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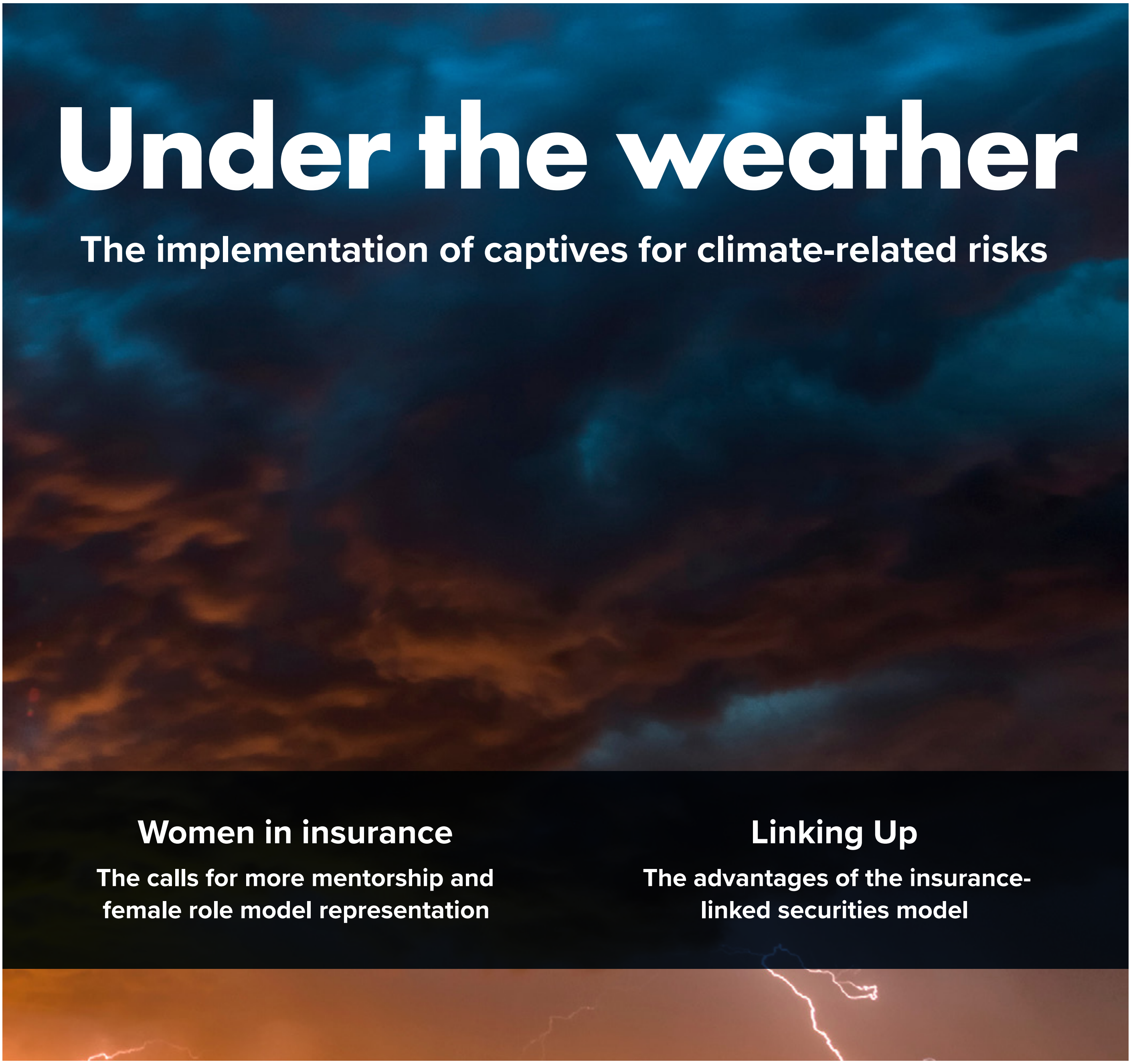

Under the weather

The implementation of captives for climate-related risks

Women in insurance

The calls for more mentorship and female role model representation

Linking Up

The advantages of the insurance-linked securities model

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In this issue


Set up an EU based protected cell
with the independent experts
Direct access to the UK and EU market
Capital, time & cost efficient alternative to a
standalone insurer or captive

New Vermont law allows captives to enter parametric contracts

Governor Phil Scott has signed House Bill 515 into law to update Vermont's captive insurance statutes and eliminate inconsistencies. The main feature of the new legislation enables captive insurance companies to enter into parametric risk transfer contracts.

Parametric contracts are becoming increasingly common as another form of protection for catastrophic events, whereby the contract pays a sum conditional on certain predefined, quantifiable triggers, rather than the actual losses incurred.

Therefore, parametric risk transfer contracts are seen as more favourable than traditional indemnity insurance, as they are not subjected to a lengthy claims adjustment process.

On this note, deputy commissioner David Provost of the Vermont Department of Financial Regulation says: "Although purely parametric contracts are not considered insurance due in large part to that distinction, the contract is a useful risk management tool."

He continues: "Organisations often use captives as a central repository for all types of risk management tools, not just insurance, so it will be helpful for companies to have explicit authority for their captive to enter into parametric contracts."

The new Vermont legislation also addresses sponsored cell captives, in particular, by improving solvency procedures so that other cells are not impacted or limited in their authority in the event of an individual cell becoming insolvent, and by clarifying an inconsistency related to the treatment of affiliated business in sponsored cell companies. The new legislation also simplifies reporting requirements with a more straightforward report for premium tax reconciliation on a fiscal year basis. ■

Howden acquires TigerRisk to create combined reinsurance business

Howden Group Holdings is set to acquire TigerRisk Partners, a risk, capital and strategic advisor to the global insurance and reinsurance industry, to create a US$30 billion gross written premium business.

The acquisition is expected to significantly enhance the scale and depth of Howden's reinsurance and capital markets offering to create a fourth global player in the reinsurance market.

The transaction will also consolidate the group's capabilities across its diversified brokerage, managing general agent (MGA), and data and analytics proposition.

Specifically, Howden Re's global distribution network and data-driven reinsurance expertise in international specialty treaty, facultative and the MGA sector will accelerate the growth potential of TigerRisk's US-focused reinsurance, capital markets, technology and analytics offering.

The combined reinsurance business, which will operate under the name Howden Tiger, represents almost $400 million of combined reinsurance revenues. Rod Fox, executive chairman and co-founder of TigerRisk, will assume the position of executive chair at Howden Tiger.

Commenting on the acquisition, David Howden, CEO of Howden Group, says: "Not only does the combination create an unrivalled digitally-driven reinsurance and capital markets business, underpinned by a complementary product offering and strong cultural fit, it brings full capability to our diversified and differentiated client offering. I am so excited about unlocking the potential of the two businesses and I cannot think of a better place for TigerRisk to continue its incredible long-term journey."

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Samuel Hale forms workers' comp captive

Employer carve-out organisation (ECO) Samuel Hale is set to form a captive to insure its US$50 million workers' compensation risk, fronted by Arch Insurance.

Based in California, the ECO protects businesses in the state from excessive and unpredictable employment costs arising from fraud and litigation.

The state of California has a very high litigation rate on workers' compensation insurance claims relative to the rest of the US, making it one of the most expensive states for workers' compensation premium.

Carve-outs allow approved entities to handle their claim disputes through alternative dispute resolution. These compensation claims are settled quicker, and allow insurers to avoid the immense costs of the often slow legal system.

Commenting on the new captive programme, CEO Michael DiManno says: "We have been working toward this for the last six years. The captive arrangement will enable us to maximise the advantages of our carve-out agreement which drives the economics of our business.

"This captive gives us a 10-year horizon on workers' compensation, which creates long-term stability for our customers in a very shaky financial climate. We now have maximum control over our programme and can deploy the best cost-containment services based on our specific needs."

I-RE adds commercial property to RE-PAID product

Specialist captive insurance and reinsurance managing general underwriter I-RE has added commercial property as a new line of business to its RE-PAID product offering.

In partnership with Fortegra Group, a global specialty insurer, this offers an industry-first A-rated, mid-market captive solution for commercial property.

RE-PAID allows mid-market business owners to take a share of their own risks in a standalone captive insurance company, rather than entering a group captive arrangement.

I-RE previously collaborated with Fortegra on strategic capacity for general liability within the RE-PAID offering.

Commenting on the new line of business, Andy Jeckells, co-chief executive of I-RE, says: "The RE-PAID product continues to break new ground. I-RE has committed itself to providing solutions that give high-performing, mid-market businesses more control over their risks and a share in the underwriting profits of the kind that only large captives currently enjoy. We are seeing exceptional demand for RE-PAID from brokers, who see the benefit of offering their clients across the United States the solution they have been looking for, while improving their own revenues and increasing client retention."

Kyle Selvig, director of commercial underwriting at Fortegra, adds: "We are excited to extend our partnership with I-RE to further support its truly innovative RE-PAID product and help fulfill the long-underserved need of mid-market businesses for a captive property insurance solution."

IRS names foreign captive insurance to 2022 ‘Dirty Dozen’ list

The Internal Revenue Service (IRS) has named foreign captive insurance to its annual ‘Dirty Dozen’ list of potentially abusive tax arrangements.

Following the reinstatement of micro captives on the 2021 list, this year’s series focuses on foreign captive insurance, charitable remainder annuity trusts, foreign pension arrangements, and monetised installment sales.

The agency highlights Puerto Rican captive insurance in particular, describing it as an arrangement where US owners of closely-held entities participate in a purported insurance arrangement with a Puerto Rican or other foreign corporation with cell arrangements or segregated asset plans.

The US-based individual or entity claims deductions for the cost of insurance coverage provided by a fronting carrier, which then reinsures the coverage with the foreign corporation.

The IRS says: “The characteristics of the purported insurance arrangements typically will include one or more of the following: implausible risks covered, non-arm’s-length pricing, and lack of business purpose for entering into the arrangement.”

The IRS says it will focus on eight additional scams as it continues to publish its list of “abusive” transactions to both average taxpayers, higher-income individuals, and financial institutions.

Keystate Captive Management expands office in Vermont

KeyState has expanded its office in Burlington, Vermont, two and a half years after their first move to the state.

