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European Focus

Experts discuss the current outlook for the European captive insurance market

Reinsurance Focus

Industry professionals discuss reinsurance and its relationship with captives

Emerging Talent

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In this issue

Fitch: Latin American reinsurers demonstrate resilience

Latin American reinsurers' ratings are expected to remain "unchanged" despite experiencing catastrophic losses of approximately US$18.6 billion in 2020, according to Fitch Ratings.

This prediction is based on the rating agency's base case scenario over the next 12-18 months, in which the majority of Latin American reinsurers sustain adequate capitalisation and financial performance.

Of the calculated catastrophic losses (identified as "significantly below" the record losses of 2017, which reached almost $150 billion), the three largest catastrophe events (Hurricanes Eta and Iota in Central America, drought and wildfires in South America and the Puerto Rican earthquake), constituted more than $2 billion in insured losses.

Fitch says this demonstrates the importance of continuing to narrow the protection gap in Latin America, as the region's reinsurance sector is heavily guided by international pricing conditions.

Furthermore, competition from global reinsurers, specifically the significant reinsurance capital in Europe, enables Latin American reinsurers to focus their attention on regional insurance sectors.

Fitch describes Latin American reinsurers as "the most resilient" to the changing reinsurance landscape owing to their comprehensive understanding of regional markets.

Therefore, the ratings agency expects demand for reinsurance in the region to

South African authorities clarify captive definitions and licensing

The Financial Sector Conduct Authority (FSCA) and Prudential Authority (PA) of South Africa have released a joint guidance notice concerning the application of sections 5(1) and 5(2) of the Insurance Act.

These sections relate to the insuring of first-party risks and conducting of insurance business by foreign entities.

This follows a joint guidance notice released by the two authorities in April 2019, which established broad parameters for the definition of a foreign reinsurer operating through an intermediary in South Africa.

The updated notice provides more clarity on the definition of a captive insurer, which is determined as an insurer domiciled in and operating from a foreign jurisdiction as a wholly-owned subsidiary of a group of parent companies that is limited to first-party risks.

First-party risks are in turn defined as the operational risks of the group of companies or any joint arrangements that the insurer or cell owner is part of.

The notice highlights that in this context, operational risk refers to potentially incurring losses owing to inadequate or failed internal processes, personnel or systems.

The FSCA and PA also set out guidelines for licensing approaches under the Act, as foreign entities are required to be licensed under the framework of the legislation.

Specifically, the PA will consider licensing applications for any entity intending to insure first-party risks as part of captive or cell captive business in South Africa, while foreign-domiciled captive insurers conducting insurance business in South Africa may submit an application for exemption. ■

increase during the second half of 2021, attributable to increased uncertainty arising from the COVID-19 pandemic, and severe and frequent high-impact weather events.

However, Fitch notes that this growth may be partially offset by slower insurance industry growth as a result of the pandemic's detrimental economic impact in Latin America.

Fitch's market update concludes by identifying continued "limited" activity in the region's insurance-linked securities market.

Accurate insurance data is important when providing catastrophe protection, while modelling capabilities and statistics are required in order for alternative capital sources to be more widely implemented in the region.

Fitch predicts that alternative capital "will have a growing role" in the development of the Latin American insurance and reinsurance industries, providing the current limitations of data capture and modelling capabilities improve.

Ascot launches comprehensive reinsurance platform

Ascot Group has launched its global reinsurance underwriting and ceded risk solutions platform, Ascot Reinsurance.

The platform will act as a single point of entry for the entirety of Ascot's reinsurance products and capabilities, including enhanced client services, claims, and treaty and facultative solutions.

Ascot Re will host the existing reinsurance products from the operating companies in

Insurance Authority: Hong Kong as a global risk management centre

Hong Kong can leverage its position as a captive domicile and reinsurance hub to support the five-year plan to solidify its strategic position as a risk management centre for mainland business, according to the Insurance Authority (IA).

The authority hosted a forum at the Belt and Road Summit which explored the promotion of mainland enterprises through risk management services and insurance solutions.

In particular, IA highlights Hong Kong's proximity (both geographically and economically) to the domestic-international dual circulation strategy implemented by China, which prioritises domestic consumption but remains open to international trade and investment. Therefore, IA notes that as a domicile and an administrative region, Hong Kong is able to support mainland enterprises 'going global' in order to perform its role as the risk management centre for Mainland China.

Forum participants also highlight the importance of adapting enterprise risk management to the ever-evolving risk landscape, which is currently heavily influenced by the COVID-19 pandemic and geopolitical risks, as well as cooperation between international insurance markets.

During the forum, Simon Lam, executive director of general business at IA, states: "Under the current geopolitical environment, Hong Kong is playing an increasingly significant role in the global financial and insurance market. The establishment of captive insurance companies in Hong Kong has become a primary risk management solution for mainland enterprises to actively manage their overseas projects' risks."

Lam explains that, long-term, these businesses will provide momentum to Hong Kong's insurance ecosystem, thereby reinforcing the domicile's status as a global risk management centre and a regional reinsurance hub.

