captive insurance times

The primary source of global captive insurance news and analysis

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Linking up

The advantages of the insurance-linked securities model and its relationship with captives

Legacy Solutions

Industry professionals evaluate how insurers, reinsurers, and captives can benefit from the run-off process

Steel City Re

Why risk management can be a value centre, rather than a cost centre

GEB Network and SulAmerica

Has the expansion of the Brazilian medical solutions market brought benefits to captive clients?

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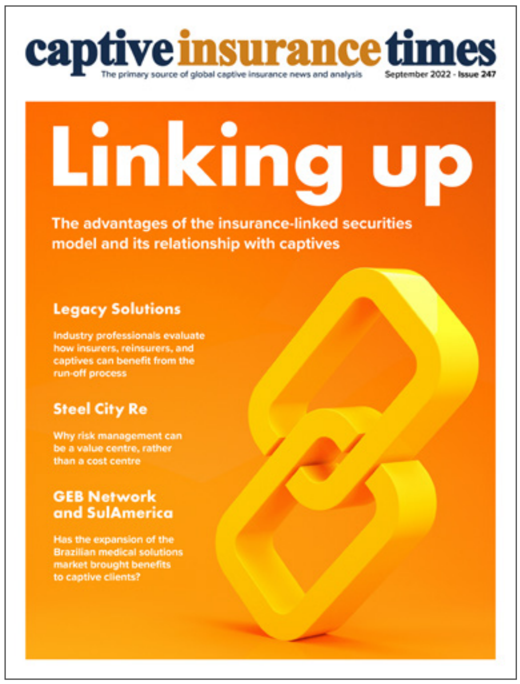

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Sapphire Re picks Synergy2 Reinsurance Platform

Sapphire Re has chosen Eurobase's Synergy2 for use in its captive operations. The Synergy2 platform is a release-based solution designed to help captives achieve sustainable and strategic growth.

An end-to-end solution, Synergy2 will provide integration, analytics, and reporting for Sapphire Re's business. Data will be migrated from an existing solution.

The platform has been selected based on Eurobase's expertise and future-proof capabilities, says Sapphire Re.

Diana Beltran Hamache, head of reinsurance at Sapphire Re, says: "I am proud to have Eurobase as a partner and elevate our technology to the next level using Synergy2.

After a long selection process for core business software, we found Synergy2 fits excellently to our requirements."

Joe Locke, CEO of Eurobase Insurance Solutions, comments: "Eurobase looks forward to building a strong and strategic partnership that will facilitate the growth of their business." ■

Risk Strategies acquires Dickstein Associates Agency

Risk Strategies has acquired New Jersey-based Dickstein Associates Agency.

Dickstein offers risk management solutions, such as property and casualty insurance coverages, to individuals and businesses. Focusing on real estate, technology companies, and coastal condominium associations, Dickstein also provides life and health benefits to clients.

Risk Strategies is a national insurance brokerage and risk management firm. With access to all major insurance markets, and 25 specialty practices, Risk Strategies works with commercial companies, nonprofits, public entities, and individuals.

John Scroope, national director of retail operations at Risk Strategies, says: "Dickstein's longevity and client loyalty is evidence they share our client-first mindset. They are a great fit for us, and our teams have already identified new opportunities to collaboratively work together, help their clients, and to grow the business."

Kevin McDonough, Dickstein principal and executive vice president, comments: "Responsiveness to clients' needs built our business and reputation. Joining Risk Strategies ensures our clients will continue to receive that same level of service while expanding the resources we can provide."

AXA Climate adopts RMS HWind for US parametric insurance policies

AXA Climate will use RMS' HWind analytics as a principal trigger metric for its US parametric insurance policies.

The solution allows AXA Climate flexibility in how and where they structure parametric

policies. This ensures that clients will receive rapid access to capital following damaging winds.

RMS HWind, a Moody's Analytics company, enables quick evaluation of hurricane trigger and payout conditions by producing real-time data sets for tropical cyclone events. The analytics cover the Western North Atlantic, Eastern Pacific, and Central Pacific basins.

Amaury Dufetel, head of insurance at AXA Climate, says: "Data coming from independent reputable organisations like RMS HWind solutions, developed over more than 25 years by one of the world's leading hurricane observation researchers, will allow us to structure innovative parametric covers and bring to our clients the best tailor-made tropical cyclone coverage both in terms of price and claim settlement."

Charlotte Acton, senior director of RMS, comments: "By working closely with AXA Climate, we have been able to help an important client develop innovative products that offer a competitive advantage and can help enable growth into new markets. Parametric insurance is another example of how the insurance industry can help build resilience into economies, which in turn helps reduce the protection gap. RMS remains committed to supporting insurance innovation, in our products, for our clients, and for their end users."

True Captive Insurance launches new employee health plan

True Captive Insurance has launched myTrueMD, a health plan with unlimited virtual primary, urgent, and behavioural healthcare, supported by Walmart Health Virtual Care. The telehealth provider Walmart Health Virtual Care delivers care including women's health, men's health, talk therapy, teen therapy, and psychiatry.

Providing care access to self-funded employer groups, myTrueMD offers a provider network and member concierge on a simple digital platform. Care is offered at low to no cost, in an effort to drive down overall healthcare costs — benefitting both employers and employees.

David Vorhees, founder and CEO of True Captive Insurance, says: "By offering this unlimited virtual healthcare programme, we are providing access to quality, convenient, personal healthcare.

"With no to low member copays, our programme removes cost barriers to care and encourages our members to be proactive with their care and overall health and mental wellbeing. It is the perfect complement to our mission to provide healthcare that is personal, and insurance that is not complicated."