The office expansion is accredited to the transition of numerous Vermont-domiciled captives to KeyState and growth in its captive management operations.

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Talisman Casualty announces ‘hyper-efficient’ claims process for clients

Cell captive specialists Talisman Casualty Insurance Company (Talisman) is providing clients with a ‘hyper-efficient’ claims process that they assert is both faster and more affordable than traditional insurers.

The Las Vegas-based company employs trusted claims management service providers to process claims for their clientele’s cell programmes and utilises data technology to aggregate numbers within a cell captive.

Amidst positive service reviews, Talisman Casualty also allege that their claims management system saves more money for clients than the processes of traditional insurers, as claims tend to account for the majority of a captive’s expenses. Therefore, maintaining best practice claims management is the recommended way for captives to set themselves apart from traditional insurers.

Clients receive immediate feedback on the overall impact of claims.

To protect their clients’ interests, Talisman can extend delegated claims authority exclusively to providers that are accomplished in their respective fields.

This means they must demonstrate both experience and expertise in the local markets (where claims are made) on top of being able to address virtually every issue they may face in claims management. ■

The company broadened its team to service its growing captive client base and to take over the management of numerous Vermont captives that experienced diminished service levels from their previous captive managers — largely due to merger and acquisition-related issues and key employee turnover.

Group leader David Guerino and five of his team members will be based at the expanded Burlington office.

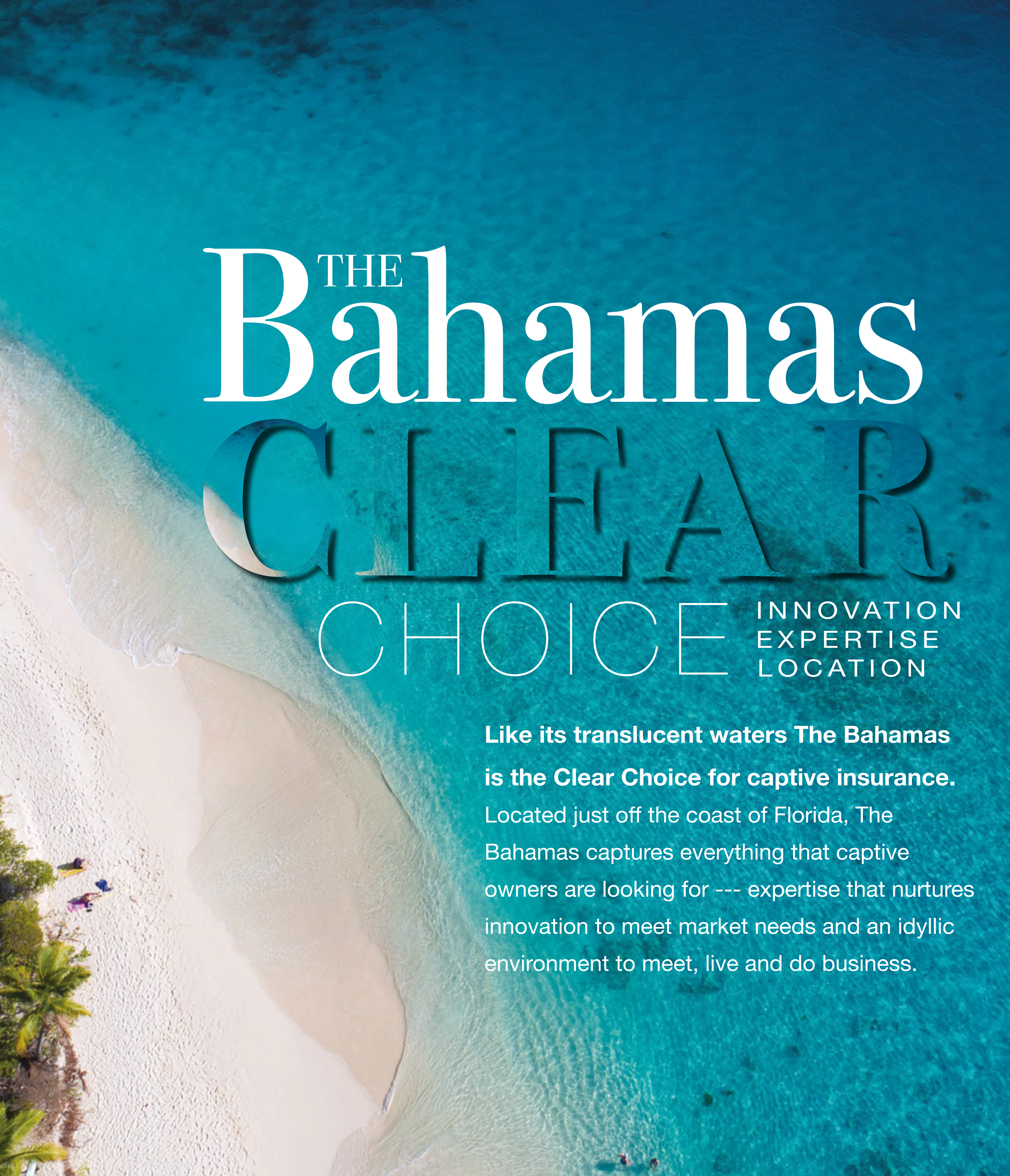
Commenting on the expansion, Josh Miller, CEO of KeyState Companies, says: “We are pleased to further our investment in Vermont and our captive management group. Our growing team and expanded Vermont office is just the latest example of our long-term strategy to invest in our captive business line. I could not be more pleased with the team’s continued success under Dave Guerino’s leadership.”

Davies completes acquisition of Asta Capital

Consulting and technology solutions provider Davies has completed its acquisition of Asta Capital (Asta), the third-party managing agent at Lloyd’s, following approval by regulators.

Davies delivers professional services and technology solutions across the risk and insurance value chain.

The mandate is expected to strengthen Davies’ global insurance services practice by broadening its ability to offer end-to-end insurance management solutions to entrepreneurial underwriters and managing general agencies, intermediaries, (re) insurers and captives, Lloyd’s syndicates, and insurtechs.


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

Based in London, Asta formalised the syndicate start-up process and developed the syndicate-in-a-box (SIAB) framework with Lloyd's. The firm manages 16 syndicates (including five SIABs), four managing general agencies, and manages a gross premium in excess of £1.5 billion. Asta CEO Julian Tighe and chief underwriting officer Simon Norton will retain their existing responsibilities and additionally assist in growing Davies insurance services practice as members of Davies global executive leadership team. The Asta executive team will become shareholders.

Davies supports more than 250 captive and cell companies. It has launched 60 MGAs and operates across Bermuda, Canada, India, Ireland, Spain, Switzerland, the UK and US. Its services include underwriting, distribution, regulation, customer experience, human capital, digital transformation and change management.

Dan Saulter, group CEO of Davies, comments: "This is a transformational deal for Davies in Lloyd's, the London market, and beyond. Uniting Asta's deep-seated Lloyd's position with our existing insurance services and complaints management technology, specifically developed for the Lloyd's market, enables us to take an exciting new message to our clients, extending our global offering with end-to-end support throughout our clients' lifecycles at Lloyd's." Julian Tighe, CEO of Asta, adds: "With almost no overlap in the services of Asta and Davies, and our closely matched cultures of innovation and growth, combining Asta and Davies makes perfect sense.

"Our existing and prospective clients will benefit from the broad range of technology-led services offered by Davies and Asta employees will benefit from much-extended opportunities and initiatives."

RYSKEX Inc opens new office in Hartford, Connecticut

Insurance solution provider RYSKEX Inc is to open a new office at the Nassau Financial Group building, based in Hartford, Connecticut. Headquartered in New York, RYSKEX is a blockchain-based solutions provider for alternative risk transfers and insurance solutions.

Founded in 2016, the company also has offices in Berlin.

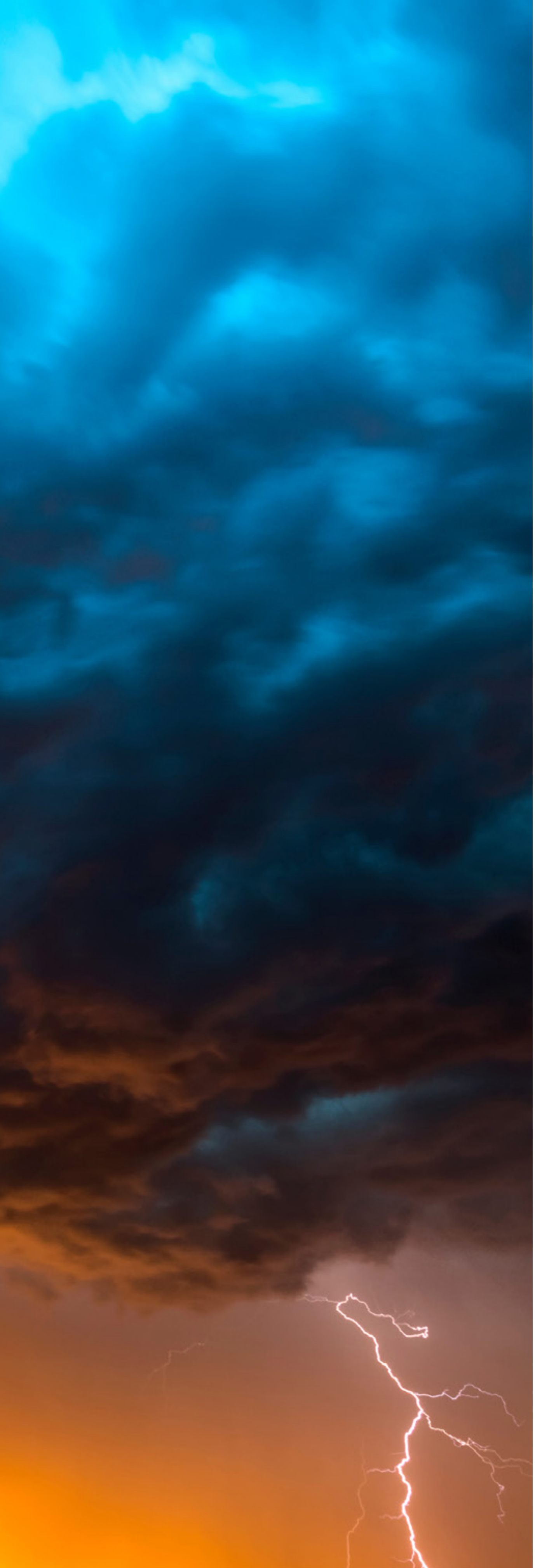
Commenting on the opening of the new office, RYSKEX CEO Marcus Schmalbach says: "RYSKEX is looking forward to a new home, combined with wonderful opportunities.

