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Making a run for it

Experts discuss the current state of the run-off market, and how legacy solutions can be utilised

Latin America

Industry professionals discuss current trends among captive owners in Latin America

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16 Bromley Road, New Beckenham
Beckenham, BR3 5JE

Editorial

Group Editor: Bob Currie
bobcurrie@blackknightmedialtd.com
+44 (0) 208 075 0928

Reporter: Rebecca Delaney
rebeccadelaney@blackknightmedialtd.com

Senior Reporter: Maddie Saghir
maddiesaghir@blackknightmedialtd.com
+44 (0)208 075 0925

Senior Reporter: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0)208 075 0926

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

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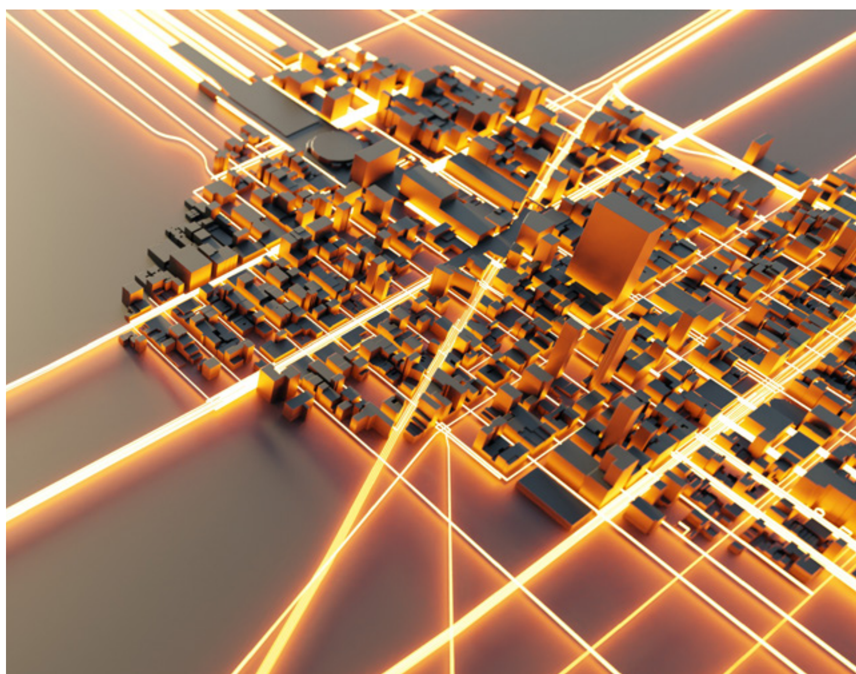

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Labuan IBFC sees cell formations amid domicile promotion

The Labuan International Business and Financial Centre (Labuan IBFC) has seen "tremendous growth" in cell captives over the last 12 months. This was affirmed by Farah Jaafar, CEO of Labuan IBFC, at the webinar, 'Labuan IBFC: a growing domicile for European risk owners'.

Jaafar predicts that some of these new formations will migrate into full captives as a more holistic risk management solution, particularly as Labuan evolves as a more attractive domicile for foreign risk owners.

Oliver Schofield, managing partner at RISCS, highlights in the webinar that Labuan is a midshore domicile, meaning it is a self-regulated financial centre with an independent regulator that works closely with a national government (in this case, Malaysia), similar to Gibraltar and the UK or Gujarat and India.

Schofield adds that Labuan is regarded as an advantageous domicile owing to its robust regulatory regime, established support infrastructure of service providers, and the implementation of both captive and cell captive legislation.

Daniel Landen, managing director, Protected Trust Services, comments: "It is important to read such legislation carefully. More often than not, you will find it will be a friend to you over a long period of time."

"Look at the opportunity it gives you, rather than losing sight of the benefits of having control."

Steel City Re launches ESG parametric insurance product

Steel City Re has launched a new insurance product centred around environmental, social and governance (ESG) activities to provide protection to boards of directors.

As a provider of parametric insurance solutions, Steel City Re emphasises the legal and reputational risk of failing to meet ESG requirements and expectations. The company addresses emerging risks and ESG compliance through reputation insurances and captives for risk retention and transfer.

Steel City Re highlights that recent litigation has demonstrated both investors and regulators are authorised to consider such ESG statements as material, causing corporate boards to be targeted by both courts of law and public opinion. The product is therefore designed to help manage pre-emptive reputational risks facing corporate boards that are under pressure to publicly commit to ESG objectives.

Specifically, the new policy covers "strategic managerial and governance actions signaling corporate values" that may arise in an ESG crisis, where an organisation may openly set targets without the necessary operational or governance processes in place to meet them.

Described as a "value-enhancing package of services", ESG Insurance provides parametric reputation insurances and risk management advisory services based on a framework of behavioural economics and underpinned by a synthetic index of reputational value, the RVM Index.

Nir Kossovsky, CEO of Steel City Re, comments: "The race to set ever higher ESG goals has made accomplishing those goals more challenging, and the risk of (often very public) failure more serious."

"In many cases, ESG has become central to companies' reputations and the adequacy of board oversight will put board members in the crosshairs when regulatory, investor, rating agency and media scrutiny are brought to bear." ■

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Expanding on the benefits of Labuan as a domicile, Annie Undikai, managing director, Brighton International Group, adds that Labuan's fronting considerations are flexible, as they are not decided by Labuan and are instead dependent on the receiving country and where the risk is coming from — for example, EU rules require a fronting carrier, while in the UK it depends on certain classes of business.