Captive market has leading role to play in the risk landscape, agree Asian Captive Conference delegates

The captive market has a leading role to play in propelling the shift in the risk landscape and ensuring stability in a hard market, affirmed panellists at this year's Asian Captive Conference 2022.

Organised by Labuan IBFC Incorporated Sdn Bhd (Labuan IBFC Inc.) and the Labuan International Insurance Association (LIIA), the conference welcomed more than 150 participants comprised of regulators, insurance professionals, investors, government agencies, media, and professional service providers.

Labuan IBFC Inc.'s executive chairman and CEO, Datuk Iskandar Mohd Nuli, delivered the welcoming remarks. He said: "We hope the Asian Captives Conference 2022 will serve as an ideal platform for insurance professionals to come together to actively share and exchange ideas on ensuring the continued growth and momentum of the captive market."

The keynote address was presented by Yang Berusaha Encik Nik Mohamed Din Nik Musa, director general of Labuan Financial Services Authority (Labuan FSA).

In his speech, he highlighted that a key success factor to the sustained growth of Labuan IBFC is the well-regulated business environment which provides confidence to investors to continue using Labuan IBFC.

He outlined: "In charting the continued growth and building on the position of strength, Labuan FSA will continue to strengthen the competitiveness of Labuan captive business under the five-year Labuan IBFC's Strategic Roadmap launched in June 2022."

Highlights from the conference include captives' increased opportunity in a post-COVID-19 landscape that is focused on increased supervision and enhanced risk management frameworks. Another notable topic discussed was the impact of the Organisation for Economic and Cooperation Development's BEPS 2.0 framework and how captives will continue to adhere to international standards and best practices.

The panel discussions mapped out the global captive landscape post-COVID, in terms of key growth industries, emerging risk, and regulatory developments. These examined how alternative reinsurance capital can be utilised to bring stability in a hard market.

There was also a special dialogue on protected cell companies (PCC), including essential recommendations on forming a PCC, the basics of forming a PCC, the benefits posed by PCCs, and

the significance of captive processes and controls.

The conference closed with a discussion of the position of captives in ESG schemes. Panellists shared how captives can be used to address company-wide ESG concerns, and the unique features of captives that enable them to easily assume responsibility for all organisational risks including those that are sustainability-related.

Roundstone distributes savings back to captive participants

Health insurance provider Roundstone distributed US$10.5 million pro rata cash distribution in July, a figure representing 10 per cent of total premiums in the captive pool. The distribution will allow business owners participating in the company's group medical captive to optimise their health plans, in turn improving the overall savings and performance of the pool, Roundstone says.

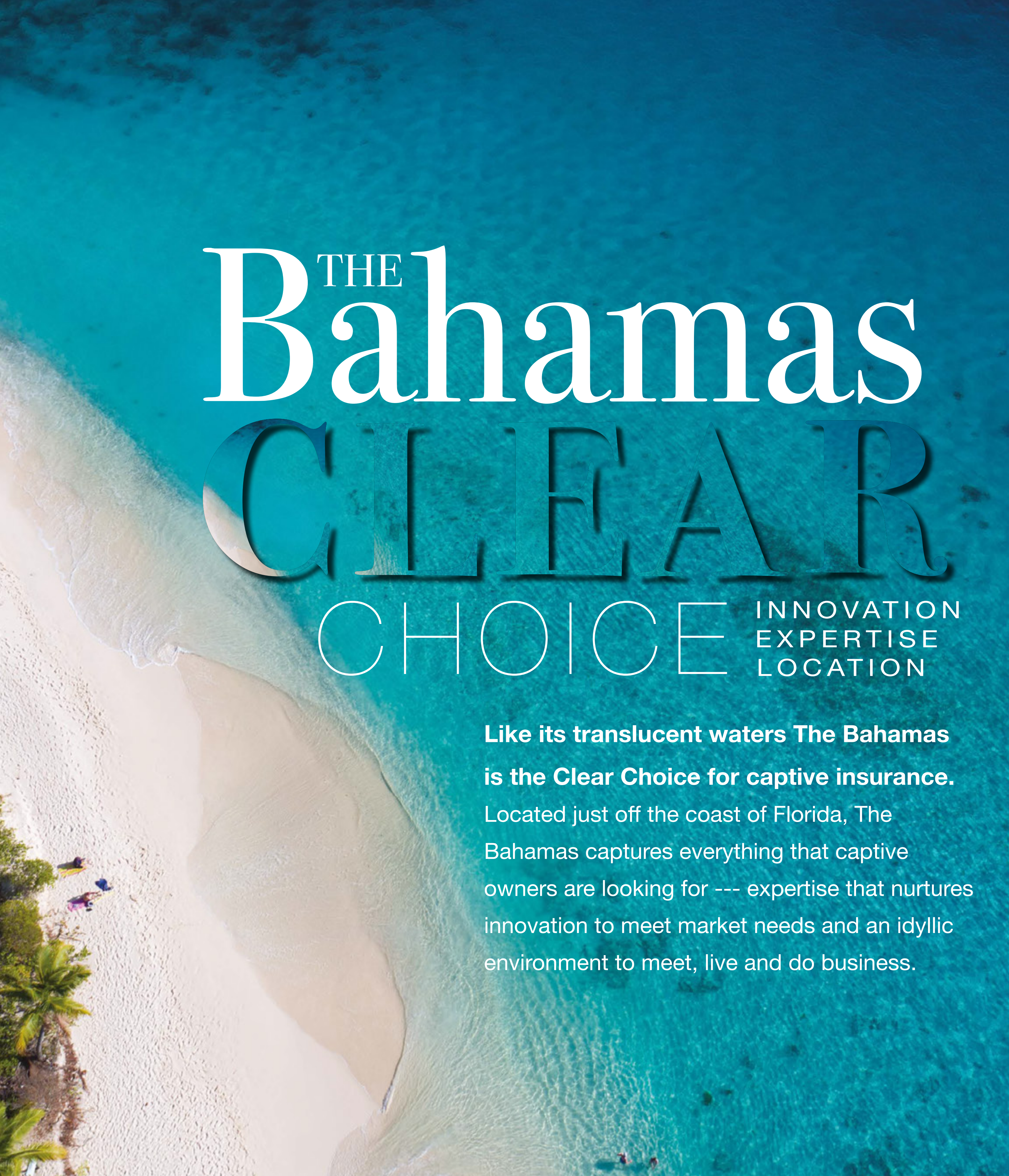
Roundstone's health insurance solution has 15 per cent fixed costs, allowing employers to pay only for what they use and keep unspent funds left in their claims account and the captive pool.

