk because they affect so many lives all at once.

Bigglestone explains: "It will be interesting to see what solutions are implemented with a forward-look, including any government programmes that are developed."

The business interruption losses are a huge liquidation issue in the US right now, there are over 5,000 cases filed. The court's ruling in different directions in different states.

McCarthy says: "There's been a consolidation ruling to consolidate them to certain courts for certain classes. It's going to take years to find out what the outcome of that is going to be because of the liquidation in the courts today."

"I think there will be a huge demand for the need to have coverage for a rainy-day fund. Banks and financial institutions that finance these businesses will drive that demand," he adds.

Timothy Kolojay, president of eCaptiv, suggests that like the Terrorism Risk Insurance Act (TRIA), that was created by the insurance industry and the government, there's a possibility we will see the Pandemic Risk Insurance Act (PRIA) come into play.

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

The Self-Insurance Institute of America (SIIA) advocated for PRIA to include captive insurance participation in its early stages.

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

Bigglestone notes: "We have seen companies realise they have gaps in insurance coverage because reinsurers have excluded COVID-related claims."

"These companies turn to captives to fill any holes in their global programmes and remain protected. A few examples are found with hospitals expanding telemedicine services, which increases exposure for medical professional liability and cybersecurity," she adds.

Opportunities and adapting

One of the biggest challenges around emerging risks is timing. Bigglestone says that getting adequate coverage in place in a timely manner so the business is protected can be an issue.

It remains important for businesses to perform risk evaluations and seek quotations from the commercial marketplace should they choose to transfer the risks.

"A captive programme is a solution, a sense of certainty, that can ease the burden and stress of placing needed coverage, when and if it is needed because it is controlled by the owner/insurance buyer," she adds.

If you could look into a crystal ball to spot the emerging threats to the market it would be easy to protect a company against most risks that emerge, however, at the end of 2019 no one was prepared for the year we experienced in 2020.

Bigglestone believes the biggest opportunity is the increased knowledge about risks that businesses are faced with, improved risk management strategies and potential cost savings over the commercial marketplace.

She explains: "The hard market coupled with a pandemic can reveal insurance coverage gaps in an organisation's business operations pressuring them to find new solutions."

"A captive insurance company can provide some level of certainty by putting aside money to cover future losses," she adds.

Although getting on top of new and emerging risks can be beneficial, how easy is it for a captive to adapt?

Kolojay suggests that it depends on the statistical data available.

He says: "Captives need to have feasibility study put together by independent actuaries and they will look at whatever data they can dig up that can come close."

"If the actuaries don't have the proper data, then sometimes it's a hit-and-miss on how fast to put together the pricing to go along with the coverages," he adds.

However, Bigglestone says captives can adopt these new risks "very well".

She explains: "We find that owners of captives know their risks best. A captive provides an incentive to control losses, and the business can benefit from premium stability and access to reinsurance."

"Captives are designed to be adaptable to the needs of its owners," she adds. ■

A new landscape

As a new year begins, the captive industry anticipates another year of growth

Last year was difficult for many industries due to the outbreak of the COVID-19 pandemic, but for the captive insurance industry, it was favourable.

As captive figures from 2020 start to emerge from domiciles globally, the sector is positive at what this new year has in store.

The financial pressures companies face as a result of the COVID-19 pandemic and a hard insurance market gives the industry an opportunity to demonstrate the value of captives as a risk management tool.

Laurent Nihoul, Federation of European Risk Management Associations (FERMA) board member, describes 2021 as "a fantastic opportunity for risk and insurance managers to show how they can contribute to the value of their organisation's business by developing".

"For instance, a more dynamic insurance management and strategy design, essentially through their captive: carving out some 'sub-exposures' within their programmes, moving from 'self-insuring frequency' to 'self-insuring over-priced layers'," Nihoul says.

The current environment has created an opportunity for the captive industry to educate clients and effectively rebrand itself as a longer-term fix, finally moving away from its reputation as a short-term solution.

John Mina, CEO of Risk Strategies, says this moment in time calls for captive practitioners everywhere to up their game and improve the image of the industry.

Mina explains: "Given the pandemic, higher retention and the hard market, there will be ample opportunity to educate around this and therein lies the opportunity." Current market conditions are making prospective captive users more receptive to alternative risk financing, especially for enterprise risks like pandemics, and the industry should capitalise on the opportunity.