He concludes that both the legislative amendment in March 2021 to expand the scope of insurable risks by captives, and the extension of preferential treatment by the China Banking and Insurance Regulatory Commission for Hong Kong-qualified reinsurers, have ensured Hong Kong is well-positioned to meet its five-year plan targets. ■

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R&Q launches legacy insurance sidecar

Randall & Quilter Investment Holdings (R&Q) has launched Gibson Re, a collateralised reinsurer that will allow the non-life global speciality insurance company to support approximately US$2 billion of reserves. Subject to regulatory approval, the legacy insurance sidecar will be domiciled in Bermuda and holds around $300 million of capital.

Gibson Re will also reinsure 80 per cent of all of R&Q's new qualifying legacy transactions for a period of three years, while R&Q will participate in the remaining 20 per cent to ensure alignment of interest. Assuming sidecar capital is fully utilised by 2023, R&Q expects a run-rate group fee income of more than $140 million, as well as group pre-tax operating profit of more than $90 million.

Gibson Re is designed to transform legacy insurance into a recurring fee-based business in line with the strategic update of R&Q, published alongside its results for the first half of 2021, to consolidate the firm's specialisation in programme management and legacy insurance business.

Financial highlights for H1 2021 include a pre-tax operating loss of $23.5 million, which was reduced to approximately breakeven when including the underwriting profit of two signed legacy insurance transactions that are expected to close in the second half of 2021.

In total, R&Q's legacy insurance completed eight transactions with a pipeline of over $1 billion of reserves.

The firm also reports programme management gross written premium of $890 million and fee income of $50 million, which marks year-on-year increases of 80 per cent and 135 per cent, respectively.

Ascot Group's global markets ecosystem, such as Syndicate 1414 at Lloyd's and Ascot Bermuda.

The platform and its operations will be led by group chief underwriting officer Mark Pepper, group CEO Andrew Brooks and group president Jonathan Zaffino.

In addition, Rory Cline will serve as president of Ascot Re US, which will be divided into property, casualty and professional liability segments, led by Libby Ismail, Tony Kashuba and Steve Robinson, respectively.

Bermuda CEO Ian Thompson will oversee the platform's treaty operations in the region, while Simon Kimberley and Justin Keith will lead the property and casualty, and speciality lines, respectively.

Ascot Group is a subsidiary of CPP Investments, a global investment management firm primarily responsible for investing the assets of the Canada Pension Plan.

Pepper comments: "Reinsurance underwriting has been at the very heart of Ascot throughout our 20-year history, and the launch of Ascot Re allows us to work even more closely with our brokers to ensure we provide the right solution for clients, regardless of where it sits within our ecosystem."

Zaffino adds: "Ascot Re will allow us to deliver the firm's deep technical knowledge and multiple underwriting capabilities, backed by the group's unique financial strength. This single alignment will help us provide tighter internal cohesion, and the delivery of exceptional product and services to our reinsurance brokers and clients."

Oklahoma completes second IBT plan

The Oklahoma Department of Insurance has completed its second insurance business transfer (IBT) plan in the US. Approved by Commissioner Glen Mulready of the District Court of Oklahoma County, the IBT passes over a portion of the reinsurance business written by Sentry Insurance Company to National Legacy Insurance Company (NLIC), a subsidiary of Randall & Quilter (R&Q) Investment Holdings.

The transfer includes the liabilities associated with the reinsurance business, as well as $2.9 million paid from Sentry to NLIC to assume the liabilities so that Sentry can focus on its core business of commercial property and general liability insurance.

Michael Williams, chief actuary and risk officer at Sentry, comments: "Sentry's successful transfer of run-off assumed reinsurance to NLIC was achieved by working with the Oklahoma Department of Insurance and other stakeholders."

"The process which the Court has sanctioned today has been extremely rigorous, with regulatory oversight, an independent expert review and a communication process which enabled stakeholders to engage," explains Mike Walker, head of transformation at R&Q.

"As US companies look to redeploy capital and seek to exit lines of business, this innovative solution — tried and tested in other jurisdictions — will continue to be attractive."

Commissioner Mulready adds: "This is an exciting accomplishment for Oklahoma. Our team is working hard to ensure that Oklahoma IBT law continues to bring tremendous new opportunities to our state."

The IBT legislation was brought into effect in Oklahoma in November 2018, while the first IBT completed by an insurance commissioner in the US was approved by Commissioner Mulready and authorised by the District Court in October 2020 between Providence Washington Insurance Company and Yosemite Insurance Company. ■

Looking to Q3 2021, R&Q cites the recent completion of an insurance business transfer in Oklahoma as promising for opening up a new avenue of US legacy business.

Lockton unveils New Zealand offices

Corporate brokerage Lockton has launched a New Zealand operation, Lockton Companies NZ Limited Partnership, to establish new client servicing standards for risk and insurance in the national market.

The new firm has risk and insurance advisors located in Auckland, Hamilton and Christchurch, with short- to medium-term plans to expand further across both islands, with the objective to double the New Zealand team by the end of the year.

Employees at the new operation are working remotely under current government lockdown regulations in New Zealand.

The team is led by Melanie Harding as chief operations officer, while Niall Martin serves as head of employee benefits with 20 years' experience in managing and providing employee benefits to corporate clients in Ireland and New Zealand.

In addition, Jessica Schade has been named as head of captive and alternative risk transfer, with over a decade of experience in forming and managing captive insurance companies for New Zealand and Australian businesses.

Finally, Ged McCombie has been appointed as head of Pacific, where he will be responsible for providing client-focused broking services and risk solution capabilities in the region.