Mike Schroeder, president and CEO of Roundtone, says: "Employers that are in our group medical captive tend to view health benefits as a strategic long-term business priority. They understand that by being able to take control of this expense, and not shifting too much of the cost burden on employees, they can provide competitive health benefits that attract the best people."

The news follows Roundstone's partnership with Dark Rhino Security earlier this year.

As part of the mandate, announced in April, Roundstone will allow Dark Rhino Security's clients to receive tangible risk reduction, rather than theoretical calculations, with material support resulting from cyber attacks.

In addition, the cybersecurity firm will offer the opportunity for small- and medium-sized businesses to obtain cyber insurance coverage from their own secondary sources. ■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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

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 wildfires) 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 is another mechanism to transfer risk into the third-party market similar to reinsurance, Cobon highlights.

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 products 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 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 artificial intelligence 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.

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.

Schultz describes captives as having an important role in the alternative risk transfer market, with non-insurer and non-reinsurer sponsored cat bonds 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

"ILS provide captives with another source of risk financing alongside or as an alternative to the reinsurance market"

Adele Gale, Robus

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 that 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.

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 and where will the funding come from, while 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.

"Over time, ILS has helped insurers, reinsurers, corporations, governments, and government entities to rethink access to capital and complement existing risk transfer programmes"

Paul Schultz, Aon Securities

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 helps clients manage volatility and build business resilience," he concludes. ■

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A value added

Captives show risk management can be a value centre, rather than a cost centre, say representatives from Steel City Re

Entrepreneurial risk managers are demonstrating through the use of captives how they can be value creators for their parent companies, rather than cost centres.

Captives, by their nature, are designed to provide or acquire insurance coverage that is more closely tailored to their parents' needs or to realise cost savings on coverage. There are also various tax and structural advantages that may apply, of which professionals in the industry are well aware.

However, we are now hearing captive managers talking about other advantages – the opportunity within the organisation to be viewed as more than a procurement department for insurance, for example, and to have their stature within the enterprise recognised and elevated.

Captives enable risk professionals to play a tangible and demonstrable role in enhancing corporate profitability. It also allows them to control management and decision-making with respect to claims – a key function that is often overlooked by corporate leadership, until frustrations arise with outside claims managers.

Perhaps most importantly, it provides captive managers with a simple, clear, and compelling way of demonstrating that an effective risk management process is in place. Simply put, the fewer claims, the stronger the case for effective risk management.

If premiums are reduced and claims are reduced at the same time, captive management will be contributing to the bottom line of the captive transparently, and that is ultimately, but opaquely, reflected in an enhanced bottom line for the parent.

But why stop there? Having produced a results-based case in effective risk management for the board and executive leadership, why not communicate more broadly to external audiences?

Litigation

Increasingly, litigation against corporations is citing reputation damage as a cause of action. Failure by the board to manage reputation risk and protect the company's reputation is mentioned more frequently in securities class actions as well as other types of claims, relating to such factors as product safety or workplace issues.

ESG-linked reputational risk – now often related to aspirational statements about environmental stewardship or social justice – poses perils to every aspect of the organisation, including to individual board members and CEOs who are likely to be on the hot seat when crises occur.

Research by Steel City Re shows that companies with effective reputation risk management governance and operational processes generate a ‘reputation premium’ in the aftermath of crises, with their stock price outperforming their peers. That premium increases dramatically when those risk management processes are transparent to the public.

Stakeholders are less likely to react with hostility when they can see, understand, and buy into the process that was designed to mitigate the damage.

Since reputational value and resilience are based on the degree to which stakeholder expectations and actual performance are aligned, risk management requires marketing input from the outset – as well as leadership from corporate counsel and others. Collaborating with marketing, public relations, investor relations, government affairs, and other public facing departments to communicate about effective risk management, with a demonstrable track record, driven by a captive, is the type of effort most likely to maximise the reputation premium.

The beauty of this external communications programme is that the evidence-based analysis that is necessary is already being done for internal consumption. It merely needs to be repackaged for different audiences.

Of course, captive managers need to develop their strategies and choose their partners carefully. In the current political climate, with corporate America under fire and additional funding about to flow to the Internal Revenue Service, captives are almost certain to become a focus of regulatory scrutiny.

The entrepreneurial mindset must be tempered by prudence. A captive that only receives premiums and never has any claims, for example, could be vulnerable. In the reputation insurance category, we have seen policies written without regard for serious underwriting or analysis of the probability of loss. Underwriting that is actuarially sound, based on voluminous and reliable data, not only provides a defense against litigation, but provides a defense against overly ambitious regulators.

In the hard insurance market that exists today, captives are becoming the best alternative for many companies, particularly those that are the best risks — this is the moment for captive managers to shine. ■

Steel City Re uses parametric reputation insurances, ESG insurances, and risk management advisory services to mitigate the hazards of ESG and reputation risk.