In addition, Labuan has a fast track pre-authorisation process (similar to in Guernsey and Bermuda), which Schofield describes as "the most significant development in cell captives in the last 25 years" since the formalisation of segregation of assets and liabilities was brought under law.

Schofield attributes this growth in cell captives to both awareness — a growing number of conferences and educational events for buyers, brokers and underwriters, as well as positive collaboration between domiciles and associations — and the hardening market and risk evolution, which has created more 'uninsurable' risks.

These hard-to-place risks include professional and financial lines, cyber, sustainable environment projects and carbon reduction projects.

Ridzuan Ariffin, strategic solutions director at Principal Re, suggests "the hardening market is not going away anytime soon", which he says will force clients to consider alternative risk financing options.

Ariffin notes that a captive structure, whether temporary or long-term, will still deliver solutions irrespective of the current market conditions which have been impacted by the pandemic and contingent business interruption.

Landen adds that even once the effects of the pandemic on the insurance market have subsided, the landscape will still not be as it was 10 years ago when products in the market met the requirements of the sector. This is because the commercial insurance market was already hardening before the pandemic hit, and could still continue into 2022.

Looking to the future, Schofield believes that the Biden administration's plan for global minimum tax will not be fundamentally 'anti-captive' because legitimate captives are not formed for tax purposes.

In addition, he highlights that although there may be a recalibration of the traditional market, captives and the alternative risk transfer market will remain the viable, long-term, stable solution.

ARS implements D&O captive arrangement

Alternative Risk Strategies (ARS) has successfully closed a US$10 million captive insurance arrangement in directors and officers (D&O) coverage for a large, vertically-integrated cannabis client.

As a risk management consulting firm offering solutions for expensive, hard-to-place risks, ARS' captive insurance programme is structured to provide clients with a competitive advantage with regards to cost of coverage. In addition, ARS' programme is designed to provide clients with large amounts of D&O coverage at a lower rate than compared to the traditional commercial insurance market.

This is specifically beneficial for cannabis companies, as it allows these firms to attract and retain key management talent, as well as reduce costs and improve cash flow.

ARS also provides captive insurance company management services to both domestic and international clients, including advisory services concerning the legal, tax, accounting and investment considerations in setting up a captive.

Eric Rahn, managing director at ARS, comments: "We are pleased to have designed and implemented this effective captive insurance solution for our client in the cannabis industry."

"The interest in our captive programme has been remarkable, but was not unexpected, as cannabis companies struggle to find affordable and adequate levels of insurance for their business needs and realise attracting and retaining management talent is related to adequate insurance," he explains.

ARS launched a cannabis captive offering in June of this year to provide an alternative risk transfer solution for the cannabis, hemp and CBD industry.

Gallagher Re launches integrated reinsurance platform

Gallagher Re has launched a reinsurance analytics platform, Gallagher Automated Insurance Analytics (GAIA), that will operate as a single, scalable and automated analytics ecosystem.

As an integrated platform, GAIA will support all analytics capabilities to deliver client insights at a rate, expected by Gallagher Re, to be

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

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80 per cent shorter than the time it currently takes to generate the same level of insights through existing platforms.

Insights will be based on the aggregation and analysis of Gallagher's full data, such as automated peer analysis, data quality scoring and portfolio optimisation and pricing tools, concerning underlying portfolios and business lines.

With this unified exposure data, clients will receive a multi-model view of the translation of data between catastrophe modelling platforms and visualisation of risks and portfolios.

GAIA will also leverage cloud-based technology to ensure rapid and global scalability in conjunction with Gallagher Re's future expansion objectives across geographies and business and lines.

In addition, the platform will utilise artificial intelligence and machine learning to ensure operational efficiency and automated workflows.

The capabilities supported by GAIA will be developed in a threefold approach: pre-modelling (data collection, enrichment, augmentation and intelligence); modelling (automated workflows through multi-model application programming interfaces); and post-modelling (pricing, portfolio optimisation, e-placement and market insights).

Commenting on the launch of GAIA, Ed Messer, head of analytics at Gallagher Re, explains: "Value-added analytics consultancy, which goes far beyond the reinsurance transaction, is now an accepted and expected part of the client offering."

"In GAIA, we offer a long-term, strategic alternative that utilises the latest cloud-based technology and can be quickly and easily scaled in a considered, commercially viable and impactful way."

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Tom Wakefield, CEO designate at Gallagher Re, adds: "GAIA is a fully scalable, global platform that leverages cloud-based technology and one that will take a huge amount of inefficiency out of current reinsurance analytics practices."

"That means more time spent advising our clients and discussing the insights gleaned from GAIA and less time turning the handles. GAIA will be a game-changer in the world of reinsurance analytics."

Dale receives in-principle approval for managing agency

Dale Partners has received 'in-principle' approval from Lloyd's to establish its own managing agency, Dale Managing Agency.

The new structure must submit its regulatory business plan to be approved by the Prudential Regulation Authority and Financial Conduct Authority.

Dale Partners is the holding company of Dale Underwriting Partners (DUP), an independent, owner-managed underwriting firm that began trading in 2014 with Lloyd's Syndicate 1729.

The syndicate was previously supported by third-party managing agent Asta, and has a current year stamp capacity of £205 million.

DUP has since grown to include a Lloyd's special purpose arrangement, the Magna Syndicate 6131 underwriting speciality business, and a joint venture with Aviva for property insurance.