"Do not worry, we are not turning our backs on Berlin or New York, we are simply strengthening our team and reach."

Under the weather

As extreme climate events continue to increase in frequency and severity, industry professionals discuss the role of the insurance industry in developing adaptation and mitigation measures, as well as the implementation of captives for climate-related risks

Rebecca Delaney reports



Climate action failure is the most significant long-term threat to the world and has the potential to cause the most severe impact over the next decade. This warning is according to the results of the World Economic Forum's (WEF) 2022 Global Risks Perceptions Survey, in which respondents overwhelmingly marked environmental and climate change-related risks as an area of serious concern.

Although the survey identifies societal risks as the most troubling over the next five years, from a long-term perspective, concern over the health of the planet undoubtedly dominates the 10-year horizon.

Of the top five most critical long-term threats to people and the planet identified by respondents, three are explicit environmental risks: climate action failure (42.1 per cent), extreme weather (32.4 per cent) and biodiversity loss (27.0 per cent).

Ray Monteith, senior vice president of HUB International's risk services division, practice leader for organisational resilience, and Canadian risk control services leader, notes that risks associated with climate change are no longer theoretical.

He cites the 2022 assessment report by the Intergovernmental Panel on Climate Change, which "draws very clear conclusions that recent changes in the climate are widespread, rapidly intensifying, and are currently at levels outside of the experience of anyone's living memory."

Amy Barnes, head of sustainability and climate change strategy at Marsh, adds that the past few years have seen a shift in how people engage with climate issues. She explains: "We are becoming increasingly aware of climate and weather-related perils affecting our lives and livelihood, whether in the global north or south.

"As citizens, we are seeing images on the news of the very real impact and harm that changes in extreme weather can cause, whether the loss of homes, damage to property, people being injured, or loss of livelihood. The consequences feel increasingly personal."

Governments, businesses and societies alike face increasing pressure to address and mitigate these consequences. However, the complexities of technological, economic and societal change at this scale are enormous. In the report, WEF warns that a "disorderly climate transition" (characterised by divergent trajectories and urgency across regions and sectors) will likely

"Assets and infrastructure systems need to adapt to the changing climate. The insurance industry has an ability to influence how the global economy considers climate and carbon intensity"

Antoine Bavandi, Gallagher Re

create international barriers to cooperation to address climate risks, as well as exacerbate inequalities.

For example, countries with a reliance on carbon-intensive sectors, such as energy production, manufacturing and shipping, will risk losing their competitive advantage through the higher cost of carbon, reduced resilience, limited leverage in trade agreements, and overall failure to keep pace with technological innovation.

On the other hand, the report notes that shifting away from carbon-intensive industries is highly likely to trigger economic volatility and higher unemployment, as well as exacerbate societal and geopolitical tensions.

The WEF report notes that the post-pandemic financial and economic landscape is increasingly shaped by the rise in stakeholder capitalism and shareholder activism, as well as evolving ESG agendas, targets and metrics.

Antoine Bavandi, global head of public sector, parametric and climate resilience solutions at Gallagher Re, states that global ESG assets exceed US$40 trillion in 2022, with a projection of US$50 trillion by 2025 to make up one-third of total assets under management globally. He notes that this demonstrates the extent to which ESG issues are becoming a core priority for the insurance industry, from both a risk and opportunity perspective.

As banks, insurers and institutional investors divert capital towards net zero, financial systems are rapidly emerging as important enablers of this transition.

The role of the insurance industry

The insurance industry has an important role to play in adaptation and mitigation measures to address the impacts of climate change.

Adaptation refers to the risk modelling of events, responses to natural catastrophes, and development of sustainable solutions, while mitigation refers to efforts to support the transition to a net zero economy, developing low-carbon solutions, and addressing insurable transition risks.

The insurance industry has embraced mitigation measures on both sides of the balance sheet. For example, Barnes notes that last year, under sponsorship of the United Nations, the Net-Zero Insurance Alliance was formed to promote principles for sustainable insurance and risk management from developing climate impacts.

Barnes states: "We now know that mitigation is not enough. Assets and infrastructure systems need to adapt to the changing climate. The insurance industry has an ability to influence how the global economy considers climate and carbon intensity."

However, she adds that adaptation brings some challenges for the insurance industry. For example, in a flood loss event, the basis of an insurance policy is to place the insured back into the same situation they were in before the loss. The current wording of policies may not allow for the insured to build back a more resilient asset or an asset that has adaptation measures.

"The insurance industry has an opportunity when a loss has occurred to ensure that whatever is built back is adapted for climate change and more resilient to future losses," Barnes explains. Therefore, insuring the climate transition also encompasses risk reduction and loss prevention.

"Driven by climate change, the property and casualty market is transforming," comments John Meder, head of risk consulting and claims advocacy at Risk Strategies. "Brokers, insurers and insureds must all pay close attention to the changing landscape and do everything in their control to manage risks, mitigate losses and prepare for the worst."

Gallagher Re's Bavandi outlines that as risk managers, risk carriers and investors, the insurance and reinsurance industry has a significant interest in fostering sustainable economic and social development.

"Through holistic risk management, comprehensive data, and innovative analytics, insurers and reinsurers are ideally placed to drive positive cultural change across the risk and finance industry, and strengthen their contribution to building a resilient, inclusive and sustainable society," Bavandi says.

HUB's Monteith points to catastrophe risk modelling as a key adaptation tool for the industry to employ, to encourage activities from client to help them understand their loss potential:

- A specific event is modelled based on historical data and likely event parameters
- From this model, hazard potential can be identified to form the basis of a vulnerability assessment
- The assessment highlights potential physical damage and financial loss estimates
- This helps organisations understand the extent of their exposure
- This informs strategic decision making around risk management

He adds: "There is no question that the insurance industry will continue to play an important role in creating awareness of the physical risks associated with climate change. It is increasingly important that insurance carriers drive awareness of risks arising from societal changes as the world transitions with increasing speed towards a low-carbon economy."

Captives

Captives are well-positioned to aid the insurance industry in developing adaptation measures against climate change because the inherent flexibility of captive structures facilitates and provides coverage for evolving climate-related risks.

"Captives offer agility and adaptability that is often not found in, or even possible for, traditional insurance structures," Monteith says. "Captives can create an effective means of managing and financing all, or portions of, an organisation's specific risks associated with climate change."

This is affirmed by Meder, who notes that captives play an important role particularly when risks are more difficult to place or require higher retentions, as this allows companies to tailor coverage and allocate costs over a longer period of time.

> ***"It is increasingly important that insurance carriers drive awareness of risks arising from societal changes as the world transitions with increasing speed towards a low-carbon economy"***
>
> **Ray Monteith, HUB International**

He adds: "With increased catastrophe losses due to climate risks, businesses are having to take on larger deductibles and self-insured retentions. In this environment, captives can become an important part of risk financing, offering flexibility in managing the risk, developing creative property loss control solutions and a mechanism by which businesses can fund their losses."

In terms of mitigation measures, captives are able to consider sustainability as a framework to improve risk management, rather than simply as an investment topic. As subsidiary companies, captives can also be used to support the parent corporation's net zero targets.

Lorraine Stack, international sales and advisory leader at Marsh Captive Solutions, notes that "it stands to reason that captives will be used, as ever, to house risks that insurers cannot or will not." Specifically for climate-related risks, she anticipates that captives will be used to cover risks where risk appetite among commercial insurers declines.

Stack adds: "Alternative structures like protected cell companies may be used for certain risks, and we anticipate other transformative vehicles, such as insurance-linked securities, being used to access alternative capital. Since captives tend to be a lot more nimble and flexible, they can adapt quickly. This means captives will be an intrinsic risk management tool throughout the climate crisis."

Furthermore, the accelerating pace of change in the current global operating environment means insurers that fail to embrace innovation may find it difficult to sustain long-term success.

Brace yourself

So how can an organisation best position itself to manage its climate risk? Barnes highlights that the starting point is to understand the risk and the company's exposure; considerations around climate risk encompass both transition risk (the impact of a business on the climate) and physical risk (the potential for the climate to impact a business).

"Often, risk managers are responsible for managing the physical risks of the organisation, so it is important that the risk management community is part of the conversation," Barnes notes.

For example, she highlights that if the company has a sustainability officer, the risk management function should collaborate to provide knowledge and skill sets to the task, ensuring that they are engaging with the output, as they may be involved in the implementation.

Monteith affirms that awareness is crucial across an entire organisation, not just within specific aspects of operations. He says: "It is important to create a culture of preparedness and adaptability, as the ever-evolving nature of climate change means implications are not static. An organisation needs to develop a framework to which it can constantly assess, identify, and manage climate-related risks because the process is cyclical."

Stack adds that within a risk governance framework, there is an expectation that firms will understand the impact of climate change, and will implement a form of scenario analysis and stress testing to evaluate the impact of future climate events.

As part of a comprehensive enterprise risk management strategy or framework, it is therefore paramount to understand the areas where a captive can be used to help mitigate some of the climate-related risks, as Barnes notes captives are well-placed to build financial resilience beyond property damage once the nature and consequences of the risks are recognised.

Barnes adds: "An organisation should also find ways to bring the risk management tools to capital decisions. Whenever capital expenditure is spent on building upgrades, consider your understanding of the climate risks and whether the planned capex contemplates the changing climate. If you are building it for today's weather patterns, risk managers can advise on more resilient construction strategies."

Climate reporting acts as a useful driver for the understanding and quantification of climate risks. Many companies in the UK have compulsory climate reporting, while the U.S. Securities and Exchange Commission is currently in the process of introducing regulation — although Barnes notes that many companies are voluntarily reporting in the interim.