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Steel City Re

Peter Gerken
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Steel City Re

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Principal
CIC Services

Heatwave leaves businesses in hot water

As record-breaking heat is recorded across the globe, businesses feel the effects on profitability as it threatens operations, outlines Randy Sadler of CIC Services

As temperatures reach record highs in various parts of the globe, risks are reaching a boiling point for companies, leaving leadership teams sweating bullets.

Not only is severe heat deadly, but it is a burden on energy, infrastructure, and even supply chains.

In the UK, severe heat caused shipping delays and train delays — the latter due to the buckling and bending of train tracks. Flights at London's Gatwick airport were also cancelled due to severe heat. In Spain, Portugal, and France, heatwaves sparked deadly wildfires leading to evacuations. In the US, extreme heat in the Southwest has threatened crop yields.

What's heating things up?

The record-high temperatures created heat alerts across 16 different states in the US in June, due to an enormous heat dome, with 55 million people experiencing temperatures above 100 degrees, according to news entity CNN.

Heat domes occur when a region of high pressure traps heat over an area, and can persist for weeks.

Across the Atlantic, scientists predict increasing heat domes in Europe. According to the National Centers for Environmental Information's June 2022 Global Climate Report, the average global temperature was the sixth highest for June since records began in 1880.

It also notes that Europe had its second hottest June on record, Japan had its worst-documented streak of hot weather since 1875, New Zealand had its eighth-warmest June, and Antarctic Sea ice hit a record low for the month of June.

In an interview with Fortune, University of Oxford climatologist and professor Friederike Otto noted that climate change has increased the frequency, intensity, and duration of heatwaves across the world due to the burning of fossil fuels.

Kirsty McCabe, Meteorologist for the UK's Royal Meteorological Society, agrees, and says the heat is not a natural variation, but is due to human-induced climate change. Heatwaves are not expected to go away.

An increase in heat-related blackouts in the past five years due to a taxed electrical grid is also a sign.

Boiling point for businesses

Heatwaves are considered a natural disaster, according to the Climate Data Center. Like any cataclysm, be it a hurricane, earthquake, or fire, the impact on businesses can be devastating. In some cases, a heatwave can halt business operations altogether. For example, to protect their workers from the risk of heat-related illness, construction companies cannot safely operate, which can create lost time and result in delayed projects.

Climate.gov reported that the construction industry loses billions of dollars on delays and failures caused by bad weather — heat included.

Manufacturing is another industry suffering through the heatwaves. In China, the heat has created a crushing demand for electricity, placing a burden on the power grid with manufacturing plants appealing to households to use less power.

According to analysts from Chinese brokerage firms, Zhejiang's energy bureau has rationed power from energy-intensive businesses. The agriculture industry has perhaps been hit hardest.

In Italy, the hot conditions are expected to destroy a third of the seasonal harvest of rice, corn, and animal fodder. The European Commission recently downgraded its soft-wheat harvest estimates from 130 million tons to 125 million.

Heatwaves have created not only shortages and supply chain disruptions, but also inflation. In a survey of 1107 small business owners from Goldman Sachs, entitled 10,000 Small Businesses Voices, 91 per cent of respondents say inflation and supply chain issues are weighing heavily on their business, while 73 per cent comment that increasing energy costs are having negative impacts on their bottom lines.

Turning down the heat

The key to addressing any risk is preparedness, and having a plan in place to mitigate the fallout of the risk. The following tactics can help ensure your business will survive the effects of heatwaves and climate change.

1. Conduct a risk assessment

A report by McKinsey, Confronting Climate Risk, urges business leaders to start integrating climate risk into their decision making. For example, the McKinsey report found that by 2050, some parts of India may be under such intense heat and humidity duress that working outside would be unsafe for about 30 per cent of daylight hours. That is concerning when around 280 million of India's heat-exposed outdoor workers (75 per cent of the labour force) produce about 50 per cent of the country's GDP. Adaptation is required — such as installing cooling shelters, giving employees access to air conditioning, and shifting current work hours.

In Florida, the low elevation makes the state vulnerable to flooding as sea levels rise. Many coastal cities are economic centres that have already confronted this risk, but it is important to secure your business against floods.

2. Business continuity plan

When the unexpected happens, a business continuity plan enables a business to respond quickly and survive during interruptions to business operations.

The plan addresses all risks a company may face: how this will impact operations, what will be implemented to mitigate the risk, and the processes and procedures required.

This is especially essential when addressing potential crises — including heat or climate-related disasters. By developing the plan in advance of any crises, it ensures the business will be able to overcome lost revenue.

Between 40 and 60 per cent of businesses without a plan will not open after a disaster, but with a business continuity plan, they can pivot and be on better footing to survive.

3. Insure against the risk

Parametric insurance, or index-based insurance, offers payouts based on trigger events that are tied to the nature of the parametric policy.

This form of non-traditional insurance is especially helpful with losses from delays caused by events such as rain, cold, snow, or heat. A parametric policy sets predetermined parameters on payments, and once the threshold is triggered, the claim is paid.

This is helpful for contractors or developers who experience project delays due to heat. For example, the trigger event could be temperatures reaching more than 100 degrees.

Business interruption insurance

Business interruption insurance is helpful, but may not be enough. Typically, when damage obstructs business operations it is covered by property insurance, and business interruption insurance covers losses from interruption.

However, a natural disaster can create a perfect storm. For example, if an establishment is forced to close due to lack of power, there can be a denial of claims.

Business owners may be able to have property repaired, but cannot recoup the lost revenue through insurance.

Captive insurance

While businesses with claims for business interruption coverage could be denied, a business with a captive insurance company would not face exclusions that leave them vulnerable.