Duncan Dale, CEO of Dale Partners, comments: "This will be an extremely exciting stage in the development of our business and will fulfil our long-term desire to be independent and fully accountable for the strategy, underwriting, execution, and governance of our company."

"We have thoroughly enjoyed working with Asta, and their continual guidance has been invaluable in helping us grow our business and the Dale brand to where it is today," he adds.

Julian Tighe, CEO of Asta, continues: "It has been wonderful to help Duncan Dale and the team at Dale Partners to launch Syndicate 1729. We are proud to have worked with them for many years and are delighted to have helped them on their journey to obtaining 'in-principle' approval for their own Lloyd's managing agency."

Guy Carpenter: reinsurance sector proves resilience

Although a combination of tangible and intangible difficulties have created one of the most dynamic and volatile landscapes in recent market history, reinsurers still show resilience and adaptability.

Read the full article online

Artex adds to Guernsey board

Artex Risk Solutions (Guernsey) has appointed four new members to its board of directors.

Commenting on the additions, Nick Heys, CEO of Artex International, says: "We are now perfectly placed to maintain the highest quality service for our existing clients and to drive the business forward."

Read the full article online

Cat bond receives first GIIA kitemark for ESG

The Guernsey International Insurance Association has awarded its first ESG accreditation to an insurance entity, Dunant Re.

The association launched its framework in collaboration with ESI Monitor in July.

Read the full article online

Hannover Re: rising prices continue in P&C reinsurance

The current market climate necessitates further price increases and improvements in the conditions of property and casualty reinsurance for the 2022 renewals. The threefold combination of low interest rates, inflation expectations and large losses from natural catastrophes has caused more disciplined underwriting approaches among insurers and reinsurers.

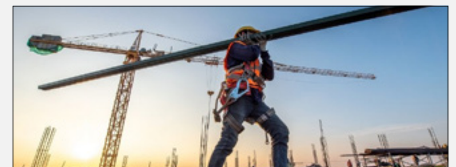
Read the full article online

Beazley names new chief underwriting officer

Beazley has appointed Bob Quane as chief underwriting officer, effective 11 October.

Based in the specialist insurer's New York office, Quane will also join the executive committee.

Read the full article online



Commercial insurance brokerage launches captive product

California-based commercial insurance brokerage Steve Muehler Commercial Insurance has expanded its product offering to include captive builders risk insurance. The brokerage is part of Steve Muehler Companies, a portfolio of firms that provide insurance, mortgage banking, commercial insurance, and investment banking products and services.

Read the full article online

Forecasting opportunity

Industry professionals discuss current trends among captive owners in Latin America, as well as the profound impact of the pandemic on the region as well as predictions for the future

By Rebecca Delaney

An expansive term for the Central and South components of the continent as well as the country of Mexico, Latin America is known for the hybrid nature of its cultures, dancing, football and rich coffee production — and now, an insurance and reinsurance industry that is looking to recover from the COVID-19 pandemic and explore alternative capital and risk financing.

In its Latin American reinsurance market update report, Fitch Ratings identifies that the region experienced catastrophic losses of approximately US$18.6 billion in 2020, with the three largest catastrophe events — Hurricanes Eta and Iota in Central America, drought and wildfires in South America, and an earthquake in Puerto Rico — accounting for insured losses of more than $2 billion, which Fitch argues demonstrates the importance of continuing to narrow the protection gap in the region.

The small size of the Latin American reinsurance sector in global terms means that it is highly influenced by international pricing conditions, while competition from global reinsurers — particularly those in Europe

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with larger reinsurance capital — allows Latin American reinsurers to concentrate their efforts on regional insurance sectors.

Fitch expects demand for reinsurance in Latin America to increase during the second half of 2021 following COVID-related uncertainties, numerous high-impact weather events, and the improved ability of primary insurers to purchase reinsurance. However, the rating agency also notes that the expected increase in demand may be offset by lower insurance industry growth as a result of the pandemic's deeply adverse economic impact in the region.

In terms of insurance-linked securities activity, the report outlines the key areas for improvement to ensure adequate catastrophe protection to be more accurate insurance data, better modelling capabilities, and more refined statistics for alternative capital sources. For the latter, Fitch predicts that alternative capital will have an evolving role of importance in the Latin American reinsurance and insurance markets, providing the current limitations improve over time.

These limitations refer to the fact that Latin American captives have traditionally struggled with a lack of education in the sector. Therefore, education surrounding captive and risk management for local companies is one of the most important factors to help promote captive formation in the region.

Alejandro Santos, managing director of analytics and captive solutions for Latin America and the Caribbean at Marsh, notes: "In the last quarter, we saw increased activity for captive advisory and strategic reviews on captive retention portfolios. There are multiple factors affecting companies within the region, including a challenging market situation as well as an economic downturn in most of the region's economies."

Although this appears detrimental, Santos explains that this environment has been beneficial for alternative risk financing vehicles as companies turn their focus to captives, particularly for financial lines, including programmes like directors and officers (D&O) liability, which have placed market pressure on pricing and capacity.

This uptick in captive formations by parent companies based in Latin America is affirmed by Eduardo Fox, consultant, private client and trusts, Latin America, Appleby. He says: "The market has seen increases, sometimes in double digits, across all main industries of the Latin American region — particularly in the areas of energy, mining and certain professional lines such as D&O — as the hard commercial insurance market has impacted these sectors of the region."