In terms of captive domiciles, Stack notes that, although not very many captive regulators have published guidance, those that have, have provided a sense of direction. For example, she outlines how the Central Bank of Ireland sent a "dear CEO" to regulated entities in November 2021 summarising its expectations, which were largely based around the EU's sustainability framework.

"Given that, it is likely that other European regulators will go the same way," Stack says. "With a focus on governance, the captive board is expected to take ownership of all ESG-related areas and risks."

Guernsey recently changed the corporate governance code to require captive boards to assess the impact of climate change, on both strategy and risk profile, leading Stack to say: "Captive owners can expect to see climate regulation crystallise over the next few years, initially on board meeting agendas. Captive boards will have to take ownership of this and address it, as well as adapting to new reporting requirements and regulatory disclosures."

Marsh's Barnes adds: "Once reporting is compulsory, that information is then in the public domain, which allows stakeholders to interrogate the data and challenge companies to proactively manage their exposures."

HUB's Monteith elaborates that as consumer activism continues to gain prominence, this will likely impact organisations' ability to meet changing demands from current and prospective clients to reduce their environmental impact.

Barnes affirms that this conversation will increase as long as more companies continue to fulfil climate reporting requirements, which make it easier for stakeholders to have a lens into what companies are doing around climate and sustainability. Therefore, it will be crucial for companies to not only be able to understand, assess and manage climate-related risks, but also to develop adaptation strategies and policies, and prioritise climate resilience planning and decision making by coalescing expertise in risk management and sustainability.

"Managing climate risk certainly requires a long-term vision that addresses both risks and opportunities, and a willingness to go beyond traditional risk transfer offerings," adds Bavandi.

"It is also essential to continue to invest in innovation and technology, while focusing on value creation in the long-term."

"For the insurance industry, climate is unlocking new growth perspectives and driving more efficient ways to leverage data analytics and better monitor exposures."

"For the insurance industry, climate is unlocking new growth perspectives and driving more efficient ways to leverage data analytics and better monitor exposures"

Antoine Bavandi, Gallagher Re

Looking ahead

It is not an outrageous statement to say that extreme climate events will continue to increase in frequency and severity, and that organisations will need to continue to be more strategic in their approach to risk management.

Risk Strategies' Meder notes that as at-risk catastrophe zones continue to expand, corporations and communities alike will require more advanced planning and resilience programmes, to adapt to changes in the climate and to assist in disaster recovery efforts.

Concerning the future role of the insurance industry in addressing climate risks, Monteith summarises: "As climate continues to change and the impact is increasingly felt, the need for the insurance industry to be responsive is certainly now evident, and will continue to evolve."

Meder notes that the insurance industry's ability to underwrite the impact of the low-carbon transition will be both interesting to observe and challenging to execute, as companies' will need to be able to identify and articulate the impact of the transition on its operations.

"Insurance carriers must provide guidance and support to clients to help them understand the need to fully assess their risk and exposure. It is a very interesting dynamic at play now, especially as change accelerates," he says.

For captives specifically, Barnes notes that the small percentage of rated captives, many of which are in carbon-intensive sectors, will need to understand how rating agencies will regard the carbon-intensive book they are writing and how this may potentially impact the rating.

"As well as the liability side, many captives obviously have significant assets under management," she explains. "We are seeing clients changing their captive's asset portfolio to be aligned with their sustainability goals. On the asset side, captive managers need to ensure that they are executing the same strategy as the parent company when it comes to sustainability."

Marsh Captive Solutions' Stack adds, that even though captive regulation is slow in becoming global, captive owners must be proactive in adding climate conversations to the agenda: "Most large companies now have sustainability officers and it is increasingly entrenched in strategy, so it needs to start permeating to captive board levels."

Monteith continues that it is important to remember that the impacts of climate change are exacerbating an already hard insurance market, which brings with it stringent underwriting criteria and reduced capacity.

"There should be no question that insurance companies will increasingly require evidence of stringent climate risk mitigation activities from existing and prospective clients, and those requirements will continue to get more intense over the coming months and years," Monteith concludes. ■

Rise up

Industry professionals discuss the reasons why women have not historically held senior-level roles in the insurance industry, the importance of mentorship and female role model representation, and what the captive industry is doing to address this disparity

Although just shy of 60 per cent of the workforce within the insurance industry, women remain underrepresented in senior-level roles, according to this year's annual Current Population Survey, conducted by the US Bureau of Labor Statistics.

In profiling specific occupations in the insurance industry, the survey found that while women tend to dominate clerical and examination roles, there is a significant drop in the number of women in sales and actuarial professions.

One of the reasons behind this disparity is the recurrent "broken rung" at the first step up to managerial roles, as women are promoted at lower rates than men, therefore creating a difficult environment for which a company can lay a foundation for sustained progress at more senior levels.

This is according to a 'Women in the Workplace' study conducted by McKinsey & Company in September last year. Spanning all corporate industries in the US, the study found that for every 100 men promoted to manager, only 86 women are promoted.

The study adds that overall gains in representation following the COVID-19 pandemic have not translated into gains for women of colour.

Between entry-level and C-suite, the representation of women of colour drops off by more than 75 per cent.

In this environment, the Captive Insurance Companies Association (CICA) launched the Amplify Women initiative in 2019, dedicated to providing women with opportunities for education, networking and influence in the captive industry.

The task force works to represent women in educational opportunities, such as speaking at conferences, publishing articles and academic partnerships, as well as promoting visibility by serving on association and industry boards.

Diversity in the workplace inevitably translates into diversity of thought, ideas and approaches — with discussions around diversity, equity and inclusion (DE&I) in the captive industry arguably more dynamic compared to the wider insurance industry, is this reflected in progress?

Members of the captive industry discuss the efforts that have been made, and what more needs to be done.

What are some of the contributing factors why women are less likely to hold senior-level roles in the insurance industry? Is this the same for the captive sector?

> *"Without other women to aspire to, many young female professionals are essentially self-selecting out of a career path within insurance before they have really even given it a chance"*
>
> **Karen Hsi, University of California**

Sandy Bigglestone: The largest contributing factor is the lack of cultural change in organisations. Changing a culture is an executive responsibility, yet it is not easy since cultural legacies can be weighty, influential, and extend for decades. Perhaps leaders and boards are more focused on counting women instead of increasing the participation and advancement of women. If that is the case, it will take a long time to actually achieve a valuable, high-performing, gender-balanced senior team.

Other reasons contributing to the problem include the fact that women are not always provided developmental opportunities to advance, and it is likely that promotional practices still favour men. It is also true that women often expect less from the organisation they work for, and do not always communicate what they want. There is also the existence of an organisation's unspoken bias, in both male and female executives and board members.

Amy Evans: Historically, women review job descriptions and believe that they are not qualified for senior-level roles because they have never performed the actual tasks listed in the job description, despite the fact that they are fully capable of learning them.

I also believe that historically, women do not "campaign" for promotions or advocate for themselves, but rather expect their hard work to speak for itself. Accordingly, they are often passed over for promotions to senior-level positions.

Karen Hsi: When asked this question, I always end up quoting Marian Wright Edelman: "You can't be what you can't see." In my opinion, it touches upon a key barrier to women in senior-level positions in the insurance industry, and even in the captive sector, which is a scarcity of strong role models to look up to in the industry. Without other women to aspire to, many young female professionals are essentially self-selecting out of a career path within insurance before they have really even given it a chance.

Anne Marie Towle: Historically, the insurance industry has been a male-dominated industry, and visibility and leadership have not always been available for women. We are making strides in the insurance industry as DE&I initiatives have increased the awareness of the lack of women in senior leadership roles.

Women in insurance have not always been supported, and this needs to change. I believe we can make this change, but organisations around the world need to not only walk the talk but provide support, education and opportunities for this change to happen. Women bring a different perspective and there is no limit to what we can achieve — particularly when we stand together and collaborate with fellow women, but also our allies.

> *"Women who are leaders in the captive industry most likely had to find a delicate balance of being enough, but not too much"*

Brittany Nevins,
Vermont Department of Economic Development

Brittany Nevins: There are a variety of historical and current reasons why women are less likely to be running their organisation. Today, women who are leaders in the captive industry most likely had to find a delicate balance of being enough, but not too much, and to prove that they were worthy of a promotion, but never ask for it. These barriers are significantly greater for women in historically marginalised racial and ethnic groups, who are bumping up against many discriminatory systems at the same time. I think we are only beginning to scratch the surface of understanding what it truly takes to support women in the workplace, such as paid family leave and childcare benefits. We can at least agree now that we want diversity in the workplace, but the answer to "how" requires commitment, intention and resources.

Dan Towle: Many industries, including the insurance industry, are working to overcome a variety of barriers and stereotypes that have kept women from advancing to senior positions. A lack of mentors is frequently cited as an issue. Nonetheless, I believe the captive sector likely does better than the traditional market when it comes to women in senior leadership positions.

> *"Changing a culture is an executive responsibility, yet it is not easy since cultural legacies can be weighty, influential, and extend for decades"*

Sandy Bigglestone

Director of captive insurance
Vermont Department of Financial Regulation

Sandy has been recently appointed as the incoming deputy commissioner of captive insurance at the State of Vermont Department of Financial Regulation. Sandy has 25 years of experience regulating captive insurance in Vermont and has served as a principal staff member to the deputy commissioner of captive insurance for the last 14 years.

How important is mentorship and female role model representation in leadership roles within insurance? What is your personal experience with this?

Brittany Nevins

Captive insurance economic development director
Vermont Department of Economic Development

Brittany is responsible for the marketing and business development of Vermont's captive insurance industry, working closely with the Department of Financial Regulation and Vermont Captive Insurance Association to strengthen the state's reputation as an onshore captive insurance domicile. Brittany previously worked in the non-profit and governmental sectors serving the technology, solar, healthcare and childcare industries.

Molly Hentges: Mentorship programmes empower women to reach their full potential and can help drive gender equality in leadership roles. I believe organisations that prioritise mentorship and developing female talent will see a greater percentage of women occupying senior-level positions.