Since a captive insurance policy can be written to be broad and robust, it has more triggers than third-party commercial insurance, so an event may be covered where business interruption might not provide coverage.

Captive insurance also serves as a valuable financial strategy. When captives build up loss reserves, backed by corresponding assets, those assets are available for dealing with a catastrophic event.

When a business has to restart or relocate their operations, assets are readily available to help it navigate the challenges and pursue big changes.

The business owner can use the asset build-up in successfully managed captive insurance companies to help grow the business by funding acquisitions, growth strategies, and enhanced risk mitigation strategies via a dividend from the captive insurance company to the business owner. ■

Randy Sadler started his career in risk management as an officer in the US Army, where he was responsible for the training and safety of hundreds of soldiers and more than 150 wheeled and tracked vehicles.

He graduated from the US Military Academy at West Point with a Bachelor of Science degree in International and Strategic History, with a focus on US–Chinese relations in the 20th Century.

He has been a principal with CIC Services for seven years and consults directly with business owners, CEOs, and chief financial officers in the formation of captive insurance programmes for their respective businesses. CIC Services manages more than 100 captives.

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One partnership, four perspectives

Almost three years on from the ground-breaking partnership between GEB Network and SulAmerica, which promised to bring improved control, flexibility, and cost efficiencies to multinationals with subsidiaries in Brazil, CIT hears from some of the key players on whether the rhetoric is living up to the reality

Has the expansion of the Brazilian medical solutions market brought benefits to captive clients, local insurers, and GEB Network (GEB)? GEB Network's partnership with SulAmerica, the largest independent insurance company in Brazil, was officially cemented in 2019.

The mandate effectively made GEB the first and only network able to reinsure medical solutions to a captive arrangement in Brazil.

This promised to bring considerable advantages to European (and global) captive clients with subsidiaries in Brazil, in terms of control, cost efficiencies, cash flow improvement, flexible terms, and economies of scale.

Such is the scale and impact of this initiative that it represented a significant contributory factor to GEB being awarded no less than three prestigious captive industry awards last year; across Europe, Asia Pacific, and North America.

GEB Network's perspective

Expansion into the medical solutions market in Brazil — in a way that is economically viable — has represented a key strategic project for GEB over recent years. This is in acknowledgement of the fact that medical represents the most requested employee benefit in South America by multinational customers.

The reason other networks have not ventured down this route before is that regulation is complex. GEB requires both an insurer based in the country and also a reinsurer to retrocede the risk abroad. The latter would not be required in other territories. In this instance, Swiss Re is the reinsurer.

As Massimo Martinoli, regional manager for Latin America, comments: "Discussions with SulAmerica started around four to five years ago and we set our first contract in 2019. We have 45 captives in Brazil and we have reached out to all of them over the last two years, and already have nine captives with SulAmerica on our books, plus 25 more in the pipeline."

He adds: "It affords our captive clients the opportunity to capture a large amount of premium and properly manage the risk: they can put it to work — repatriating the money from Brazil. From there, they can invest it in other employee benefits or risk management solutions."

GEB also has a regional desk in Sao Paulo, Brazil, to help ensure the highest standards of partner and client servicing.

"We work very closely with SulAmerica, our captive clients, and local intermediaries; everything from the request for proposal and implementation process to sharing performance analytics with all," says Stefano Convertino, business development manager at GEB Desk Brazil. "We also work closely with Swiss Re to ensure that the reinsurance process is working well. It truly is a partnership."

SulAmerica's perspective

Founded in 1895, SulAmerica has over seven million clients across Brazil and provides integrated healthcare solutions. 90 per cent of its operating revenues are health and dental.

SulAmerica has capabilities in healthcare analytics and has designed some interesting loss prevention tools, in line with personalised health programmes and population health management — expertise to which GEB's captive clients may now of course have access.

Take its shift into the area of telemedicine, for example – a new development that was made possible during the COVID-19 pandemic.

Leonardo Francisco, head of health and dental at SulAmerica, says: "Telemedicine is the word of the moment and represents one of the biggest legacies from the COVID-19 pandemic for the Brazilian market. Local regulations prohibited our ability to offer telemedicine in the past, but during the height of the pandemic the regulator recognised it as an official medical service."

He adds: "We can now offer it to all clients and it really helps as part of our cost management strategies, and especially for efficiency in patient health care."

SulAmerica's digital health app currently has over two million users and is designed with beneficiaries in mind. It represented the first of its kind to use machine learning for app-based reimbursements. It was also the first to offer access control through face recognition. In addition to providing users with direct access to information on their health plan, it offers in-app video calls with doctors and psychologists.

Francisco goes on to say: "The direct access to doctors meant that 90 per cent of patients did not need to go to the emergency room at the local hospital — the usual route for access to primary healthcare, only when really necessary, in Brazil.

" 97 per cent of cases were solved within our primary care network. We also saw an 80 per cent improvement in depression and anxiety, and 47 per cent less back care-related surgeries.

"In short – and in line with the rest of our cost management strategies – it is helping to reduce costs, while delivering best outcomes to patients."

SulAmerica has an admirable track-record in cost management, with a loss ratio that is almost 10 percentage points lower than its main peers in the local market.

This is achieved via more than 30 initiatives, from telemedicine – as just described – and the direct purchasing of drugs and special materials, to second opinion protocols, prior validation of medical procedures, and fraud prevention.

The insurer also works closely with clients, intermediaries, and brokers where there is high utilisation to support them to reduce costs.

The client's perspective

Andrea Reggio, international insurance manager of Saipem Captive, outlines: "We placed our Brazilian group medical programme with SulAmerica and GEB in December 2020, when the pandemic was still at its height.

"Our major concern at the time was an expected, but not quantifiable, rebounding of claims once lockdowns ended.