This year also provides a good opportunity to implement and get buy-in from our management to implement a more sophisticated approach to the total cost of risk (TCR).

Nihoul comments: "By this, we mean how to design, define and communicate the distribution of the expected increase in TCR between retention (increasingly in higher layers) and the cash-out costs. As risk and insurance management professionals, we will certainly have tougher discussions with our chief financial officer."

images by nivens/adobe.stock.com

"A challenging excess market will also see an increased use of captives to insure buffer layers"

"We will need to translate the challenges we face and the techniques we use into the right language and the right metrics for our response to be understood and valued by our company," he adds.

Reflecting on the trends he sees for the sector this year, Steve Kinion, director of the State of Delaware captive bureau, expects to see the continuation of the hardening commercial insurance market.

In a recent report by A.M. Best, they noted that the price increases in the (re)insurance market started to appear as early as 2018 in some segments. The market continued to harden in 2019, and increases have gained significant momentum in 2020, as the industry has reacted to losses resulting from the COVID-19 pandemic.

Nihoul agrees stating the insurance market will continue to harden while exposures will keep on rising this year.

He explains: "Risk and insurance managers are facing what I call a 'triple crunch': price increase, underwriting restrictions and shortage of capacity."

Courtney Claflin, executive director of captive programmes for the University of California, Office of the President, believes the market will continue hardening this year, which he notes will result in an increase of captive insurance company formations and utilisation of existing captive structures.

Mina explains that he expects to see an increased exploration in the use of captives to help solve a variety of risk management challenges.

He says: "Clients seem ready to accept additional retention of risk and many will decide to retain that risk by opting for higher deductibles or self-insured retention and then financing that retained risk in a captive."

Property, auto and liability insurance markets are extremely hard right now, especially for excess layer pricing.

Mina explains: "This is due primarily to the exponential increase in 'nuclear verdicts' that are frequently exceeding insurance limit towers. Excess carriers are having to address premium adequacy by sharply increasing rates. At the same time, policy language and coverage terms are becoming less favourable and are either restricting or outright excluding coverage for certain exposures."

"A challenging excess market will also see an increased use of captives to insure buffer layers," he adds.

Mina anticipates that the use of captives as profit centres, transforming customer risk into underwriting profit, will grow substantially this year.

Growth

Reflecting on growth within the captive market this year, Claflin reveals that nearly every captive management and consulting firm is reporting an increased interest in captive formations.

Also weighing in, Nihoul says that he has been observing this trend for the last few years. In FERMA's European Risk Management Survey in 2020, it confirmed that the use of a captive strategy had increased the most over others in the last two years.

In 2018, only 15 percent of respondents said they would consider a captive, however, in FERMA's 2020 report, which was before COVID-19 pandemic, 43 percent of survey participants said they would look at a captive as a solution to deal with risks that are difficult to place on the insurance market.

Nihoul adds that the European Commission Solvency II Review will lead to an improved and attractive regulatory framework for captives in Europe.

He says one of the improvements in the pipeline is a "more harmonised implementation of the proportionality principle by the EU member states".

The European Insurance and Occupational Pensions Authority (EIOPA) has submitted its advice to the Commission in December 2020 and the European Commission will issue a proposal by June.

Nihoul comments: "FERMA has contributed to this work, in particular by proposing a concrete method to harmonise the way national supervisors evaluate the need for proportionality measures for their supervised insurance entities."

Challenges

Beyond the obvious challenges from the hardening insurance market and the skillset required for optimising self-financing techniques, Nihoul highlights two main others.

The first he explains is the way risk and insurance managers communicate internally has to be adapted.

He says: "With such significant changes in the insurance products we buy, the 'premium only story' is not enough anymore. We need to focus on explaining, of course, the hard market but even more the value of insurance for our management to make an informed decision."

"More and more tricky questions are coming from the c-suite about exposure, reduced capacity, and the financial impact of increased retention. Risk and insurance managers' communication needs to be more impactful, going into insurance technical details that our management is not always familiar with."

The second challenge is about optimising the connection between insurance and enterprise risk management (ERM), according to Nihoul.

He explains in a hardening insurance market, risk managers may have to make sensitive decisions about retaining more risk because of underwriting restrictions or overpricing.

"In order to efficiently address such decisions, insurance managers must have a clear understanding of their risks and their potential impact on their company to answer questions such as: How much retention can we accept? How do we differentiate a must-have-cover from a nice-to-have one? How much insurance should we purchase and where?"