I have had several mentors that have helped set me on the path to a successful career. As a young professional, it has been invaluable to have people in my corner that are invested in my professional advancement. My mentors have always encouraged me to step outside of my comfort zone and get involved in the industry, whether that is through speaking on a panel, joining an industry committee, or writing an article. This encouragement has helped me gain visibility within the industry and expand my professional knowledge and network. I have also had the opportunity to mentor rising risk professionals. I have found that having a front-row seat to someone's professional growth is very satisfying and rewarding.

Hsi: Female role model representation in leadership is absolutely key. The visibility of intelligent, talented, powerful women in leadership roles within insurance helps younger talent realise that you do not have to be a certain way or necessarily fit the stereotype to be successful in this industry.

Personally, I have been fortunate to have many female industry mentors right from the start of my career in captive insurance. They have been instrumental in guiding my career, broadening my network, providing resources, and being able to educate and provide technical expertise and advice. Even before I entered the captive insurance industry, as a college intern in risk management and insurance, I sought out powerful female chief risk officers when applying to internships — women that I could look up to, work with, and learn from. I believe the best part about having supportive female mentors is that you end up becoming part of a network of female "champions", where women in the industry

> *"The visibility of intelligent, talented, powerful women in leadership roles within insurance helps younger talent realise that you do not have to be a certain way or necessarily fit the stereotype to be successful in this industry"*

Karen Hsi, University of California

make it a point to advocate for one another, build each other up, allow for opportunities to learn from each other, and recognise each other's accomplishments within the industry.

Mary Ellen Moriarty: With the pressure of responsibility for the work at hand, it is easy to conclude that you do not have the time to mentor. All women have to take the time — there is just no alternative. There is always the comfort that comes from others, to know you are not alone in your frustration. But more importantly here, the fact that so many women are now clear on the concept that men are not singularly the reason women are not advancing at the rate of men — women have yet to universally learn the need to support one another. For many years women were in denial regarding this notion.

"It is easy to conclude that you do not have the time to mentor. All women have to take the time — there is just no alternative"

Mary Ellen Moriarty

Vice president, property and casualty and student insurance programmes
Educational & Institutional Insurance Administrators

Mary Ellen has been actively engaged in the insurance industry for more than 30 years in positions within national insurance brokerages as well as commercial insurance carriers. She joined Educational & Institutional Insurance Administrators (EIIA) in 2002, as vice president for property and casualty, focusing her extensive insurance experience on the higher education industry group. Mary Ellen currently holds the CPCU, ARM, and ACI designations.

"As a young professional, it has been invaluable to have people in my corner that are invested in my professional advancement"

Molly Hentges

Business development executive
Captive Resources

Molly was recently appointed to this role at Captive Resources, where she serves as an independent consultant responsible for educating brokers and business owners regarding medical stop-loss group captives. Previously, Molly served as an account executive for Gallagher Bassett's carrier practice group, where she was responsible for business development with carriers, captives, and alternative market claim outsourcing solutions.

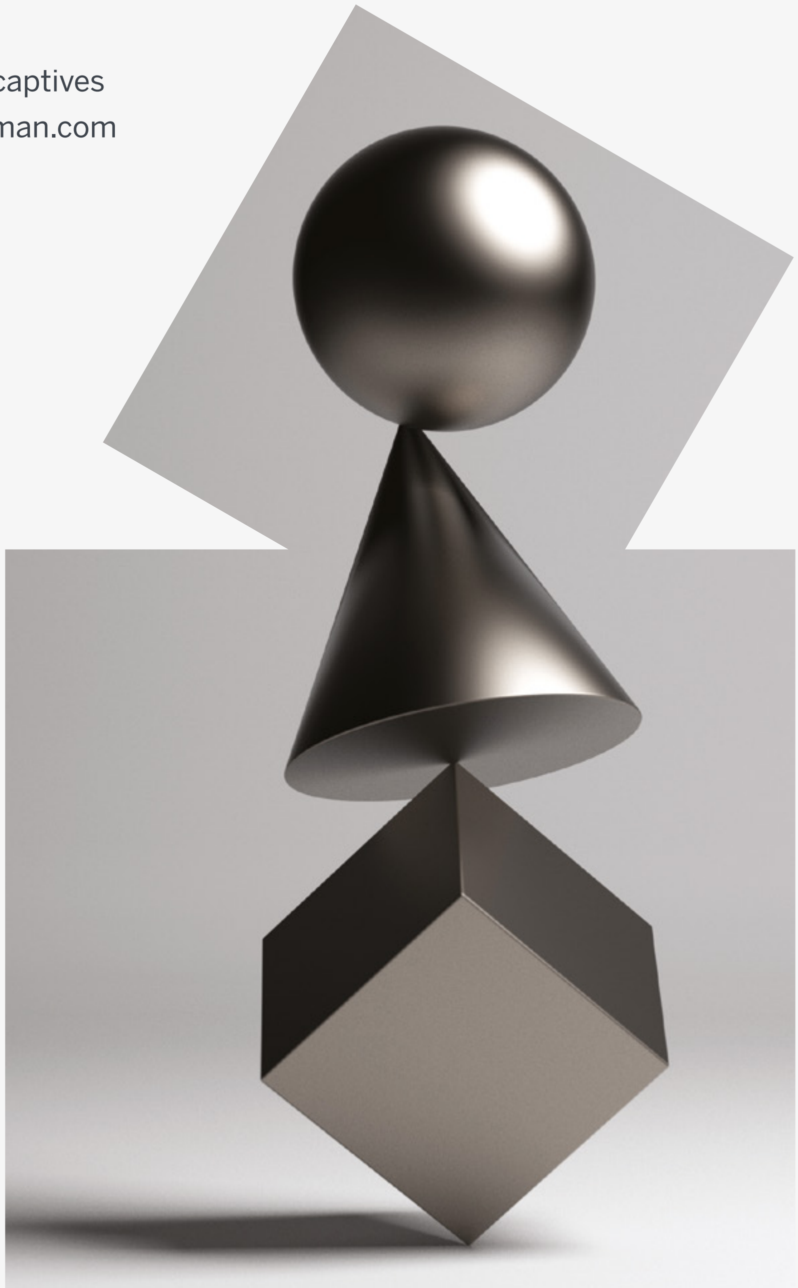
"The existence of female mentorship and female leadership role modelling is critical"

Sandy Bigglestone,
Vermont Department of Financial Regulation

Nevins: It is really important that we support each other in our workplaces and the broader industry. In a world where there could only be one woman at the table, women would fight one another for that place. I have heard from colleagues that often it was specific men who fought for their place at the table. As women have broken glass ceilings before me, as a younger professional I have more space to ask: "Who can I bring with me?" And not just people that look like me. We need to shift from filling seats at a table to valuing diverse perspectives. It is not just in my interest to promote all women, but I want to work with them and for them. I want to hear their perspective and be challenged to do my work in new and different ways.

Bigglestone: Women benefit from both male and female mentorship and leadership role models. The existence of female mentorship and female leadership role modelling is critical for achieving higher proportions of women holding board seats or promotion into senior executive positions. For instance, if an organisation's board of directors has a more gender-diverse composition, it seems the board itself would play a role in increasing the representation of women in senior-level roles.

During my time here at the Department of Financial Regulation (DFR), I have enjoyed witnessing and admiring female leadership at captive service provider organisations, on captive boards, and in executive roles at captive owner organisations. At the Vermont DFR, I have been grateful for the male leadership and mentorship over the past 25 years. I found a great deal of support and job satisfaction for participating in a high level of engagement. I took opportunities to stretch and be involved in activities outside my positions' roles, which afforded me a great deal of professional development and increased my knowledge. In turn, I want to provide others with similar opportunities and place them in situations that expose them to more senior-level responsibilities.



> *"I have been fortunate to have many female industry mentors right from the start of my career in captive insurance"*

Karen Hsi

Interim executive director, captive programmes University of California system

Karen is responsible for UC's five separate captives that serve the 10 university campuses, five medical centres and three national laboratories, incorporating more than 350,000 students, 280,000 faculty and staff, US$36 billion of annual revenues, and more than two million alumni around the world. With more than 10 years of career experience at the university, Karen is well-versed in the risk management sector of higher education institutions.

> *"Mentorship is an education and training ground for the future and can assist in relationship development "*

Anne Marie Towle, Hylant

Evans: Mentorship is invaluable for both the mentor and the mentee. It is a great opportunity for everyone to learn and grow, as well as become comfortable discussing vulnerabilities in a safe environment. As for role model representation, women lead differently than men. It is important to have female role models so that people can be exposed to different leadership styles. This type of diversity allows employees to identify styles and traits that work best for them, so that they can become even better leaders for the next generations.

Towle: Mentorship is an absolutely critical part of the equation with female leadership roles. Mentorship can come in many forms, sometimes an informal internal process, and other times it is a formal external relationship developed. I am an advocate of having mentors to support your career and particularly when someone is seeking a leadership role. Learning and understanding key attributes to make women successful in leadership roles is important to understand prior to seeing that type of role. Mentorship is an education and training ground for the future and can assist in relationship development and understanding the responsibilities of a leadership role.

My own experience is vast with mentors at different times in my career. I have had both female and male mentors who provided advice, and experience, answered my questions, and pushed me to be a better person and share the best version of myself in my roles in public accounting and working for large global brokerage companies. As Marie Curie stated: "We must believe that we are gifted for something and that this thing, at whatever cost, must be attained." I believe everyone should have multiple mentors. It truly does take a village.

To what extent does the talent crisis present an opportunity in the captive industry to attract more women to senior roles? How is this reflected in the actions of the Amplify Women initiative?

Anne Marie Towle

Global captive solutions leader
Hylant

Anne Marie has 30 years of experience with diverse projects, and has worked with captives and other alternative risk transfer vehicles in many key onshore and offshore domiciles. Anne Marie manages captive projects through feasibility and implementation, developing unique customised structures tailored to each client's needs. Prior to joining Hylant, she was an executive vice president with JLT, and formerly senior consultant with Willis Towers Watson for more than seven years.

Nevins: We are at a critical time in the captive insurance journey where more people are retiring than are entering the industry. Much like the STEM industries, women have not been historically seen as a part of the financial services industry. Women were only given the right to open a bank account in the 1960s — it is easy to forget this. These historical paradigms impact women's sense of belonging in this industry. Many women do not see it as an option or something they should be interested in. Now is the time to not only offer the benefits that say "I want you here" to promote women to senior roles, but to think about how we can paint a picture of inclusivity. That means sharing stories of women in this industry. They are here doing incredible work and we want young professionals to see this.