"SulAmerica, thanks to an efficient system of claiming process and cost containment, allowed us to keep the situation under control, in spite of the complicated scenario" comments Reggio.

"Focusing on our employees' satisfaction, data tools and apps for reimbursement via a mobile device, provided by SulAmerica represented aspects that were very much appreciated by our workforce.

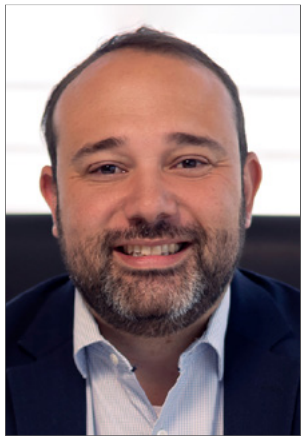
He concludes: "SulAmerica is the only insurance company in Brazil able to retrocede the risk to Saipem Captive 'Sigurd Ruck' through GEB Network, reinforcing relationships of mutual trust. Achieving this result has always been considered a great success." ■

Massimo Martinoli
Regional manager, Latin America and Caribbean
Generali Employee Benefits

Stefano Convertino
Director
Generali Brazil

Andrea Reggio
International insurance manager
Saipem Captive

Leonardo Francisco
Head of health and dental
SulAmerica



In the long run

With the legacy market flourishing amid hardening market conditions, demand for capital and efficiency, and changing perceptions, industry professionals evaluate how insurers, reinsurers, and captives can benefit from the run-off process

Rebecca Delaney reports

The volatile and unpredictable insurance market conditions derived from the impacts of the COVID-19 pandemic, as well as emerging cyber, political, and environmental risks, has seen an increase in activity surrounding captives entering legacy transactions.

Increasingly recognised as a strategic portfolio management tool, exit solutions help to free up capital and capacity to allow captives to take on more risks for the parent company.

A segment report by A.M. Best notes that both demand and supply-side factors are driving high levels of activity in the non-life legacy insurance market, including the hardening market conditions, demand for greater capital and operational efficiencies, and an influx of capital deployed into run-off consolidators.

Carolyn Fahey, executive director of the Association of Insurance and Reinsurance Run-Off Companies (AIRROC), summarises: "The legacy landscape is growing and thriving. Legacy business represents a significant pillar of the global property and casualty industry, as finality solutions allow insurance entities to redeploy risk-bearing capital toward new underwriting initiatives and growth segments."

This growth is also recognised by Paul Corver, group head of legacy M&A at Randall & Quilter Investment Holdings (R&Q). He observes: "In the last two or three years we have seen an uptick in the number of companies, whether insurers, reinsurers, or captives, looking to transact with the legacy market. It is now perceived much more as a valuable tool in management of both capital and discontinued lines."

The US is the largest single market for run-off reserves, with A.M. Best estimating in the segment report that it accounts for 45 per cent of the global projection. The US has such an active market for legacy insurance transactions owing to the size and unique stock of long-tail reserves built up over time as a result of the often labourious legal system.

This long-tail associated with casualty classes means that insurance liabilities associated with workers' compensation, professional liability, and environmental liability lines comprise the majority of run-off reserves on balance sheets, and are therefore more likely to be subject to run-off transactions.

As transaction volumes remain high, and as reinsurers increasingly utilise the legacy insurance segment as part of risk management strategy, it certainly appears that run-off is no longer perceived as an option of last resort, or an indication of failed operations.

This was traditionally the case, with Fahey describing previous perceptions as inappropriate. She continues: "The strategic reasons for the business may have changed at the originating carrier or entity and this market has served to create a more vibrant and responsive insurance marketplace, by allowing insurance liabilities to shift to a new platform and capital base."

"There is now less of a stigma of legacy solutions as an indication of some sort of failure, distress, or problematic portfolio," Corver affirms. "A corner has turned with regard to the treatment of the legacy market, and certainly those that are assuming liabilities."

Fahey adds that the hard market provides carriers and reinsurers with valuable opportunities to deploy risk-bearing capacity to its most optimal returns, through new underwriting initiatives and larger capacity allocations to clients. "As such, the hard market is driving increasing utilisation of finality solutions to facilitate capital redeployment," she says.

This need to optimise capital is affirmed by Tom Hodson, president of Genesis Legacy Solutions, who adds that as stock markets continue to suffer low performance, insurers, captives, risk retention groups (RRGs), and self-insurers are not receiving the return on invested assets they anticipated or budgeted.

In this scenario, Hodson says: "The legacy market allows companies to focus on today and tomorrow, rather than yesterday and the day before."

> ***"The legacy landscape is growing and thriving. Legacy business represents a significant pillar of the global property and casualty industry"***
>
> **Carolyn Fahey, AIRROC**

A.M. Best argues in the report that wider implementation of risk-based regulatory solvency regimes has also aided greater visibility of the importance of capital utilisation, allocation, and efficiency. The capital released following a legacy transaction can be promptly reallocated to business segments that are both more lucrative and more supportive of the company's current business strategy.

Corver adds: "Disposing of run-off frees up management time, especially in the Solvency II environment where companies must be very granular with the assessment of the liabilities they are carrying. Sellers see little attraction in analysing a discontinued portfolio or class of business on a regular basis, and providing commentary and risk assessment, when there is no ongoing interest."

Motivation to improve operational efficiency is a significant driver of demand for legacy transactions, as management of legacy liabilities, IT systems, and infrastructure is burdensome, time-consuming, and expensive for an insurer.

"Run-off allows captives, and traditional insurance companies, to achieve a clean slate," says Ben Illingworth, legacy M&A at R&Q. "With the variety of innovative structures now available, insurance entities can start afresh depending on the strategy they are seeking to implement, without being impacted by prior years' mismanagement or misfortune."