"Many Latin American companies have repositioned their captives to better utilisation within the group and professional lines they cover," Fox explains, adding that the COVID-19 pandemic exacerbated existing challenging conditions, but also forced innovation and understanding by Latin American captive owners for the benefit and growth of the industry as a whole.

Both new and existing Latin American captive owners are utilising their underwriting capacity to fill gaps in coverage where no capacity is available in the international insurance market, or to insure risks where premium is considered too expensive, according to Adriana Scherzinger, head of international business and captive services, commercial insurance, Latin America, Zurich Insurance Group.

Scherzinger adds: "Across all regions, including Latin America, we have seen changes in the last years, with increasing commercial insurance rates and scarcity of capacity, as well as the trend to increase self-insured retentions and deductibles, and to set up alternative risk solutions. Captives are also becoming more involved in emerging risks such as climate change and cyber as a result of enhanced exposures."

Following this increased interest in alternative risk financing, Fox notes that companies that do not yet have captive structures are exploring their formation, or are entering the rent-a-captive market. He adds: "From my specific experience, quite a bit of interest in the latter is coming from Mexico, although Colombia is still the most active and dynamic captive owner in Latin America."

The fast-growing emerging captive market is particularly recognised in Colombia and Mexico, which Santos explains is attributable to a more advanced knowledge of offshore and captive markets, as well as the size, complexity and risk management maturity of the companies based in these two countries. However, he also recognises that captive opportunities are emerging across the region, as more companies are looking to position their risk profile in order to enter the captive world.

Fox identifies the most active captive owners in the region as "Colombia, Mexico and Panama, in that order". In addition, he highlights that Brazil has the potential to be another leader in captive formations as the largest economy and largest insurance market in the region; however, it is currently hindered by the monopoly reinsurance company, Instituto de Resseguros do Brasil (IRB). Fox anticipates that since IRB has

operated as a private company since 2013, Brazil is now better positioned to seize opportunities to revive its captive growth "in the very near future".

He adds: "The four countries mentioned have the most developed and advanced understanding of the captive and offshore markets, providing them with a distinct advantage over the rest of the countries in the region. It has been our job at Appleby to continue pressing with training, education and business development visits, in order to close the gap and exponentially expand into all the other major economies such as Argentina, Peru and Chile."

Transparency is key

Both Colombia and Mexico are aided as active captive owners by respective tax information exchange agreements (TIEAs) with Bermuda and other global jurisdictions to promote their offshore captive interests. Argentina and Chile also hold TIEAs with Bermuda as the domicile is a promisingly progressive regulator.

Promoted by the Organisation for Economic Cooperation and Development (OECD), a TIEA aims to foster international cooperation in tax matters through a standard of transparent exchange of information. This is to combat 'harmful' tax practices and facilitate transactions with transparency.

Fox explains that research of periodical tax reforms in the region identified a TIEA to be important in helping prospective Latin American clients. This is because, historically speaking, there was a general misunderstanding of offshore revenue acquisition systems, particularly in terms of the purposes and advantages of a captive for Latin American individuals, entities and governments.

"Since 2009 in Mexico, where we started the negotiations for the first TIEA in Latin America, the exchange of information and knowledge transfer was such that the understanding and trust in Bermuda and its captive insurance market captured the confidence of not only the Mexican insurance authorities, but of the OECD," Fox adds.

Since the deployment of the Mexico-Bermuda TIEA, the OECD recommended the agreement as the model to follow in subsequent negotiations with other Latin American countries. Fox notes: "There have been bilateral TIEAs with Brazil (although this is pending final negotiations), Colombia, Argentina and Portugal, as well as finalising negotiations with Spain and Chile."

"The benefits of having a TIEA, or at least the recognition by the OECD through its Multilateral Convention against profit shifting, have been tremendous, and are immensely helpful in our business development efforts. The doors just open and extend the welcoming mat many times."

Latin America and COVID-19

Customers and brokers in the Latin American region are facing increasing challenges due to the impact of both COVID-19 and the hardening market, which requires them to manage incubating risk, increased deductibles, greater risk retention and increased reinsurance premiums.

The OECD describes Latin America as the most affected emerging and developing region in the world in its report, 'COVID-19 regional socio-economic implications and policy priorities'. This statement is regarding gross domestic product (GDP) growth contraction, which the OECD predicts could potentially leave many Latin American countries with negative growth and GDP per capita levels similar to those of 2009.

The organisation further estimates that up to 2.7 million micro and small firms were vulnerable to closing down during the pandemic as they lacked the resources to absorb the crisis, which was exacerbated by the 'digital divide'.

In another report entitled 'Latin American economic outlook 2020', the OECD identifies that COVID-19 hit the region during a period of severe structural weaknesses. Therefore, the economic impact of the pandemic is expected to deeply complicate the macroeconomic outlook for Latin America in the coming few years.

This sentiment is echoed by Santos, who explains that at the beginning of the pandemic, many companies had to simultaneously address issues on the production side, disruptions to the supply chain and overall economic downturn. Since then, firms are now reviewing their risk management philosophy. Elsewhere, adaptation of the Latin American private sector to the 'new normal' has created innovation in planning and strategy, knowledge sharing and exchange of ideas between industry members.

Santos adds: "As has happened in other regions, retention strategies, alternative risk transfer structures and, above all, the desire for a better, optimised cost of risk and risk management maturity has put captives on the radar for Latin American companies. This is evident through the increased

number of feasibility studies and strategic retention reviews that have been done in the last few months."