Paul Marsden, CEO of Lockton Companies Australia, comments: "The decision to expand into New Zealand and open an office in Auckland was a logical next step for Lockton as we continue to expand our global reach in markets where we know we can make the greatest difference."

"We do this by providing consistent and unmatched service to all of our clients, and championing risk-led conversations, rather than just insurance," he explains. ■

Aon: captive formations continue to rise

Even though the rate of increase in pricing in the commercial insurance market has begun to flatten out in 2021, organisations are still continuing to explore alternative risk financing options as loss-hit lines remain challenging to place, says Aon in its new captive benchmarking survey.

Read the full article online

Inpex captive receives positive ratings

A.M. Best has affirmed the financial strength rating of A- (Excellent) and the long-term issuer credit rating of "a-" (Excellent) for Inpex Insurance Ltd (IIL) (Bermuda).

The outlook of these ratings has been revised from stable to positive as A.M. Best expects IIL (Bermuda) to maintain its peer-leading underwriting results.

Read the full article online

Vantage expands healthcare and excess casualty businesses

Vantage Group Holdings has launched healthcare and excess casualty insurance businesses in Bermuda and the US as part of the continued expansion of its insurance platform.

The reinsurance partner was originally established late last year to write reinsurance risk through its Bermuda company Vantage Risk.

Read the full article online

R&Q completes loss portfolio transfer with Lufthansa captive

Randall & Quilter Investment Holdings has transacted a loss portfolio transfer of reinsurance business with Lufthansa Group's captive, Delvag Versicherungs-AG.

The non-life speciality insurance firm was supported in the transaction by Black Forest Reinsurance Consulting and Guy Carpenter Munich.

Read the full article online

Swiss Re: P&C business will become more complex

Global property and casualty (P&C) premiums are expected to more than double to US$4.3 trillion by 2040 (compared to $1.8 trillion in 2020) as the business becomes more complex, Swiss Re has predicted. P&C portfolio composition will transition from lower-risk motor insurance to higher-risk, catastrophe-exposed property and liability lines.

Read the full article online

Generali adds to new insurance structure

Generali Global Corporate & Commercial (GC&C) has appointed Pedro Ruano as head of claims, where he will work within the firm's newly established insurance function.

Having previously served as head of GC&C for Iberia and Latin America, in his new role Ruano is responsible for driving claims processes at a global level.

Read the full article online

A captive-friendly environment

Günter Dröse of ECIROA and Laurent Nihoul of FERMA discuss the current landscape of the European captive insurance market and potential challenges

By Rebecca Delaney

The current high interest surrounding alternative risk financing in Europe is a product of reduced capacity and increased premiums in the traditional reinsurance market, as well as the overarching landscape of the hardening insurance market. Many European companies are looking to leverage their captives further, through reassessment of their business models and by facilitating new lines of business in promising market areas.

Günter Dröse, executive director of the European Captive Insurance and Reinsurance Owners Association (ECIROA), explains that "the use of captives as a risk management tool is driven by the realisation that the parent company itself can bear part of the risks, which is mainly reinforced by market cycles. Therefore, we must examine both claims development and the changing underwriting behaviour of insurers over the last few years".

Dröse notes that as well as an increase in several new captive formations, the European captive market has also seen a rise in the insurance volumes insured or reinsured through captive structures and protected cell companies.

This distinct interest in the region around alternative risk financing tools is affirmed by Laurent Nihoul, group head of insurance

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at ArcelorMittal and board member of the Federation of European Risk Management Associations (FERMA) responsible for captives.

Nihoul says: “One trend we have observed is a move by some large European countries — most notably France, but there are others — to explore the opportunity to create a captive-friendly environment. They are more aware of the risk management case for captives by companies and the value of having the captives within their oversight.”

In particular, cell captives are emerging as a popular structure. These captive solutions allow small- to mid-sized companies to experience the advantages of alternative risk management strategies without imposing unattainable capital requirements, instead segregating a company’s risk from that of other organisations in the same pool.

However, Nihoul notes that new captive formations are not wholly indicative of the extent to which the captive market has grown. As a mature industry, he points out that most large companies with the resources to form a captive have already done so.

These organisations are in the process of putting more business into their captives in a threefold approach: increasing retention of frequency exposures; retaining medium-level severity exposures; and exploring new lines of business not currently in their captive structure.

Nihoul elaborates: “I make a distinction between pricing corrections and a global line of business shift. Where an individual client’s premium has to be adjusted to the new market reality, a discussion with carriers might still happen. However, a shift of a global line of business into a strongly disrupted pricing

“Large European countries are more aware of the risk management case for captives by companies and the value of having the captives within their oversight”

environment that is unrelated to the risk profile of organisations is different.”

Lines of business such as directors’ and officers’ liability insurance and cyber risk were underpriced from the global market perspective, as price changes and capacity shortage are not linked to the individual insured’s profile.

Nihoul identifies cyber risk and natural catastrophes as two peak exposures likely to see higher reinsurance pricing in the future, which will be passed on by insurers to commercial buyers and therefore continue the trend already demonstrated in large companies.

He also considers that, in the future, the captive industry may see the creation or re-domiciliation of captives from other European countries into the leading European captive domiciles.