Evans: The talent crisis provides a great opportunity for women to thrive. We have an ongoing responsibility to look within our organisations and help women develop the skills that they need to succeed in senior roles. Great growth can occur if you simply show someone that you believe in them. We also should not limit ourselves to hiring from within the insurance industry. Talent is talent; smart people will adapt and learn quickly.

Bigglestone: There is a tremendous opportunity in the captive industry to attract more talent in general, but also to bring women into senior roles. Absent the data, I know there are more educated females entering the financial services workforce than 30 to 50 years ago. The talent is out there, we just need to steer the talent, male and female, toward the captive industry direction.

Hentges: I believe crisis always leads to opportunity. It is no secret that the captive industry is facing a talent shortage. A substantial number of retirements are expected in the industry in the coming years, and it will be crucial for organisations to fill these talent gaps. Now is the time for the captive industry to step up and broadcast our support for women in the workforce. Let it be known that your organisation values, recruits and develops female talent.

Actions speak louder than words, so it is paramount to demonstrate how your support for women manifests itself within your organisation, whether that is through training and mentorship programmes, or DE&I initiatives. We have an unbelievable opportunity to attract women to such a rewarding and empowering line of work. Let us take advantage of it by reaching out, communicating and educating women about the captive industry.

Towle: There is an incredible opportunity today to leverage experienced, talented women into senior leadership roles. With many pending retirements in the overall insurance industry and specifically the captive industry, it opens the door for companies to change the culture and promote diversity, including women in senior roles. We need to share the opportunity the captive industry creates to expand roles, use our knowledge and create relationships that will elevate women into senior leadership roles.

Hsi: I believe the talent crisis is the perfect opportunity to highlight and attract all talent into the captive sector. The industry as a whole is quickly realising the importance of succession planning and bringing new talent, male and female, into the industry.

I think with women gaining additional visibility in senior leadership roles during this time, many younger female professionals will begin to feel like they fit in and are included in the industry, which in turn encourages them to envision potential paths towards these roles for themselves. This further serves to build a glide path towards an increase in women in leadership roles within insurance and captives.

"We have an ongoing responsibility to look within our organisations and help women develop"

Amy Evans

Executive vice president, liability claims division
Intercare

Amy leads the liability division at Intercare Insurance Services, providing custom tailored claims, risk and managed care services to all lines of liability. Amy began her career in Houston as a first-party insurance defence attorney representing national insurance carriers with a focus on insurance bad faith, coverage, arson and fraud litigation. She now focuses on oversight and management of claims and litigation for captives, self-insured programmes, carriers and Lloyd's syndicates.

How can the captive industry as a whole promote the ethos of the Amplify Women task force? How is your company working to promote equal access to opportunity?

Bigglestone: Awareness is a good start. The captive industry should know that there are initiatives and resources available, working toward common goals in support of women in the industry. Amplify Women has several committees people can learn about and get involved with. I currently chair the Education Committee, the purpose of which is to spread quality education and foster networking with education institutions. The efforts of the Education Committee are intended to promote a greater level of knowledge and skill needed to serve the captive insurance industry with competence and professionalism. I have always been passionate about spreading quality education for captive insurance, so this is a good fit for me, and the committee members are equally engaged.

The goals of the Education Committee and all the other Amplify Women committees assist Amplify Women in carrying out its mission of women educating, influencing and networking in the captive insurance industry. The next steps include finding out more about Amplify Women and other industry initiatives, looking inside your organisations and determining ways in which you can collaborate on initiatives in support of the same goals, and connecting with Amplify Women members and others in the industry if you need support.

Hentges: CICA's Amplify Women initiative is dedicated to educating and supporting women within the captive industry. I would encourage everyone to get involved with the various Amplify Women committees. With that said, to make an industry-wide impact, organisations will have to lean in and align themselves with Amplify Women's ethos. This will help guide them in defining their own initiatives to promote the equitable professional development of women. If an organisation is not providing equal opportunity for women, it may be time to evaluate its posture towards DE&I (as it specifically relates to women), or risk being left behind. I am hopeful that our industry will lead the charge.

Hsi: Continuing to educate and bring visibility to how initiatives like CICA's Amplify Women help to foster women's growth within the industry is a very reasonable next step. I think the industry could elevate and highlight the goals of the Amplify Women task force by continuing to celebrate female role models within the industry that young women can look up to.

Simultaneously, that could work in conjunction with other CICA initiatives like the mentorship programme that provide the opportunities and resources to get connected with an industry mentor early on in a young professional's career.

Moriarty: I think a lot has already been achieved — just the number of women who have approached me to inquire about Amplify Women has strengthened all of our networks. Stronger networks make for better decisions and greater input, either on an individual level or at the corporate level. The best part of Amplify Women is the hope that it gives me, but it has also given me pause on how we are acknowledging women within my own organisation. We should all look for what we can do within our own organisations.

Towle: CICA's Amplify Women initiative has been instrumental in raising the awareness, education and network connection amongst women in the captive industry in a couple of short years. As Amplify Women continues to promote this mission amongst the domiciles in the US and around the world, captive industry service provider companies need to embrace and embody the initiatives within their own organisations.

These efforts will continue out into the wider industry, and Amplify Women looks forward to working with service provider organisations, domicile associations and regulators on making changes to our industry that support and value women and diversity.

> *“The first step for companies and organisations to take is to listen”*

Brittany Nevins,
Vermont Department of Economic Development

Nevins: The first step for companies and organisations to take is to listen. It is not just about being in agreement with the broader goals, but asking the question: “What do women and other historically marginalised groups need to feel supported in my place of business?” It is about understanding the history of struggle. Asking your employees what they need is a delicate process and this kind of change and trust-building takes time. Be open to feedback along the way.

Evans: Our mission is women educating, influencing and networking in the captive insurance industry. The captive industry can promote this through supporting education programmes to mentor and develop talent. We also need to encourage women to participate in networking experiences instead of working later. We should also revisit what type of networking experiences are most rewarding and fruitful for the current generations.

D. Towle: We need to increase our efforts to make the captive industry a place where everyone feels welcome, the kind of environment today’s young professionals are looking for. Whether it is the diversity of the speakers at our CICA conference, or the events Amplify Women provides throughout the year, a welcoming environment is a key to our future. Cultural and social responsibility changes are essential to attracting the best and brightest young professionals who will help deliver the captive solutions organisations will be looking for in the future. ■

> *“We need to increase our efforts to make the captive industry a place where everyone feels welcome”*

Dan Towle

President
Captive Insurance Companies Association

Dan has been president of Captive Insurance Companies Association (CICA) since April of 2017. Previously, he worked as the director of financial services for the state of Vermont for 17 years. In Vermont, he was the chief marketing and business development professional for the state’s captive insurance industry and was instrumental in its growth, licensing more than 500 captive insurance companies in the state.

Linking up

As capacity and capital concerns continue to upset the commercial market, industry professionals outline the advantages of the insurance-linked securities model, recent market diversification, and the relationship with captives

Rebecca Delaney reports

images by seanpavonephoto/stock.adobe.com

Insurance-linked securities (ILS) are financial instruments, such as derivatives or securities vehicles, whose value is influenced by a loss event underlying the insurance structure. Since value is linked to insurance-related, non-financial risk (such as natural catastrophes), ILS have a low correlation with the wider financial markets.

This provides a secure, collateralised form of funding dedicated to a specific risk, that requires coverage by acting as a mode of reinsurance for insurance entities.

This securitisation model was developed by the insurance industry in the 1990s to create an additional source of insurance and reinsurance capacity for hard-to-place property catastrophe risks, outlines Scott Cobon, executive vice president and head of insurance management at Artex.

This capacity was accessed by ceding risks directly to the larger, and mostly unbroached, capital markets rather than to a traditional reinsurer or retrocessionaire through traditional contracts. As such, ILS allow insurers and reinsurers to raise either capital or capacity while transferring risk.

Cobon continues: “Some risk-bearing entities were looking for interesting and unique ways to offload those risks, and they turned to the broader capital markets through securitisation. The markets then matured and developed over those preceding years.”

Adele Gale, group head of ILS at Robus, explains: “ILS provide capacity to insurers and an alternative market for protection buying. For investors, they are assets whose value is linked to the occurrence of an insured event, and are largely uncorrelated to equity markets.”

The ILS asset class encompasses catastrophe bonds, industry loss warranties, collateralised reinsurance products and other forms of risk-linked securitisation. Cat bonds create risk-linked securities that transfer a specific set of risks — usually related to catastrophe risks — from a ceding company to capital market investors.

Since ILS are not mutually associated with financial markets, the alternative asset class can provide investors with diversification benefits, as well as supporting humanitarian efforts, and the possibility of earning a return.

Paul Schultz, CEO of Aon Securities, notes that this relative lack of correlation to broader financial markets and diversification benefits for institutional investors, are key reasons why the ILS market gained significant traction and has continued to grow steadily over the past 25 years. 2021 marked a new annual issuance record of almost US$13 billion, marking nearly US$1.5 billion more than the previous record-breaking year of 2020, according to Swiss Re’s ILS Market Insights report.

Schultz notes that as more non-insurers and non-reinsurers turn their interest to the ILS market, these new sponsors are received well by investors as a positive indication for market growth.

He adds: “In terms of pricing, we have seen spreads widen in 2022 due to the response to inflationary, geopolitical and other macroeconomic concerns. This follows similar trends seen in traditional markets. The ILS market is still a competitive source of reinsurance capacity for many sponsors.”

However, Swiss Re notes that growth and pricing trends are not consistent across perils, structures and sponsors. For example, pricing has tightened across well-understood perils (such as California earthquakes), whereas structures exposed to high frequency secondary perils that are more difficult to model (such as thunderstorms and wildfire) have seen pricing increases and smaller deal sizes. This divergence in deal execution from both a pricing and structure perspective is indicative of a mature and well-functioning market.

ILS and captives

As an alternative form of risk financing, captives are unique in the self-insurance model, whereas ILS are another mechanism to transfer risk into the third-party market similar to reinsurance, Cobon highlights.