Zurich's Scherzinger explains that the pandemic and subsequent disruption exacerbated an already-present interest in captives by more and more companies, including medium-sized firms, in the region to address a broader spectrum of risks.

"Captive involvements are an important market factor within the international commercial insurance world, and have become even more important during pandemic times," she says.

As more companies look to implement captive structures in the aftermath of the pandemic's disruption, Scherzinger notes that smaller prospective captive owners in Latin America have the option of cell captives, which reduce the entry barrier with a lower cost profile compared to a standalone reinsurance captive at lower retention levels.

"Cell solutions afford a customer many of the same advantages as a captive, such as: retaining underwriting profits; direct access to reinsurance markets; increased coverage and capacity; earning investment income on reserves; and greater control over claims," Scherzinger adds.

A good mix

Regulation has historically been a factor in preventing growth in Latin America's captive industry, although some governments are now taking a substance-over-form approach with general anti-avoidance rules. These rules aim to clearly define substance in the view of tax authorities for taxpayers. This approach was recently codified in Colombia, Peru and Brazil to ensure captives are formed for business rather than tax purposes, with acceptable business purposes including risk retention, actual risk transfer and protection.

There has been an effort to move towards the promotion of transparency and exchange of information, as well as an evolving focus on anti-deferral rules to prevent the accumulation of wealth without appropriate insurance coverage, especially in Chile and Peru.

Marsh's Santos describes the regulatory landscape of Latin America as "a good mix". He identifies that some countries have relaxed their reinsurance regulations that were historically restrictive for foreign players such as captives, while others have developed new or modified regulations that indirectly affect captives.

For the latter, he points to the 2020 tax reform in Mexico, which implemented anti-profit shifting recommendations by the OECD. This includes changes to the definition of permanent establishment, new guidelines for taxing foreign transparent vehicles, and updated controlled foreign company rules.

Fox takes a more optimistic view, noting that: "Bermuda and a few other offshore jurisdictions have implemented, and continue to implement, regulatory measures and adjustments that have improved the reputation and adaptability of our markets to international regulatory changes, for example Solvency II. Bermuda is among the best and most appropriately regulated jurisdictions in the world, with a sui generis reputation as a highly cooperative international financial centre."

Looking forward, Fox predicts that "once we see scientific advance in controlling or mitigating the effects of COVID-19 and more economic certainty in the world, we should emerge from it all stronger and better equipped to revive the Latin American captive market. We could cautiously but optimistically aim at clear progress and growth in Latin American captive formations, beginning in the last quarter of 2021 and exponentially growing after that".

"We in the industry have certainly started to make serious plans and form business development teams of common-interests participants — such as law firms, actuaries, captive managers, insurance and reinsurance advisors and brokers — and we are very hopeful for a brighter perspective in the very near future," he adds.

Scherzinger agrees: "We are seeing more interest from customers looking to better manage their increasing multinational exposures and I expect to see increased captive utilisation across Latin America. Complex, cross-border insurance programmes could be managed through digitalisation, but partnering up with excellent service providers will remain crucial."

Santos affirms that the expected rebound over the next 18 months is likely to create many opportunities for companies interested in forming a captive to satisfy their alternative risk management evolution, particularly in Brazil and Chile.

"In the coming months, some geopolitical developments may affect the establishment and operation of captive risk structures. Mexico and Colombia will remain as the most active countries for captives, but other countries in the region will continue to show increased interest in these types of projects," Santos concludes. ■

Making a run for it

Carolyn Fahey of AIRROC and James Cameron of PwC UK discuss the current state of the run-off market, and how legacy solutions can be utilised to help insurers take advantage of the hardening market

Rebecca Delaney reports

In the current environment of a hardening insurance market, both insurers and reinsurers are exploring how to best benefit from the run-off process by diverting their capital towards emerging profitable areas through legacy solutions. With this heightened interest in the run-off market, legacy business has seen increased activity on both the sell- and buy-side. Going into run-off is one of several resolution options available to insurers (alternative solutions include portfolio transfer, liability structuring, insolvency and liquidation) in which a company is closed to new business so that liabilities will 'run off' over time, while continuing to observe existing contracts.

Run-off is advantageous for insurers because it allows more time to attempt to recover viability and solvency. Since viabilities are often long-tail (meaning risks can emerge over time during an extended settlement period), during run-off insurers are able to exit the market over a longer timeline than banks, as well as being less susceptible to fast-burn failure.

It is estimated that global non-life run-off liabilities rose to US$864 billion in 2021, according to PwC's global insurance run-off survey published in February this year alongside the Insurance and Reinsurance Legacy Association (IRLA) and the Association of Insurance and Reinsurance Run-Off Companies (AIRROC).

Carolyn Fahey, executive director at AIRROC, notes that this marks a 17 per cent increase in global non-life run-off liabilities since 2018.

"Run-off continues to make progress in being recognised as an integral part of the insurance cycle. Insurance companies and captives are looking at the creative and flexible solutions that run-off provides as ways to better manage their portfolios," she says.

Furthermore, PwC's survey predicts that the three largest territories (mainland Europe, UK/ Ireland and North America) will continue to observe a similar or higher level of activity in legacy deals over the next two years compared to the previous two years, with 77 per cent of North American respondents indicating that they expect a greater increase in activity.

Run-off in the US alone increased by $37 billion, which PwC attributes to growth in motor and property and casualty (P&C) lines of business. Furthermore, the survey finds that the US alone holds reserves of $402 billion, while the UK, Ireland and mainland Europe have combined reserves of $302 billion.