The increased interest in alternative risk financing has created competition in domicile selection. Dröse notes that Luxembourg “seems to remain the dominant European captive market”, boasting a particularly strong reinsurance market that hosts captives from predominantly French and Italian parent companies. Elsewhere, Malta is noted for its protected cell and segregated portfolio companies, while Guernsey and the Isle of Man stand out as established domiciles, and there is also growing interest in Ireland. The success of a domicile is largely dependent on local regulators’ implementation of the regulatory framework, as well as the presence of complimentary captive service industries, such as banking, legal, secretarial, audit and insurance management.

Domicile selection in Europe may also depend on commitment to environmental, social and governance (ESG) principles. Dröse identifies that ESG and sustainable development goals “are of growing consideration for all stakeholders”. However, he notes that it is important to distinguish what insurers will consider and what changes or adjustments will need to be made.

"Over the next two years, we expect to see a growing number of captive formations. Due to some capacity limitations in the market, some insurance mutuals may be created"

He continues: "The investment strategy of insurers is increasingly under the observation of regulators. Captives generally act in line with the parent organisation's investment strategy, as well as in accordance with the group treasury or chief financial officer."

Nihoul agrees: "When it comes to ESG, non-financial risk disclosure will be at corporate level and is unlikely to be an issue for captives whose business is completely or very largely that of the parent company."

Potential challenges

Looking at the impact of the COVID-19 pandemic on the European captive market, Dröse affirms that insured companies, as well as insurers and reinsurers, must consider the extent to which their exposure has changed.

Increased interest in captives precedes the pandemic and was predominantly a result of the hardening market; although that is not to say it has not been exacerbated by COVID-19. Nihoul notes that although "COVID-19 has had an impact on many captive-owning companies, it is not feeding through to captives in a material way".

Dröse agrees that pandemic risk did not influence the risks underwritten by captives or other alternative risk transfer vehicles, although some healthcare insurance contracts may have been affected and subsequently triggered a premium increase which may require adjustment over time.

Lockdown across European countries generated growth in some sectors, such as online retail and technology. Post COVID-19, there is expected to be increased coverage in non-physical damage business interruption and contingent business interruption.

As well as the impact of the pandemic, in terms of the challenges currently facing captives in the European market, Nihoul acknowledges emerging cyber risks: "The cyber insurance market is evolving, and it is not clear how much capacity it will offer in future."

"It is increasingly clear that cyber risks can be systemic, affecting many organisations at the same time," he explains. "FERMA supports the creation of a pan-European catastrophe risk sustainability framework for systemic risks that are beyond the scope of the private insurance market, including major cyber attacks, widespread natural disasters resulting from climate change and future pandemics."

The Solvency II review is not expected to pose a heavier burden to the activity and reporting of European captives compared to how it stands today, according to Dröse. ECIROA contributed its opinions during the review's consultation period.

The review of the directive, which came into force on 1 January 2016 under the European Insurance and Occupational Pensions Authority (EIOPA), will address balance updating of the regulatory framework, recognition and reflection of the economic situation, and regulatory toolbox completion.

"The Solvency II development has always been described by EIOPA as a flowing process of learning and adjustment, bearing in mind that the proportionality principle needs to be respected more carefully than it is currently," Dröse adds.

Nihoul continues: "In terms of the revision to Solvency II, FERMA has continued to press for consistency in the application of the principle of proportionality in the insurance regulation of all member states."

Looking ahead, Dröse holds an optimistic view for the future landscape of the European captive insurance market, predicting that "over the next two years, we expect to see a growing number of captive formations".