Nihoul notes that it is about having a better, clearer and deeper understanding of our risk exposure and its financial consequences.

He adds: "Skills and knowledge to answer these questions are usually available within the ERM function."

"For risk managers not having ERM within their scope, it is time to think about how they can efficiently liaise with their ERM colleagues."

"What value can be created from a strong partnership between ERM and insurance? How do we optimise the value of ERM inputs into the insurance management process?"

Going virtual

As a result of the COVID-19 pandemic, the majority of captive conferences were changed from in-person to virtual due to safety and travel restrictions.

Mina suggests that virtual events will continue to be the norm for the better part of this year.

He explains: "We're also predicting a lasting structural shift in the way people receive their information."

"If attendees can learn from the same industry experts by committing a couple of hours to a virtual event versus the time, travel and expense of a three-day conference, that will continue to hold a certain appeal."

"As vaccines become available and utilised, live events will re-emerge though probably not to the same level as prior to the pandemic," he adds.

"With such significant changes in the insurance products we buy, the 'premium only story' is not enough anymore"

The future

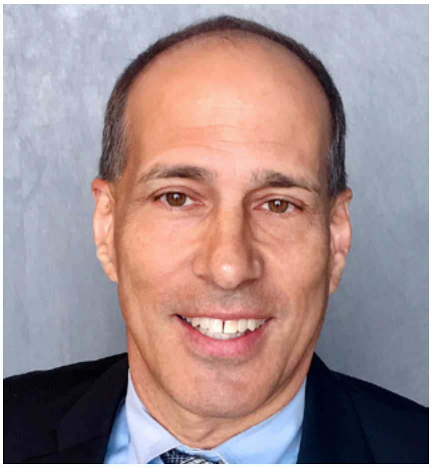
When the pandemic is behind us, the captive industry will be in a new landscape. Nihoul suggests the industry will have a transitional period with the first half of 2021 continuing to rely on virtual events and if the situation improves thanks to vaccines, he expects to see hybrid events taking off in the second half of the year.

Nihoul adds: "We've experienced the limits of virtual events. People are looking forward to meeting and networking again. Physical events will return, but often with a virtual aspect to reach a larger audience and to acknowledge that budgets for travelling and attending events are likely to be reduced. For sure, the new landscape will be very different."

Mina also believes virtual events will continue to be the norm for the better part of 2021 and predicts "a lasting structural shift in the way people receive their information".

He says: "If attendees can learn from the same industry experts by committing a couple of hours to a virtual event versus the time, travel and expense of a three-day conference, that will continue to hold a certain appeal." ■

Christopher Gallo has joined CIC Services, a Knoxville-based risk management consulting firm as managing director.



Gallo brings experience with risk-based captive legislation, the examination process and annual accreditation reviews. CIC Services said his hire will help meet the demands of alternative risk transfer (ART) programmes and securing regulatory approval of ART structures.

Prior to joining, Gallo worked at Connecticut's Financial Regulation Division for 35 years.

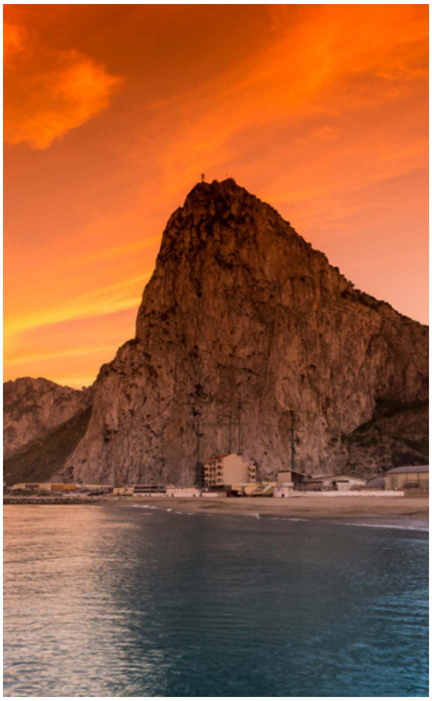
Gallo's financial regulation work includes a rotation in the Swiss Financial Markets Supervisory Authority (FINMA) and a supervisory college panel role with the Dutch National Bank (DNB).

Within the captive division, he has experience with true risk-based captive legislation in the Connecticut Governor's office, the examiner in charge for the captive division's report of Examinations, and the captive division the National Association of Insurance Commissioners self-evaluation guide for interim annual and accreditation reviews.