Crucially, the majority of respondents say they believe that the global legacy market is in the growth stage of its evolution, with only 10 per cent stating they believe it has reached maturity.

This current interest in the run-off market is affirmed by James Cameron, senior manager at PwC UK. He says: "The run-off market remains in good health and has not seen any significant adverse reaction from the COVID-19 pandemic. Indeed, deal activity in 2020 was strong and on par with record deal levels in 2019, with a wide variety of sellers and buyers completing deals."

"In addition to deal activity, legacy management within groups continues to feature as a priority. We continue to see clients seeking to optimise portfolios, obtain capital relief and deal with legacy books, and it is important to note we continue to see a diversification in the types of liabilities being put into run-off and transacted," Cameron continues.

He also observes a recent "significant influx" of capital across the run-off market following the establishment of several start-ups looking to deploy capital. As well as this, there has

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"Run-off solutions can provide capital relief to allow insurers much greater flexibility to take advantage of market conditions"

been an increase in partnerships between new investors and chartered industry professionals, which Cameron says is "testament to the strength of the market and the returns that have continued to be made".

"The outsourced execution managed services (EMS) option is rising in popularity, particularly where specific resources and costs are being retained within a captive beyond its useful date. At the other extreme, organisations are also choosing EMS where insufficient resources or specialist skills are not available should significant claims activity be experienced."

Cameron identifies that as a result of heightened interest in legacy solutions, the run-off market is attracting greater interest from regulatory bodies. For example, the European Insurance and Occupational Pensions Authority, Prudential Regulation Authority and Financial Conduct Authority have all issued consultations in recent months.

"As the market becomes more sophisticated this is to be expected, and we will see players continuing to focus on their operational capabilities and reserving to ensure that policyholders are protected to the satisfaction of regulators," he adds.

Why run-off?

There are a variety of reasons for which a company may select to enter run-off. It could be strategic, for example, to halt writing business in an underperforming jurisdiction or line of business or distribution channel as part of an evolving group strategy. It could also be financial — to address fiscal issues such as the inability to raise new capital or persistent losses in a specific area.

Alternatively, a firm may go into run-off under an approach of capital management in order to redirect capital to its core businesses to ensure capital optimisation.

Some parent companies are exploring the option of putting portions of their captive structures into run-off. While such transactions were historically perceived in a negative light, they are now generally better understood as a natural progression in the lifecycle of a company. This altered attitude is helped by the advantages of going into run-off, such as freeing up capital to allow companies to adapt and grow their lines of business according to the needs of their policyholders.

Cameron adds that run-off is particularly beneficial when taking advantage of the hard market: "Going into run-off puts an end to the ongoing commitments underwritten in a particular portfolio or entity; with a hard market, many underwriters are increasingly reviewing the classes of business in which they operate to maximise their opportunities from their most profitable lines."

"Run-off solutions can provide capital relief to allow insurers much greater flexibility to take advantage of market conditions as well as providing a home to unwanted portfolios that may be a drag on the business," he adds.

In the specific case of the captive insurance industry, run-off strengthens the capital efficiency of the industry as a whole because it allows captives to relieve themselves of business that has failed to keep up with the original purpose of why the captive was formed by the parent company.

Fahey explains the reasoning behind putting a captive insurer into run-off: "When it is more difficult to find affordable insurance for emerging risks in a hard market, corporations might look to their already-formed captives to insure their risks — or look to create a new captive."

"Exit solutions help free up capital and capacity so that captive owners have the space to take on more risks for their parents. The use of captives has continued to increase as companies look to self-insure risks. In this case, considering an exit solution is a very smart move for captives and a strategic portfolio management tool."

Specific motivations for putting a captive insurer into run-off include changes to lines of business or geographic operations, or the introduction of new regulation and compliance requirements that diminish the advantages of captive ownership.

In addition, favourable pricing in the commercial insurance market, changes to long-term group captive participants, and

duplication of captive services as a result of mergers and acquisitions (M&A) activity are several other reasons why a captive insurer may be put into run-off.

However, it is also important to note that run-off can also be preemptive; a company does not have to be in, or anticipating, financial troubles in order to enter run-off.

Aims of run-off

In terms of the objectives for a company putting a captive entity into run-off, policyholders wish to retain their insurance cover so that claims can continue to be submitted and payments continue to be received. Solvency is also important, to ensure that the system of asset distribution among creditors is fair to both existing and future claimants.

"One of the key features of any exit strategy is that the options are flexible, and the parties involved (the captive owner and a run-off provider) can work out a structure that makes sense for all involved in the scenario. In the end, the key objective is finding a way for the captive to find finality and the solutions that will allow the captive to serve the purpose that it was intended for — to handle the risk for the parent," comments Fahey.

Cameron identifies that the two fundamental aims of run-off should be to make the most efficient use of capital held by a captive, and to reduce the company's exposure to risk.

"By entering into run-off, it may be possible to reduce the level of capital required to be held by the captive and obtain a better return on investment with such capital being able to be deployed in more promising business or core activities," he explains.

"The recent pandemic has led companies to reevaluate their business models and, as a result, we see a greater focus on companies seeking to structure their risks more effectively and streamline their operations. There has been much greater focus on reducing unnecessary expenses, and operational costs of a dormant or unutilised captive is one of these areas."