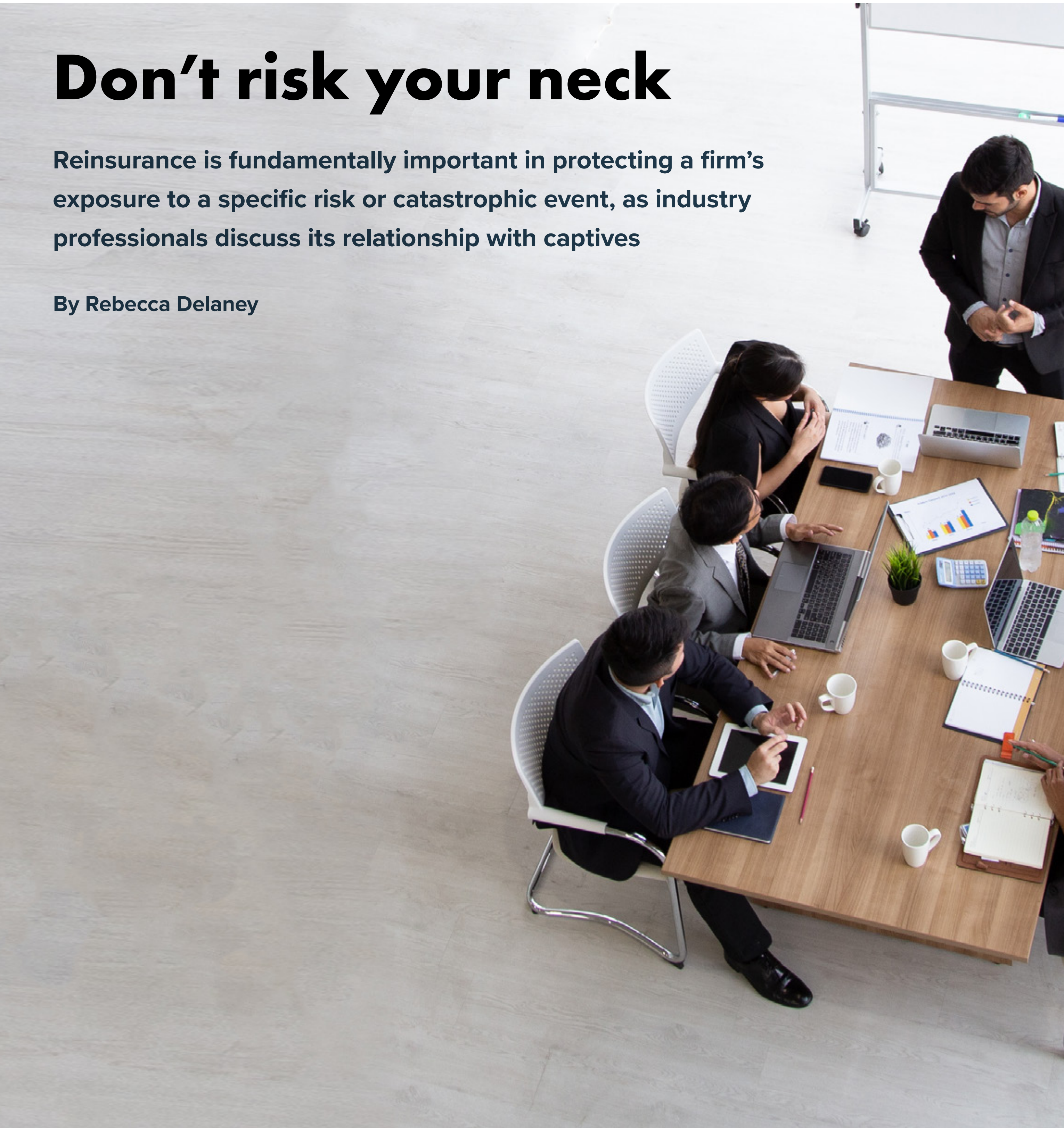
"Due to some capacity limitations in the market, some insurance mutuals may be created; such an evolution will be influenced by the behaviour of the insurance market."

"Although there is sufficient expertise in the market, we also see a lot of challenging questions in this area, not only regulatory- or tax-based but also in how to satisfy the mutual partners in a fair structure," he concludes. ■

Don’t risk your neck

Reinsurance is fundamentally important in protecting a firm’s exposure to a specific risk or catastrophic event, as industry professionals discuss its relationship with captives

By Rebecca Delaney



Described by the Reinsurance Association of America as “insurance for insurance companies”, reinsurance is the process by which several insurance firms share risk by purchasing insurance policies from other insurers.

This is done for four reasons: to limit liability on a specific risk in case of a catastrophic event; to stabilise loss experience; to dually protect themselves and the insured against catastrophes; and to increase capacity. By spreading risk, individual insurance companies are then able to onboard clients whose coverage would be too great a responsibility to handle alone.

Global reinsurer underwriting performance is expected to continue to improve into 2022 as a result of enduring heightened catastrophe losses, low interest rates and increased premium rates, according to Fitch Ratings.

The rating agency’s report, ‘Global reinsurers: mid-year 2021 results’, determines that in the first half of 2021, global reinsurance industry insured natural catastrophe losses reached US$40 billion, compared to $35 billion in H1 2020. In addition, the report identifies that non-life reinsurance net premiums written grew by 18.5 per cent in the first half of 2021, owing to rising prices and sustained demand.

Fitch has revised its global reinsurance sector outlook from stable to improving, with the expectation that higher prices in the hardening market and lower pandemic-related losses will encourage significant improvement in the financial performance of reinsurers.

In a webinar briefing discussing the outlook, Robert Mazzuoli, director of insurance for Europe, the Middle East and Africa at Fitch, explains that outlooks are determined by capital, risk management, business profile, rating actions and the changing competitive landscape.

Mazzuoli says this revised outlook reflects the rating agency’s 18-month forecast that sector fundamentals are expected to improve compared to recent events and trends, specifically in terms of profitability, higher risk-adjusted prices, lower pandemic-related losses and higher demand for reinsurance.

Fitch expects that these positive circumstances will exceed the current negative impact of lower investment returns, declining loss-cost trends, rising social inflation, and uncertainty around the pace of global economic recovery on future underwriting results.

These unstable conditions were echoed by A.M. Best in its recent market segment report, along with calculations that total global reinsurance market revenue reached $279.1 billion in 2020, compared to the annual average of $245.4 billion since 2015.

However, A.M. Best retains its global reinsurance outlook as stable, although it recognises that improved pricing trends for the majority of business lines offset increasing claims uncertainty.

Furthermore, A.M. Best calculates dedicated capital in the global reinsurance segment at approximately $520 billion at year end 2020, owing to the impact of large natural catastrophe events, secondary perils, and social inflation in the insurance-linked securities (ILS) market.

In particular, the resilience of the ILS market is attributed to an increase in catastrophe bond issuance and firm pricing discipline in the collateralised reinsurance market.