Robus’ Gale explains: “ILS provide captives with another source of risk financing alongside or as an alternative to the reinsurance market. ILS typically seek to manage exposure to a modelled event with a low frequency, high value profile commanding higher rates on line, and avoiding the frictional cost of covering attritional losses.”

There is a burgeoning relationship between ILS and captives, as those in the captive industry require customised ILS solutions as an alternative form of risk financing for a captive’s catastrophic loss exposure. Special purpose insurers (SPIs) can be used for cat bonds, sidecars and risk-linked securitisation to purchase additional protection for low frequency, high severity losses.

ILS market trends

Artex's Scott Cobon outlines the following trends within the current ILS market:

Diversification: Over time, factors such as pricing and trapped collateral have caused some third-party capital providers to look outside of property catastrophe risks at other specialty lines of business, such as marine and cyber. This is part of market maturity as investors become more sophisticated and diversified.

Trapped collateral: When property cat businesses are sold as short-tail, collateral is put to work for a relatively short period. If there is potential for a loss, buffer loss factors dictate when the collateral will be released to the investors. If the cedants do not have a good handle of their loss reserves, it is difficult to allow investors to view their investment as a short-term investment. Collateral will be effectively trapped in the private transaction of collateralised reinsurance.

Catastrophe bond resurgence: Cat bonds are product with an open market funding mechanism, as they look for investors in the wider capital markets, rather than being a privately-placed transaction. The spread in the cat bond is the difference between the expected loss and in the price of the bond, which has widened significantly in the hardening markets. As property catastrophe reinsurers have exited the market, cat bond capacity has returned.

ESG: Although there are a lot more questions about ESG from investors and cedants in the space, no one has quite developed a comprehensive solution. Frameworks and benchmarks need more standardisation to allow investors and insurers to understand exactly what is required.

Technology: Some entities are beginning to leverage AI and machine learning to help investors get more comfortable with certain types of risks, such as casualty exposures. This includes using supercomputers and other types of machine learning to try and decipher huge amounts of data to understand the underwriting of a particular risk.

Schultz describes captives as having an important role in the alternative risk transfer market, with non-insurer and non-reinsurer sponsored cat bonds as a rapidly growing segment of the ILS market — although these sponsors are often unable or unwilling to directly interface with the SPI, which is usually set up in a major offshore domicile.

"In these instances, the sponsor will either utilise their already existing captive, set up a new one or use a "rent-a-cell" facility. The captive will enter into an agreement with the sponsor on one side and the SPI on the other, allowing for a wider range of sponsors to benefit from the ILS market," Schultz explains.

He adds that the SPI environment for the ILS market is centred around Bermuda — again demonstrating the incipient relationship between ILS and captives — with more than US$58 billion issued out of the domicile across 208 transactions since 2014.

Bermuda's prominence in the ILS market is affirmed by Cobon, who notes that the domicile is able to provide a pool of reinsurance talent, as well as an approachable regulator. He also recognises some "muted growth" in Asia Pacific, with a few cat bonds issued in Hong Kong and Singapore.

Schultz adds that new legislation recently enacted in Hong Kong, to promote the administrative region as a global hub for the insurance and reinsurance industry, will be instrumental in making the captive jurisdiction attractive for ILS transactions.

The Insurance Authority of Hong Kong recently licensed the jurisdiction's second and largest cat bond. Sponsored by Peak Re via the SPI Black Kite Re, the bond amounts to US$150 million (HK$1.18 billion) and is structured to cover industry losses from typhoon risk in Japan. The 114A cat bond was licensed as part of the Authority's Pilot ILS Grant Scheme, which subsidises upfront costs of up to HK$12 million for each eligible transaction.

In Europe, Gale notes the regulatory regime of Guernsey incorporates several capital flexibilities that make the island an ideal domicile for collateralised ILS transactions wanting to operate outside of the Solvency II regime.

Guernsey also facilitates the hybrid protected cell company (PCC) model, consisting of a licensed insurer and a regulated investment fund. This structure means that ILS managers do not need to 'rent' cells of PCCs or SPIs, which are often domiciled in a different jurisdiction and operate entirely separately from the ILS manager's fund.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Guernsey has observed a trend of diversification, from catastrophe risks to more regionalised and medium risks, such as pandemic, terrorism, and operational risks.

World-firsts in the island's ILS market include the first private cat bond, a listed blockchain ILS transaction, and a dual-authorised structure to run an ILS fund and an insurer alongside each other.

Completing a transaction

When completing an ILS transaction, Cobon outlines structure as an important consideration: how will the transaction be structured, where will the funding come from, and ensuring all parties understand the fully-funded nature of most ILS structures.

It is crucial to ensure that investors understand the risk that is being transferred, while whoever is offlaying the risk must also understand the risk, and be able to provide data at a level third-party investors are able to consume.

Schultz adds that sponsors must be able to articulate their understanding of the exposures to investors in the offering documents; therefore, in his opinion, the most challenging aspect of completing an ILS transaction is the documentation.

"This includes the creation of a narrative document, referred to as the "subject business" disclosure, which outlines the risks being ceded, the cedents underwriting policies and controls, the cedents risk management procedures, and a number of other details pertaining to the sponsors business practices," he explains.

"It is a significant time commitment for the sponsor to undertake. Fortunately, as the sponsor returns to the market year-after-year, it becomes much easier and quicker to complete these important pieces of the documentation phase of the transaction, as much of the groundwork has already been laid."

Cobon adds that since ILS help address capacity gaps in the current hard market, transactions are usually time-sensitive, with trades then needing to be executed on an expedited basis.

"The most significant challenge for a captive to complete an ILS reinsurance deal is achieving stakeholder buy-in to the transaction, with capital tending to be more transient. The stability of post-loss protection can be hard to predict and therefore rely on," Gale warns.

Growth and diversification

Looking to the future evolution of the ILS market, Aon's Schultz anticipates sustained, steady growth as the market continues to demonstrate its value as a diversified asset class for institutional investors, during a time of lingering economic uncertainty and financial market challenges.

He adds that as the markets begin to normalise in the post-pandemic economic and geopolitical environment, investors will likely allocate more capital to insurance-linked strategies to take advantage of the ILS market's low correlation to the broader financial markets.

Cobon highlights activity in the catastrophe bond space in particular, where corporate entities offload risk into their captive, which then buys cover through a bond structure, as a promising area to watch.

He notes the cat bond space may also benefit from additional technology, such as digitisation and artificial intelligence, in the future.

It is inevitable that the market will further evolve from natural catastrophe risk as specialty markets continue to face capacity concerns in the commercial market. Both Cobon and Schultz highlight cyber risk in particular as a non-natural catastrophe peril that investors have shown an interest and appetite in taking on.

Gale adds that environmental risks may also enter the ILS market. She says: "The transition to net zero carbon emissions by 2050 will be massively disruptive both to energy producers and consumers. There is a significant role for ILS to play in sharing in the emerging risks and helping to ensure a smooth and just transition."

Schultz summarises: "We anticipate more non-reinsurer sponsors to follow the lead of innovative companies which have found value in obtaining insurance protection directly from the capital markets. Investors welcome these new sponsors, signalling the market's flexibility and desire to innovate insurance markets to meet the demands of the modern world.

"Over time, ILS has helped insurers, reinsurers, corporations, governments, and government entities to rethink access to capital, and complement existing risk transfer programmes. ILS fundamentally help clients manage volatility and build business resilience," he concludes.

A vibrant industry

Sandy Bigglestone, Christine Brown and Kevin Mead discuss the prosperous landscape of the captive industry Green Mountain State, as well as the state's recent legislative amendments and what to expect from this year's VCIA conference

Hailed as a "Gold Standard" domicile, Vermont has long stood out in the captive industry as a mature and established onshore jurisdiction. With consistently high licensing figures and legislative amendments on an annual basis, there is no denying that Vermont's captive market is booming.

Sandy Bigglestone, director of captive insurance at the Vermont Department of Financial Regulation (DFR), notes that some of the most effective ways to assess market conditions is through discussions with industry, as well as prospect meetings and licensing activities, as captive formations are indicative of how businesses are responding to the market.

And there is certainly no shortage of new licenses. Describing the Vermont captive market as robust, Kevin Mead, president of the Vermont Captive Insurance Association (VCIA), notes that licensing statistics for 2021 marked the fourth highest number of new captives at 45 issued licenses.

This propelled Vermont to begin 2022 with a total of 620 licensed captives, consisting of 589 active captives and 31 dormant entities. In addition, the state's 52 sponsored cell captives hosted nearly 500 cells and separate accounts at the beginning of the year.

"New proposals articulate the main reasons why captive utilisation is desirable," Bigglestone explains. "Reasons point to difficult renewals, pressures on retentions, unattractive policy terms, reinsurance market issues, and pricing."

The Vermont DFR observes a trend of some recreational organisations receiving non-renewal notices for either general liability or directors' and officers' (D&O) coverage from long-term commercial carriers as they are no longer serving the industry sector. Bigglestone notes that this has accelerated the interest of these organisations in forming a captive into a necessity.

Christine Brown, assistant director of the captive insurance division at the DFR, adds: "Companies are facing double or even triple digit increases in premiums, carriers that are pulling out of certain industry sectors altogether, and difficulty placing full reinsurance towers. Captives are the perfect solution for companies that are willing and able to take on some of the risk when faced with these challenges."

Bigglestone identifies that, in addition to the current needs, the department still receives captive business proposals addressing long-term planning for risk management.

> *"Organisations use captives as a vehicle for all types of risk management tools, so it will be helpful for companies to have the explicit ability for their captive to enter into a parametric insurance contract"*
>
> **Kevin Mead, VCIA**

"The primary motivations are to have the ability to control risk management and claims handling. Captives are still being formed for the typical or standard lines of insurance such as general liability, property, auto liability and workers' compensation insurance," she says.

This is likely to remain the expectation, as these types of standard risks can more easily capture data, and are readily available to shift in and out of the commercial marketplace, Bigglestone highlights.

As well as the traditional risks placed in a captive, she notes an emergence of other risks representing a range of business needs — most notably, a growing demand for cyber liability.