Cameron highlights that entering run-off may only be the beginning of a journey. This is as corporations are becoming increasingly aware that there exists an active market for captive disposal which allows them to recover value and avoid the cost of running off a captive insurer over a longer period of time.

Features of captive run-off

Fahey considers the two most important gains for a company putting a captive into run-off to be flexibility and finality. "Exit solutions provide captives the chance to shed old liabilities and focus on new opportunities and the needs of their parent companies. Run-off providers have the expertise needed to assist," she explains.

Fundamentally, captive run-off benefits firms because it eliminates the capital burden from writing new business, and reduces the costs associated with distribution and onboarding new business. More generally, insurance run-off also prevents new policyholders from being exposed to the firm, and alleviates strains on expenses, as captives intend to reduce their fixed costs and manage their outsource providers.

PwC's Cameron elaborates: "Poorly managed captives represent a lost opportunity and cost burden. Proactively managing exposures and claims through run-off can provide risk management as well as financial benefits. This may well involve outsourcing of claims but, as outlined above, we are seeing an extremely active market for captives in run-off. This provides an opportunity to release capital through a share sale or reinsurance solution, where claims reserves are transferred to a run-off reinsurer in order to achieve finality."

Furthermore, Cameron adds that if the sale of a captive in a run-off is not desirable, there exists other solutions, such as releasing the captive from its contractual responsibilities — usually through a novation of the insured risks — which allows the captive owner to close the captive and return any residual assets to the parent company. Alternatively, in place of direct run-off, a captive can utilise a reinsurance solution in which claims reserves are transferred to a run-off reinsurer, or use an outsourcing agreement to streamline claims management and improve cost efficiency within the captive.

"Exit solutions provide captives the chance to shed old liabilities and focus on new opportunities and the needs of their parent companies"

"There will be an increase in more bespoke adverse development cover solutions, which provide more structural flexibility for insurers and reinsurers who are assessing their capital management strategy"

It is prudent for captives to bear these alternatives in mind as there are some challenges associated with achieving successful run-off. Prospective issues range from the reputational and market effects of larger companies withdrawing from the market, to having an asset profile with a high proportion of illiquid assets.

There is a potential risk of capital erosion if companies are unable to cover the fixed expenses from their reduced business offering.

Looking specifically at captives in run-off, in the context of the talent crisis it is challenging to attract and retain new staff in passive run-off captive firms.

AIRROC's Fahey explains: "When captives start to consider pursuing an exit strategy, any number of things can slow down the process. A few worth mentioning are that it can take time for a risk manager to get support from above, as we are all pulled in many directions so other priorities can distract the seller, while regulatory hurdles can be another consideration."

"In addition, a misunderstanding of the benefits of a run-off could come into play — the owners may not understand insurance well enough to appreciate the benefit of gaining certainty over long-tail exposures," Fahey adds.

Cameron points out the potential risks relating to the quality of legacy data and systems: "Poor quality data or poor-performing legacy systems can lead to inefficiencies of managing portfolios, increased administrative expenses, incorrectly reserved or capitalised books of businesses, or simply an inability to understand the risks of each book."

He notes that insurers can best prepare themselves to address the potential risks to achieving successful run-off by having clearly mapped reinsurance arrangements, as well as efficiently handling claims management and reinsurance recoveries to ensure claims are paid and reinsurance proceeds are collected promptly throughout the run-off period.

"Robust reserving for future claims is critical in order to avoid surprises and additional capital needing to be committed to the captive."

"Good knowledge or access to advisers who know the local claims and litigation environment for each line of business is important to mitigate the risks of nasty surprises in the future," Cameron advises.

Predictions

Looking forward, Cameron expects the run-off market will continue to grow, and capital will be made available to facilitate this. He notes this expectation is reflected in the responses from PwC's survey, as well as the completion of two insurance business transfers in Oklahoma which signal growth for the legacy environment.

"Specifically, we expect to see continued focus on legacy in the Lloyd's market, while distress in the corporate world may identify more captive disposal opportunities and Brexit will continue to see some portfolios earmarked as potential legacy deals," Cameron says.

"Where historically run-off specialists provided traditional loss portfolio transfers or share sales, there will be an increase in more bespoke adverse development cover solutions, which provide more structural flexibility for insurers and reinsurers who are assessing their capital management strategy, especially given the current market conditions," he adds.

As the run-off market is expected to continue to flourish as the demand for legacy transactions remains in a pandemic-impacted world, Fahey reflects on the lessons learned from COVID-19: "One of the things that I have learned in the last 18 months is that we all need to be creative and flexible and work together to be successful. These are all elements of run-off that are key and have been in place since the concepts around run-off were formed decades ago!"

"At AIRROC and beyond, I have no doubt that the momentum behind our many years of experience will continue to serve us well as we offer more and more options for captives and the full insurance industry," Fahey concludes. ■

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Price Forbes & Partners (Bermuda) has appointed William Wood as senior vice president of the firm's recently launched captive insurance management unit.

As part of The Ardonagh Group, the UK's largest independent broking platform, Price Forbes offers captive management services within its reinsurance brokerage business for the wider group.

The launch of Price Forbes Bermuda's new captive management unit comes after the firm received an insurance managers license from the Bermuda Monetary Authority.

The unit will be led by Wood, who previously served as director of captives and commercial insurers at Artex Risk Solutions (Bermuda). Before this, he was president and CEO of Charles Taylor Insurance Management (Bermuda).