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Although the rating agency identifies that, in general, risks have become more difficult to model, price and therefore reinsure, it notes that company-specific risk modelling and data can provide essential insight for an improved understanding of current intangible and technological risks.

In this current market context, the benefits of reinsurance for companies persist.

One such benefit is arbitrage, as the company can collect additional profit by purchasing insurance elsewhere for less than the premium collected from its policy holders.

Improved solvency margins is another benefit, as surplus relief insurance allows companies to onboard new clients without the need to raise additional capital.

Additionally, capital management and capacity management mark further advantages of reinsurance.

Aaron Hillebrandt, principal and consulting actuary at Pinnacle Actuarial Resources, highlights that captives can use reinsurance strategically to garner the same benefits of traditional insurance companies.

"There is some nuance, given that captive insurers may be more focused in scope of coverage. But, like traditional insurance companies, captives will use reinsurance to limit the impact of large losses, or conversely implications on surplus. There are degrees and subtleties — such as leverage — depending on individual circumstances, but the same is the same: if a company or captive wants to write higher limits and is reluctant to take on the higher limit for strategic reasons, it may cede that risk to a reinsurance company," Hillebrandt says.

"The benefits for captives are similar for any sort of company, smoothing out financials, transferring risk and taking advantage of economies with regards to writing higher limits. From a strategic perspective, both offer comparable advantages."

In terms of captives, Jeff Kenneson, president of Davies Captive Management, notes that reinsurance can be particularly beneficial during the start-up phase. He explains: "In some instances, captive owners may be somewhat apprehensive about forming a captive or about their ability to control losses. Reinsurance is key to offering these owners some reassurance that there will be a limit to the exposure of the captive. By limiting the exposure, capital requirements can also be reduced, which is another key factor in some start-up captives."

Reinsurance captives

There are no drastic differences between how a normal captive and a reinsurance captive function. Hillebrandt says this is because "captives often operate as a type of reinsurer — single-parent captives assume the risk of the parent company, while a fronting carrier writes the policies because they are an admitted insurance company".

However, a reinsurance captive functions slightly differently to its standard counterpart as it does not issue policies directly to insureds. Instead, it reinsures the risks insured by one or more fronting companies. Fronting companies are commercial insurers, licensed in the state where the risk from the captive is located, that issue insurance policies to the captive's parent company without assuming all of the risk.

Kenneson explains how a reinsurance captive operates: "First of all, there is a fronting carrier involved who will be required to securitise the transaction with a trust, letters of credit or on a funds held basis."

"A reinsurance captive can have limited exposure depending on how much of a retention it takes versus what the fronting carrier might take through a quota share arrangement and what the reinsurer behind the captive will take if there is outward reinsurance from the captive. Regulators tend to be more comfortable with arrangements which include well established fronting carriers," he adds.

Under a fronting arrangement, the captive will act as a reinsurer rather than a direct insurer. The risk of loss is transferred to the captive through the reinsurance agreement. Therefore, although the insured receives a policy issued on the fronting company's paper, the risk covered by the programme actually resides with the reinsurance captive.

The primary purpose of fronting is to ensure compliance with insurance regulations, however, there are additional advantages of utilising the licensing of the fronting company. For example, the captive insurer does not have to maintain licenses in each of the different states where it writes business.

Furthermore, fronting strengthens the potential to achieve tax-deductibility of premiums paid, and allows the captive insurer to access cost-effective services such as claims handling, risk control and excessive risk transfer capacity from the fronting insurer.

Pinnacle's Hillebrandt adds: "Certainly, there is value that captives offer in the reinsurance space. For example, a carrier can structure a traditional reinsurance layer as a captive. A primary benefit is that they do not have to pay the reinsurance expense and profit loads to an unaffiliated carrier as they would in a traditional reinsurance scenario."

"Because of market pressures, a company may feel that they are overpaying for a certain part of their reinsurance programme. So if they are able to fund their own captive to retain risk for certain sections of their reinsurance programme, they can potentially lower costs and fees. For example, with hurricane catastrophe reinsurance, in the years with no catastrophic events, the captive can be really profitable — and in the years with catastrophic events, there is reinsurance protection."

Reinsurance trusts

Captives and reinsurance are also related through reinsurance trusts. A reinsurance trust is a tri-party agreement in which a reinsurance company (the grantor) deposits cash or other assets to be held by the trustee to secure obligations to an onshore fronting company (the beneficiary). The trustee is responsible for safeguarding the assets under the terms of the reinsurance trust agreement, allowing the beneficiary to use trust assets to meet statutory reserve requirements.

Davies' Kenneson highlights how a reinsurance trust can be beneficial to a captive. He says: "A reinsurance trust, also known as a regulation 114 trust, has several benefits for a captive. It is a mechanism by which the captive securitises the insurance transaction with the fronting carrier instead of using letters of credit."

"By using the trust, the insured minimises any doubling up of funds which will be tied up by the captive. The trust is also what we call self-correcting. If a letter of credit is used as collateral, fronting carriers are always hesitant in approving reductions to letter of credit amounts even for paid loss activity, not to mention the internal hassle of reducing the letter of credit amount with the bank," he affirms.

Therefore, a reinsurance trust acts as a flexible and cost-efficient alternative to a letter of credit. Furthermore, captives are able to establish a reinsurance trust in a relatively short period of time, as the grantor must select experienced legal counsel to assist with the trust agreement, and select a bank trustee.