Captives and run-off

Fahey notes that the estimated size of the global captive marketplace is around 7,000 captive entities, of which 20 per cent are estimated to be dormant — in that they are not utilised for current risk transfer needs. She adds that others may require a finality solution owing to parent company activity, such as business combinations or a shift in risk philosophy.

"There is an active market developing to provide a variety of solutions to these captives to either "laser" certain exposures away to a new counterparty entity, or to wind up the captive in its entirety," Fahey explains.

Considering a legacy transaction is part of the process as captive owners continuously assess the captive's operational needs, as well as examining best practices in the context of changing market conditions. A parent company may place portions of their captive structures into run-off following the introduction of new regulation and compliance requirements in a particular jurisdiction that diminish the advantages of captive ownership.

Corver explains: "A lot of the transactions we do are with captives that are very much inactive — it is more a case of putting portfolios into run-off. Regulatory changes may bring increased scrutiny in overseas jurisdictions with the potential perception as an offshore profit-making enterprise."

Conversely, the decision to put a captive portfolio into run-off may be following changes to lines of business. This is more likely to occur during a hard market, as underwriters will review their classes of business to maximise opportunities from the most profitable lines.

Illingworth observes that the hard market has prompted R&Q to be associated with captive sales, as corporates realise they either have too many alternative risk vehicles or no longer wish to use one. He notes that R&Q expects to see more retrospective reinsurance solutions in the captive space as a manner for corporates to broaden what they are able to write into their captive. Therefore, legacy solutions strengthen the capacity and capital efficiency of the captive industry as a whole, as run-off allows captives to relieve themselves of business that has failed to keep up with the original purpose for which the captive was formed by the parent company, or else to realign with a new strategy. This new strategy may arise from M&A activity in the corporate world. Corver notes that if two companies come together in a merger or takeover, they may have surplus captives to dispose of. Alternatively, if a company is acquired for its products and services rather than insurance operations, it is likely the captive will be sold.

He explains: "Following M&A activity there could be a disposal of an operating unit by a corporation, but the buyer does not take the liabilities associated with the captive. In that situation, the seller will want protection against deterioration on a portfolio they have no interest in because it sold the business operation.

"Conversely, where a company has acquired business operations and a captive, they may want protection against deterioration in the claims that arise from events that happened prior to the acquisition," Corver adds.

"Very basically, the underlying reasons for putting captives into run-off are either 'need' or 'opportunity'," Hodson summarises. "Parents 'need' to put their captive in run-off for a variety of reasons, including poor underwriting results, a merger creating a redundant captive, or the captive no longer being core to the parent's overall strategy. In terms of 'opportunity', the reasons companies choose to put their captives into run-off often comes down to releasing trapped capital and a shift in their focus to other more strategic goals."

Fahey adds that captive managers are a key element in actively managing run-off, as they provide intrinsic knowledge about the captive and its operations, while legacy providers understand how to manage the claims and resulting payments.

"A portfolio strategy will be defined to include a projected roadmap to finality, key performance indicators, and a strong process to manage the captive," she adds. "The most successful run-offs reflect the diversity of the portfolio and active participation from all elements — a strong team leadership."

Challenges

This strong leadership is especially important in the face of hurdles in the legacy segment. All of the industry professionals that provided insight in this article cite education as a significant challenge.

Although there have been some improvements, as previously outlined, in the perception of finality solutions as a component of an organisation's risk management strategy, this has not yet fully translated into comprehensive understanding and support on

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the part of senior management. Executives may have competing priorities, or may not appreciate the benefits of removing long-tail exposures.

Corver explains: “A significant hurdle we often find is that risk managers, or whoever proposed the idea of doing a transaction, do not have full support and sponsorship from the decision-makers of the parent. The transaction may not be concluded, perhaps because the parent does not fully appraise the underlying ambition, or there is a change in the market, or they have a different approach over funding in the captive.”

He adds that hardening rates have also prompted some risk managers to change their decision on whether to dispose of a captive, or to use it to vitalise their own self-insurance programme. “It can be a challenge to get the conviction from both sides of a transaction to want to get it over the line and the work it entails. Does the buyer have a strong track record in transacting in that jurisdiction? Do they have experience with the nature of the liabilities that they are taking on?” he muses.

Illingworth affirms the importance of education to ensure that those involved in the run-off process are aware of the tools available. “The people involved in these processes, whether a broker, captive manager or other corporate representation, must be aligned in order to get the deal crystallised,” he says.

“Since these are not transactions that corporates do regularly, there is always an element of education, and getting people comfortable with the process can take time.”

Fahey adds it can also take time to select the most appropriate run-off partner. While this may present a challenge in adhering to timeframes within the run-off process, it is undeniably a valuable decision.

“The legacy space has experts in all sizes and types of transactions — no transaction is too small to bring to market,” she states. “Legacy experts recognise that these transactions can often be a new concept to consider, and they are very happy to engage with clients to explain and outline the relative merits and the related mechanics of the transaction involved.”

Another potential stumbling block relating to timing is companies that defer seeking a legacy solution, outlines Hodson: “Companies that are in trouble often either ignore the problem, think they can underwrite their way out of trouble, or just wait too long before seeking help from the legacy market.”

Moving forward

Turning to the future of the legacy market, Corver anticipates the continued spread of opportunities throughout the entire insurance community, encompassing insurers, reinsurers, and captives. “As more household names come to the market, it is natural that others will take note,” he comments.

“There is an inevitability that run-off will become even more embedded as part of the insurance cycle. It will become more of a natural process to look to pass a class of business on to the specialists in the run-off market to free up that burden and give extra firepower to the prioritised business. This is all indicative of a growing and evolving market.”