Commenting on his new role, Gallo said: "One major lesson I've learned from my career in insurance regulation is the critical importance of sustainable liquidity and cash flow, in any enterprise. This led me to pursue my second career in educating business owners on how a properly managed captive insurance company will allow such an enterprise to thrive in any economic environment."

CIC Services founding principal and in-house counsel Sean King added: "As our company has grown and expanded, we're thrilled to fuel the momentum with experienced professionals like Chris Gallo."

King added: "Gallo brings an extensive background in finance, risk management and insurance to the table that will serve our clients well." ■



Robus, insurance management, fiduciary and financial advisory group, has appointed Steve Quinn as chairman.

Quinn has 30 years' experience in financial services and was the founder and managing director of Quest Group in Gibraltar, a specialist insurance manager, which sold in 2016.

Previously, he worked as managing director of Premier Group in Gibraltar.

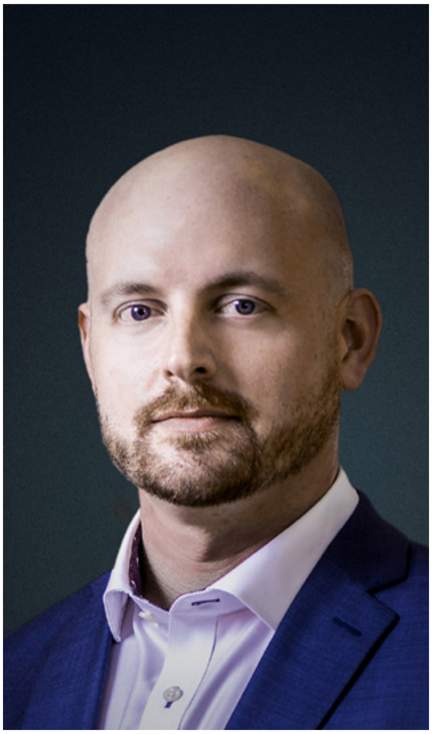
Richard Le Tocq, CEO of Robus, said: "Steve Quinn brings considerable expertise in his field and is a proven leader in the independent insurance management marketplace. Our growth strategy will be enhanced by his strong history in business development and sales and his desire to build an offering that is centred around world class quality of service delivery."

Commenting on his new role, Quinn noted: "I am absolutely delighted to be given this opportunity to work with Richard Le Tocq and the Robus team which I have seen grow and develop in exciting areas over the last few years."

"I will be working closely with the team to maximise the various opportunities available in the three jurisdictions in which Robus operates. Specifically, alongside traditional insurance management, expansion of the existing insurance-linked securities offering and MGA support in Guernsey, Gibraltar and Malta are key target areas for the group," he added. ■

 images by emperorcosar/adobe.stock.com

Nate Reznicek has joined International Re (I–RE), the specialist captive insurance and reinsurance MGU, as head of US distribution.



Reznicek appointment aims to help continue the expansion of I–RE and its RE–PAID product into the US market.

Most recently, Reznicek worked as director of operations at CIC Services, where he led the captive practice. He has also served on a number of industry boards and committees.

In addition, he is a faculty member for the International Center for Captive Insurance Education.

Andy Jeckells, co-CEO of I–RE, said: "We work with high performing mid-market businesses, for which our RE–PAID product has been specifically designed, giving business owners access to the same powerful tools to underwrite their own commercial property and casualty insurance whilst retaining profits, as Fortune 500 companies. Nate Reznicek will further our ambitious growth programme throughout the US."

Commenting on his new role, Reznicek said: "I was immediately impressed with I–RE's unique RE–PAID product, which allows up to 50 percent of premium spend to be retained for commercial property and casualty lines with A-rated carriers."

"I look forward to introducing our turn-key all-in-one integrated product to brokers and captive managers, helping them to diversify their book, expand their offerings, and create significant competitive advantage," he added. ■

Management Services International expands team

Captive manager Management Services International (MSI) has made two promotions and expanded its existing team with two new hires.

Rosa Garcia, who has worked at MSI for the last eight years, will take on the role of to vice president of operations. Previously, Garcia worked as business director at the firm.

Clarissa Toledo, who formerly worked as a project manager since joining in 2015, has now been appointed as operations manager.

In addition to the two promotions, MSI has welcomed two new team members. Bryan Montanez has been named as a junior accountant while Amy Ballen has been hired as a sales coordinator. ■

images by ngad/adobe.stock.com