As well as a regulation 114 trust, other innovative uses of reinsurance trusts include securing a deductible buy-down programme, or securing the insured's deferred obligations under a loss-sensitive agreement.

Market development

In the US, reinsurers are regulated on a state-by-state basis, with regulations designed to ensure solvency, proper market conduct, and fair contract terms and rates, as well as to provide consumer protection. Importantly, regulations require the reinsurer to be financially solvent so that it can meet its obligations to ceding insurers.

Hillebrandt elaborates: "There are always some interesting dynamics happening with regards to innovation in the captive market, and regulators are constantly needing to adapt to the market's evolution. Captive regulators are often focused on solvency risk, as no regulator wants to have a company under their scope go insolvent."

"So, if the market dynamics are forcing more catastrophic risk into captives or larger reinsurance layers, we should expect regulators will pay more attention to those sorts of situations."

"There are always some interesting dynamics happening with regards to innovation in the captive market"

Such emerging issues in the market include a changing rate environment, losses from catastrophes and the ongoing impact of the COVID-19 pandemic.

In this current market context, Davies' Kenneson notes: "We are seeing a lot of new formation activity right now. As we moved through the pandemic to the point where companies started to realise that the world was not going to end, this pent-up demand for captives with the hardening market unleashed. We are forming every type of captive in every type of industry you can imagine and we are putting them in all different domiciles."

Hillebrandt adds that as an actuarial consultant to both captives and companies writing reinsurance, Pinnacle is always looking into the next 12 months and the longer-term.

"The markets are always changing. We work to help clients make the best choice based on those shifting conditions, but our approach is strategic and fairly consistent when it comes to helping clients reinsure or form a captive. We complement their various reinsurance quotes with various captive funding estimates to give a better understanding of their total cost when adding to an existing captive programme, launching a new one, or making optimised reinsurance purchasing decisions," he concludes. ■

Emily Cadby

Assistant captive consultant
Strategic Risk Solutions

Professional profile

I graduated from the University of Limerick in 2010 with a 1.1 in business with risk management and insurance.

I continued my insurance studies with the Insurance Institute of Ireland, and have the Chartered Insurance Practitioner and Management Diploma in Insurance qualifications.

I joined SRS as an assistant consultant in August 2020.

I am responsible for supporting the European consulting team in the delivery of consulting engagements and supporting business development.

I also draw on my previous experience in captive management by managing underwriting activities of a portfolio of reinsurance companies and insurance intermediaries.

I was formerly a client service advisor with Willis Towers Watson, where I provided an efficient broking and claims service to a portfolio of large corporate clients, including those in the education, contracting, retail, health/life sciences and public sectors. I started my career in insurance with Marsh Captive Solutions, Dublin after completing my degree in 2014.

Personal bio

I was born in the UK but moved to County Cork, Ireland when I was a few months old.

I attended a Gaelscoil (a school where the primary language is Irish) and am still fluent today!

I went to university in Limerick, worked in both Dublin and the UK, and am now finally settled back in Cork 10 years later. I love to travel, experience new cultures and learn something new.

As I began my career at Marsh straight after university, I decided to leave Dublin and took what was supposed to be just three months out from captives in 2017 to backpack my way around Australia, Thailand and Bali.

I then ended up taking a broking role in Bournemouth in the UK before relocating back to Cork.

At the time, remote working was not an option in the captive industry in Ireland, so I joined Willis as a commercial broker.

How did you end up in the captive industry?

As part of my degree in business, I studied a range of subjects in the first year, after which I had to choose a major option. The insurance modules were always the most interesting to me, so going for risk management and insurance was a no brainer. An opportunity with Marsh Captive Solutions was shared with me by a lecturer just after I had completed my exams. At that stage I had not even heard of captives before, but once I did some research I thought it was a really interesting way to start my insurance career, rather than going down the traditional route of broking or underwriting!

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

I was delighted to be offered a role with the consulting team after hearing about SRS setting up their operations in Europe. It has been great to be part of a rapidly growing team and it is really exciting to see us expanding all over Europe. It definitely has been my highlight in the industry so far. I get to work with people across all domiciles, whilst working remotely from Cork!

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

There have been many. With the captive industry being so dynamic and ever changing, it attracts innovative and forward thinking professionals who I have had the pleasure of working with. I have had such a wide variety of clients in terms of management and consulting, and no two clients are the same. Risk management really is a culture where I can learn something new and see a different point of view after working with each client. Moving from the captive industry into insurance broking for a few years really influenced me in that I have seen first hand the challenges companies are facing in the insurance market. This has helped me hugely in my consulting role as I can really understand and appreciate the pain points clients are experiencing with pricing and capacity.

What is your impression of the industry?

I think it is a really exciting industry to be a part of, and it has huge potential for growth. Insurance costs are mounting higher and higher, with companies often paying more for less coverage at renewal. Risk managers are looking for alternatives and solutions, and that is where the captive industry comes in. The industry is constantly changing and providing solutions to new and emerging risks. Domiciles are looking for ways to bring barriers down and captive formations in. Interest is surging and I think the future of risk management will be shaped by the captive industry.

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

Being a part of the consulting team at SRS — I have no doubt I will continue to gain invaluable knowledge and experience. I hope to become a fully fledged consultant in the future and continue to support the team with our growth in Europe.