Legislative amendments

In keeping pace with this ever-evolving captive landscape, Vermont recently passed legislative amendments in House Bill 515. "Many of the legislative changes made this year were 'housekeeping'; cleaning up existing law and making minor changes for simplification, clarity and consistency," Brown states.

This includes simplified reporting requirements, replacing the obligation for fiscal year filers to complete a special calendar year report with a simpler report for premium tax reconciliation on a fiscal year basis. The DFR notes that approximately 15 per cent of Vermont-domiciled captives report on a fiscal year basis rather than calendar year.

In addition, the amendments improve delinquency procedures in the event of a sponsored cell company or an individual cell becomes insolvent.

The Vermont DFR is now authorised to efficiently deal with the affected cell without impacting the solvent cells or limiting the department's current authority.

Bigglestone explains: "Each year, we have made changes to the laws pertaining to cells. This year, an amendment was made to clarify the treatment of affiliated business in cells, since we found the definitions to lack consistency. Therefore, the change is intended to allow the same risks for pure and other types of captives, with respect to affiliated and controlled-affiliated business."

The amendments also enable Vermont-domiciled captive insurance companies to enter into parametric risk transfer contracts. As an emerging form of financial protection for catastrophe events, parametric contracts are more favourable than traditional indemnity insurance as they are not subjected to a lengthy claims adjustment process.

VCIA's Mead comments: "Organisations use captives as a vehicle for all types of risk management tools, not just insurance, so it will be helpful for companies to have the explicit ability for their captive to enter into a parametric insurance contract. We certainly perceive this as a growth area for Vermont, especially now that the legislation has clarified the position."

This synergy of the capital markets and index-based solutions is a promising, innovative venture into the future for the captive industry, not just in Vermont but globally.

Brown adds: "The parametric language is a perfect example of trying to keep up with emerging risks and challenges, given the steep increases in property coverage pricing and the increased use of captives for property risks. [The DFR] has also worked with consulting actuaries to try to better understand cybersecurity risks and the challenges of pricing this coverage."

"Vermont's captive laws allow for all kinds of solutions; however, each year we undergo a valuable process of identifying possible legislative changes to address or accommodate market challenges or innovation," Bigglestone says. "We meet with VCIA to understand the needs of the marketplace and vet ideas for change."

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Looking forward

The future of the Vermont captive market certainly looks optimistic, with Mead describing “a vibrant industry” that reflects and responds to the needs of companies for alternative risk products. He adds that the most significant challenge facing the captive industry is human capital as the industry changes demographically and geographically. With the former referring to the industry-wide talent crisis, the latter is attributable to the trend of remote working as exacerbated by the COVID-19 pandemic.

The captive community in Vermont is actively working to address the risk that Vermont-based work might no longer be physically completed in the state, according to Mead.

“The professional community that supports captives here is strong, but we are working with other industry partners as well as developing our own initiatives to ensure that the tremendous demand out there for services can be supported by a developing Vermont-based workforce.”

He adds: “With our strong partners in the Vermont Agency of Commerce and Community Development, spearheaded by Brittany Nevins, we will be addressing the risk factors for growth in Vermont.”

Although the risk factors relating to the changing workforce and labour shortage are industry-wide, Mead highlights that other challenges are derived from Vermont’s dominant position that cannot be taken for granted. “We must continually address the factors that made us this strong and ensure that we maintain that advantage,” he warns.

“We have always received very positive feedback from members and other stakeholders on our legislative and regulatory advocacy work. This is something that you can expect to see continue to be enhanced, and we will also seek to better communicate the value of this work across the industry.”

The captive development agenda for the Vermont DFR reflects similar priorities, with Bigglestone anticipating a continued growth in captive programmes throughout the remainder of 2022. She adds that the department will also continue to evaluate the laws and regulations of the state to ensure they best serve the captive market.

“A big part of our continued focus will be on quality-control and to role-model good captive regulation,” Bigglestone says. “I expect to grow the regulatory staffing to ensure we have all the necessary resources to manage our duties, and to develop improvements in how we do our work.”

2022 conference

And what can attendees expect from this year’s VCIA conference? Mead summarises in one word: “crowded!”

He adds the 2022 event will have an increased focus on networking and interaction rather than purely presentations — although these are not in short supply. Scheduled sessions include discussions on a range of risks, including cyber, parametric, climate, and third-party risks.

Embracing the technological element, there will also be sessions on data analytics and insurtech, while hot topics on the obstacles facing the industry include labour shortages, supply disruption and social inflation challenges, among others.

“I keep hearing people talk about how excited they are to come to Vermont for the conference again after so long being away,” Brown says. “As usual, we can expect expert panels and excellent education, fun networking events, and lots of people who are just happy to be together again.”

Bigglestone comments: “The VCIA conference is expected to be incredible as usual, and an in-person reunion to not disappoint! Attendees can expect to participate in networking, hear Ignite Talks live, and learn from the premiere captive insurance education venue in the world.”

Mead adds that his first annual VCIA conference as president of the association also marks the final conference for Dave Provost in the role of deputy commissioner, with a symbolic “passing of the baton” to his successor, Sandy Bigglestone.

To which DFR’s Brown says: “Sandy has worked in every role in our division, from examiner to director, thus bringing a deep knowledge and passion to the deputy role. I have the utmost confidence that Sandy will be a stalwart leader and will continue to protect and serve the captive industry in Vermont and more broadly.”

“Attendees will also see lots of new faces, and also seeing the stability and professionalism that underpins the ‘Vermont Advantage’,” Mead concludes. ■

"I am elated to continue our tradition of excellence, to model good captive regulation, and to advance Vermont's footprint"

Sandy Bigglestone starts new role

Vermont Governor Phil Scott has named Sandy Bigglestone as deputy commissioner of the captive insurance division at the Vermont Department of Financial Regulation (DFR). This appointment follows the announcement of David Provost's retirement after 14 years of service in the role.

Bigglestone currently serves as director of captive insurance at the department, a role she has held for 12 years. She began her tenure as an entry-level examiner in the captive insurance division in 1997, before being promoted to director of examinations in 2008.

For the last four years, Bigglestone has served as chair of the National Association of Insurance Commissioners' Risk Retention Group Task Force, which focuses on the state, federal and industry activities that impact RRGs.

Bigglestone is also the current chair of the Captive Insurance Companies Association's Amplify Women education sub-committee, which aims to raise awareness of the captive industry across US colleges and universities.

Bigglestone says: "I am thankful for all of the great work in Vermont over the last 40 years, and proud that I have been exposed to 25 years of top-notch leadership and participated in keeping Vermont at the forefront of captive domiciles worldwide. Looking ahead, I am elated to continue our tradition of excellence, to model good captive regulation, and to advance Vermont's footprint." ■

Marsh has appointed Benjamin Ford as senior vice president in the firm's strategic risk consulting practice.

In his new role, Ford will be the senior engagement lead for Marsh Advisory's strategic risk consulting practice, which encompasses enterprise risk management, business continuity, and crisis management.

In addition, he will work across the entire Marsh team to support a range of capabilities related to risk management, risk control and risk financing, including captive and alternative risk teams.

Ford most recently served as president of the FCA US Insurance Company at Stellantis, where he created, staffed and provided oversight of the captive company's underwriting, finance and claims operations. He also acted as the chief strategist in designing insurance products and obtaining regulatory approval for the captive's business plan from the Michigan Department of Insurance and Financial Services.

Ford began his time at Stellantis as head of North American risk management, where he led risk finance, loss prevention, and claims management teams in the region.

Before Stellantis, Ford was account executive at WTW, acting as a subject matter expert in healthcare and captive insurance companies to facilitate specialised consulting services.

Commenting on his new role via LinkedIn, Ford says: "I am happy to share that I am starting a new position as a senior vice president at Marsh in the strategic risk consulting practice. Thank you to my friends and colleagues at Stellantis for your support over the last six years. It was a pleasure and honour working with all of you. Off to the next adventure!"

Risk Strategies welcomes Jason Ellison

Risk Strategies has appointed Jason Ellison as employee benefits leader for the brokerage's national healthcare practice.In his new role, Ellison will coordinate the firm's specialised resources and expertise across the two key practices of employee benefits and healthcare, while developing processes to expand this model to other business segments.

With experience across the healthcare industry, Ellison has previously worked with for-profit and non-profit hospital systems and multi-specialty organisations across employee benefits and reward strategies, including compliance, network optimisation, and direct-to-employer strategies.

Ellison most recently held the position of area senior vice president of Gallagher's health and welfare consulting business, where he also served on both the firm's national healthcare practice leadership team and national innovation advisory group.

Before this, Ellison was principal and senior consultant at Mercer, and held various leadership roles at UnitedHealthcare.

Commenting on the appointment, Bob Dubraski, chief growth officer and national healthcare practice leader, says: "We are thrilled to have Jason join the Risk Strategies family."

"His leadership and expertise in this national role for employee benefits, focusing on the healthcare industry and other areas of the benefits business, will allow us to grow our existing team and the business." ■

Aon has appointed Howard Byrne as managing director for both Aon Insurance Managers (Cayman) and Aon Risk Services (Cayman).

In his new role, Byrne will assume leadership responsibility for all Aon Cayman group operations. He currently holds the position of director and chief commercial officer at Aon Cayman, in addition to being a member of the executive leadership team. Over the last 10 years at Aon Cayman, Byrne has overseen the creation of around 50 insurance captives and reinsurers in the domicile.

Byrne joined Aon Cayman in 2002, where he has also served as vice president of business development and insurance operations. Before this, he was senior underwriter at United Insurance Company, based in the Cayman Islands.

Commenting on his new position, Byrne says: "Having just completed 20 years with Aon Cayman, I am extremely pleased and honoured to take on this new role. Following another year of record growth and client engagement, we are looking forward to continuing to help our clients make better decisions.

"I would like to take this opportunity to thank our great clients, our colleagues further afield, our numerous provider and industry partners and our friends at CIMA for all their support and collaboration over the years."

John English, CEO, captive and insurance management, Aon, adds: "Howard has been an integral member of the executive leadership team in Cayman for many years and his leadership abilities will ensure that we build on the tremendous momentum we have in our Cayman operations. I look forward to working with him in his new role." ■