Nick Foden-Pattinson, president of Price Forbes Bermuda, comments: "We are delighted to welcome William to build out the insurance management operation for us. His depth and breadth of experience is just what we need to start a new captive management platform."

James Masterton, CEO of Ardonagh Speciality, affirms: "As we continue our investment in the Bermuda space, we are delighted to attract high-calibre talent such as William into our new captive management business."

Wood adds: "I have known and worked with the team for a number of years and so was excited when I was asked to set up a captive management operation as a compliment to their Bermuda brokerage platform. It is great to be involved in something new, but also because of the variety of opportunities expected from across the wider Ardonagh Group as well as the unique operating structure of the new enterprise."

Acrisure Re has made four new appointments to its corporate advisory and solutions division.

Acrisure Re is the reinsurance broking and corporate risk advisory division of fintech leader and global insurance broker Acrisure.

Nick Godfrey has been named as head of capital markets, where he will be responsible for raising capital across insurance-linked securities and funds at Lloyd's, as well as supporting mergers and acquisitions (M&A).

Godfrey previously served as senior advisor at Barbican and Arch Re, before which he co-founded the reinsurance and proprietary investment segment of BTG.

Jonathan Zisaruk will assume the role of head of legacy, in which he will oversee all varieties of legacy transactions to Acrisure's clients and the wider insurance industry, such as structured adverse development covers and traditional loss portfolio transfers.

Zisaruk previously held the position of executive vice president and head of M&A at

KPMG has appointed Neale Jehan as regional senior partner of its Islands Group, effective 1 October.

The Islands Group of the audit, tax and advisory services firm comprises five firms across 14 jurisdictions, spanning the Cayman Islands to Malta and including financial services, digital and infrastructure sectors under its scope. Based in Guernsey, Jehan will also join KPMG's Europe, Middle East and Africa (EMEA) board while remaining as senior partner of KPMG's Crown Dependencies operation, a position he has held since 2019.

Jehan comments: "I am delighted to step into the regional role and lead this fantastic grouping of firms. We have worked together for over 20 years and will continue to leverage our knowledge and experience of living and working in island jurisdictions, while retaining close links into European and US markets."

Elsewhere, Tony Mancini has been appointed to the newly-created role of office lead for Guernsey, where he will be responsible for overseeing KPMG's focus on the local market.

Mancini recently completed his two-year appointment as chair of the Guernsey International Business Association.

He says: "It is a pleasure to take on this role, and I am determined to push forward our growth plans for the island, focusing on what we do well and continuing our long-standing contribution to the local community." ■

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Enstar, where he was involved in more than 40 successful transactions totalling more than US$10 billion of reserves.

Lauren Johnson has been appointed as vice president of corporate advisory and solutions, where she will oversee the execution process of the division's four pillars: strategic advisory, capital raising, legacy solutions and M&A.

Prior to joining Acrisure, Johnson was reserving actuary and head of Lloyd's and specialty analysis at Securis Investment Partners.

Nick Triggs has been named as non-executive board member and senior advisor for corporate advisory and solutions, holding more than three decades' experience in M&A, equity and debt capital raising deals with a particular emphasis on the property and casualty insurance sector.

All four new members of the corporate advisory and solutions team will report to managing director Ben Canagaretna, who comments: "I am delighted to welcome Nick, Jonathan and Lauren to the Acrisure Re corporate advisory and solutions team, as well as Nick to our advisory board."

"They are a testament to our focus on investing in talent, and their extensive knowledge of the capital markets, strong analytical expertise and vast network of long-standing relationships will contribute toward our position as a trusted advisor for our clients. I look forward to working with them and growing as a team." ■

The Bermuda Business Development Agency (BDA) has appointed David Hart as CEO, effective 1 October.

The appointment follows the departure of Roland Andy Burrows, who held the position of CEO since 2018 and will continue at the agency as senior consultant through year-end to support the leadership transition.

The BDA offers support and solutions in the island's key industries, including asset management, climate risk finance, infrastructure and insurance.

In particular, the agency promotes Bermuda as a leading, well-regulated captive domicile, with a wide range of industries in the jurisdiction currently utilising captives as an alternative risk management tool.

The BDA estimates that Bermuda's total of 715 captives write gross premiums of around $40 million.

Hart previously served as executive vice president of the Florida Chamber of Commerce, where he was part of the leadership team responsible for employment growth, economic diversification and additional capital investments.

During his time at the business advocacy organisation, collaborations with private and public sector partners saw Florida grow to the 15th largest economy in the world and attract approximately US$1.9 million in capital every hour.

Hart comments: "I am very excited and honoured to be joining the BDA team. The BDA's mission of fostering sustainable, equitable prosperity for Bermuda, and encouraging jobs, investment, and innovation to come to the island, has never been more important."

"I am thrilled to join a world-class team and accelerate our efforts to bring investment and jobs to Bermuda. The island's track record of leadership on a global scale, access to world markets and talented pool of human capital are significant strengths as we seek to diversify Bermuda's economy and support our trading partners worldwide."

Stephen Weinstein, chair of the BDA, adds: "On behalf of the board of directors, we welcome David to the BDA and the Bermuda community at this critical time. His leadership, communication skills, and deep experience in economic development and public policy, are perfect fits for our next stage of challenges and growth."

In addition to Hart's appointment, the BDA has formed a new business development committee, chaired by BDA board member George Thomas, as part of the agency's continued commitment to international business development through innovation, strategic partnerships and targeted marketing. ■

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