Illingworth affirms: “Legacy and run-off were predominantly deemed to be old policies that had been discontinued for a number of years, and were perhaps reluctantly being managed to maturity. Now, activity is driven by the hardening market and sellers wanting to be efficient.

“While this continues, the legacy market will continue to adapt to the greener and sometimes open years of underwriting that come with the newer opportunities.”

Genesis’ Hodson anticipates a continued growth in broker-led legacy transactions, first helping clients with the initial placement of insurance, and then providing additional value by supporting how they deal with the resulting legacy exposures.

He adds that the evolution of the legacy market will likely see the involvement of middle- and smaller-market brokers as they realise how they can benefit from loss portfolio transfer-type solutions, with Fahey highlighting small mutual carriers in the US as a particularly promising demographic for expanded participation in finality solutions.

Fahey comments: “Current players in the legacy business are creative and strategic in determining which methods will best benefit their business strategy, making the legacy sector a very entrepreneurial and sophisticated facet of the big-picture financial services industry. The players in the legacy sector include insurers, reinsurers, brokers, acquirers, and state insurance departments, and are a very diverse set of companies. More capital is coming into the sector as legacy becomes an even more important part of the full insurance cycle.

“It is truly a bright time for legacy,” she concludes. ■

Cayman Finance welcomes Steve McIntosh

Cayman Finance has appointed Steve McIntosh as CEO. McIntosh has extensive experience in financial services and human resources, beginning his career with KPMG in the UK before moving to the Cayman Islands in 2001.

He has served on the Project Future Business Case Review Panel, the Chamber of Commerce Council, and Gender Equality Cayman, amongst other initiatives.

A leading advocate of talent development in the Cayman region, McIntosh founded CareerPoint in 2020 to offer virtual coaching to early- and mid-career professionals. Prior to this, he founded the CML group, providing financial services recruitment and employment advancement opportunities.

Conor O'Dea, chair of the Cayman Finance board of directors, comments: "Cayman Finance has made tremendous progress to become a highly effective advocate for our financial services industry at home and around the world thanks to strong leadership, consistent investment from members, and ongoing support from the Cayman Islands Government.

"The board chose Steve as CEO to expand on that progress, supporting membership as a key stakeholder, because of his significant industry experience and exceptional record of leading businesses and developing talent to provide value and achieve success."

Considering Cayman Finance's role in the region, André Ebanks, minister of financial services and commerce, says: "It is vital that Cayman Finance be led and managed day-to-day by a dynamic, qualified, and collaborative chief executive. I am delighted the Cayman Finance board completed a comprehensive and competitive selection process and have now appointed Steve McIntosh." ■

United Educators Insurance (UE) has announced that Janice Abraham, president and CEO, will retire in summer 2023. The company has said it will soon begin the search for her successor.

UE is a reciprocal risk retention group, providing liability insurance and risk management services to K-12 schools, colleges, and universities. With approximately 1600 members, the company is owned and governed by the institutions it works with. Abraham has served UE for 35 years, the first 10 as an administrator at Cornell University and Whitman College, before going on to become CEO and president.

During her tenure she has expanded the organisation from 900 to 1600 member institutions, and grown gross written premium from US$40 million to a projected $376 million. The company has received AM Best's A Rating for financial strength for 24 consecutive years. Developing new liability and risk-management products, Abraham also created the Cool Head, Warm Heart approach to claims resolution, which helps members facing crises.

Morgan Olsen, board of subscribers chair at UE, comments: "On behalf of the board, I would like to express our gratitude to Janice for the marvelous job she has done leading UE over the last quarter-century to its current position as the leading risk management and transfer company serving American education.

"Janice has demonstrated her superb leadership skills by providing a rock-solid foundation for the future of our member-owned captive. Her work has ensured that UE today is in the strongest possible position, developing a cohesive, creative, and skilled senior leadership team, and keeping a laser focus on our service to education."

Atain Insurance Companies appoints Chris Zoidis

Atain Insurance Companies, part of parent company H.W. Kaufman Group (Kaufman), has appointed Chris Zoidis as president and CEO.

Since joining Kaufman in 2007, Zoidis has accelerated the network's global growth and M&A strategy as executive vice president.

In his new role, Zoidis will use his expertise and leadership to continue expanding Atain's market reach and influence, the company says.

As part of reshaping and strengthening Atain's leadership, the company has also announced the promotion of Jessalynn Suda to vice president.

In her new role, she will continue leading Atain's underwriting team, while focusing on building its exclusive product offerings.

Suda was previously associate vice president at Kaufman, a role she began in 2008. ■

Insurtech company Lumera has appointed Johan Rudén to the newly created role of chief operating officer.

Rudén joins Lumera with more than 30 years of management experience, having focused on developing businesses and customer experiences in various industries including insurance, financial technology, securities trading, and clearing.

As the former chief information officer at Swedish insurer Folksam during a four-year period, Rudén had a key role in the upgrade and modernisation of the Folksam Group's enterprise systems environment.

He has also held senior roles at Nasdaq, including global operations lead for segments of the securities markets.

Prior to this, he worked at telecommunications company Ericsson in roles that included project management and software development for international clients.

Commenting on Rudén's appointment, Mats Lillienberg, CEO of Lumera, says: "We are pleased to welcome Johan to Lumera. His leadership and drive to succeed makes him a significant addition to our management team.

"I am positive that Johan's strategic vision and experience will prove valuable for energising Lumera's organisation as well as for developing our offering."

Rudén adds: "I am a strong advocate for agile methodology, which helps speed up development initiatives while highlighting the role and importance of the individual. I see a bright future for Lumera and I am excited about getting to work with so many great people." ■

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