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

There are so many different ways to be part of the captive industry — whether you like accounting, underwriting, claims or tax, there is definitely something for everyone.

If you are not quite sure what is for you, I really would advise you try to obtain experience in captive management.

You will work with so many people from different backgrounds (such as actuaries, claim handlers, brokers and auditors) and get a feel for their work, which should help in deciding what direction to take. ■

"Emily has been an extremely valued addition to the SRS Europe consulting team since joining in 2020. She has demonstrated a high degree of technical knowledge which was gained in her prior roles of insurance management and broking. This coupled with a desire to learn and develop has meant she is extremely valued within the organisation."

"Emily is extremely good with clients and has received positive feedback which validates this attribute. I personally look forward to working with Emily and feel that she has the necessary attributes to develop into an influential contributor to the insurance industry over the coming years."

Derek Bridgeman, managing director, head of European consulting services, SRS

Energy Insurance Mutual (EIM) has appointed Megan Ogden as chief operating officer of its protected cell captive Energy Insurance Services (EIS), effective 31 March 2022.

Ogden currently holds the position of controller for EIM's wholly-owned insurance management services subsidiary, Energy Captive Management.

Previous roles include senior vice president of Marsh Captive Solutions and head of the Charleston office at JLT Insurance Management.

Ogden also recently served as chair of the South Carolina Captive Insurance Association.

Tommy Bolton, president and CEO of EIM, comments: "Megan brings a powerful combination of skills and experience to this role. She has strong expertise in alternative insurance, finance, and business development."

"Megan has also established meaningful relationships with EIS participants and in the captive community, and we are pleased to have her join the leadership team in the EIM family."

The appointment follows the planned retirement of Randy Martin, who has held the position of vice president and COO since 2015.

Under Martin's leadership, EIS launched an insurance-backed catastrophe bond for wildfire indemnity and other bespoke alternative risk solutions, formed five new cells, and saw gross premium growth of 48 per cent.

Strategic Risk Solutions (SRS) has appointed Kathryn Anderson as director of its European consulting practice, effective October 2021.

Based in the UK, Anderson will report to Derek Bridgeman, managing director and European risk consulting practice leader. Anderson joins the independent insurance company management firm following more than two decades at Marsh UK, where she served as senior vice president and worked closely with the business analytics team.

Anderson spent the previous eight years in Marsh's captive advisory practice, where she was responsible for consulting with global clients to establish captives and other formalised risk retention structures, as well as to derive the maximum value of these programmes for clients.

Bridgeman says: "Having worked alongside her at Marsh, I saw first-hand Kathryn's ability to understand a client's objectives at all times and, through an analytically-driven feasibility process, provide them with risk financing solutions tailored to their risk profile."

"The current insurance environment demands a more sophisticated approach to insurance, so the expectation from our clients and prospects for enhanced consulting support is stronger than ever. Kathryn will be a great fit with SRS, playing a pivotal role in helping captive owners to continually challenge the status quo," he adds. ■

Martin notes: "I have great respect for Megan's abilities and experience with captive and other alternative risk vehicles.

Working together through this transition and having Megan assume this important role will reinforce the stability and consistency that are among the hallmarks of the EIS member experience."

MS Amlin AG has appointed Michael Koller as chief risk officer (CRO), effective 20 September.

Based in Zurich, Switzerland, Koller joins the global reinsurance solutions firm from Prudential, where he served as group risk director for almost a decade.

Other previous roles include CRO at Aviva and Swiss Life, as well as serving as a member of the European Executive Board.

The appointment follows the exit of Catherin Farnworth, who has held the position of CRO since 2017.

Martin Albers, interim CEO and chairman of MS Amlin, comments: "With his deep regulatory knowledge and strategic expertise, Michael's appointment demonstrates our ability to attract the highest level of talent from across the industry."

"I am confident that he will play a key role as we continue to focus on executing our business strategy, building a global, full-service and diversified reinsurance business, underpinned by strong shareholder capital, that meets the growing needs of our clients around the world," Albers adds. ■

www.captiveinsurancetimes.com

Marsh has appointed Duncan Ashurst as risk management leader, based in the firm's Chicago office.

In this newly-created role, Ashurst will be responsible for leading a specialist team to deliver best-in-class transactional and advisory solutions to address risk financing, risk management and human capital needs for Marsh's large global clients.

Ashurst previously led the risk solutions practice at Willis Towers Watson, where he served as global client advocate and US automotive practice leader, providing consultative solutions with particular expertise in captive insurance companies and alternative risk transfer programmes.

Julie Marcello, head of Marsh's Chicago office, comments: "Clients and colleagues alike will benefit from Duncan's knowledge and experience as we seek to develop innovative solutions that provide firms with the protection they need to operate successfully in today's challenging risk environment."

Ashurst states: "Today's global companies need specialised expertise and creative solutions to help quantify and manage their complex risks. Marsh's deep intellectual capital, data and analytics, and global network are second-to-none in the industry. I am excited to join the firm and lead this distinguished team."

Elsewhere, Paul Marquand was named as director and senior vice president of Marsh Captive Solutions, Guernsey, having served as vice president of the group for almost two decades.

Before this, he held the position of senior financial administrator at Aon Insurance Managers, Guernsey. ■