captive insurance times

The primary source of global captive insurance news and analysis

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A Sustainable Initiative

Atlas Insurance's Ian-Edward Stafrace on leveraging protected cells for ESG initiatives

Cyber in a Captive Portfolio

Barney Dixon talks to Zurich

NCCIA's Annual Conference

Frances Jones covers the highlights

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WR Berkley Corporation sells its property and casualty services

WR Berkley Corporation has sold its property and casualty services division of Breckenridge IS. The company estimates it will receive a pre-tax net realised gain on investment of US$800 million on the sale in the second quarter of 2023.

Founded in 1967, WR Berkley Corporation is a Connecticut-based insurance holding company operating worldwide in two segments of the property casualty insurance business, reinsurance and monoline excess.

This follows the appointment of John Termini as president of Berkley Specialty Excess during the last month. ■

Aon and Praedicat renew partnership for liability risks

Aon has expanded its partnership with Praedicat, a liability emerging risk analytics and modelling company.

As part of the renewal, Aon will be provided with new tools to advise clients on the transfer and mitigation of complex and evolving liability risks, including those associated with climate, microplastics and nanotechnology.

In 2020, Aon and Praedicat partnered to develop reinsurance products for specific perils.

This latest expansion will allow Aon to deliver emerging casualty risk portfolio analytics directly to clients and collaborate on the design of new reinsurance products to transfer such risks to reinsurance, run-off and capital markets.

Once new risks are identified, quantitative models will translate the data into estimates of the risk of loss. These models will be used to identify historical and future reinsurance coverage gaps.

Aon says: “While property catastrophe exposures are at the forefront of many reinsurers’ strategic approach, two of the three largest loss events in the history of the property casualty sector were due to casualty emerging risks – related to asbestos and the environment.”

Amanda Lyons, US casualty strategic growth leader for Aon’s Reinsurance Solutions, comments: “We are excited to expand our collaboration with Praedicat.”

She adds: “Emerging risks are always a key concern for our casualty clients and with Praedicat’s tools and insights integrated into Aon’s suite of reinsurance solutions,

we can provide our clients with the resources they need to navigate volatility and build resilience in today's complex liability environment."

Verisk acquires software supplier Morning Data

Data analytics and technology provider Verisk has acquired Morning Data, a global supplier of software to brokers and managing general agents (MGAs).

The acquisition will enable Verisk to expand its solution distribution into growing markets, targeting small- to medium-enterprise brokers, coverholders, MGAs, captives and reinsurers.

As part of the mandate, Morning Data will become part of Verisk's Specialty Business Solutions, its suite of end-to-end management solutions.

Morning Data provides end-to-end processing with full audit trails. London market practitioners can use its data software to process a variety of styles of business and capture risk-level data.

Commenting on the mandate, Tim Rayner, president of Verisk's Specialty Business Solutions, says: "As a core system and integral part of clients' daily workflow, Morning Data is trusted by insurers, brokers and MGA customers to manage their risk placement processes."

He adds: "Together we'll be able to help more coverholders, brokers and carriers reap the benefits of enhanced automation and streamlined workflows."

Arthur J Gallagher & Co acquires subsidiaries of Bernard Health

Arthur J Gallagher & Co has acquired Tennessee-based Bernard Benefits and Bernard Healthcare Financial Planning, subsidiaries of Bernard Health.

Bernard Benefits is a health and employee benefits broker with a focus on small group businesses in Tennessee, Indiana and Texas.

Bernard Healthcare Financial Planning advises individuals and families on health insurance coverage.

Brian Tolbert, benefits practice leader of Bernard Health, and Matt Kleymeyer, market leader, will remain in their current location in Nashville.

The Bernard team will work under the direction of Robby White, head of Gallagher's South Central region employee benefits consulting and brokerage operations.

J. Patrick Gallagher, president and CEO of Arthur J Gallagher & Co, comments: "Bernard complements our existing employee benefits offerings and is an excellent cultural fit."

Cowbell and Skyward Specialty partner to expand cyber coverage

Cyber insurance provider Cowbell has partnered with property and casualty insurer Skyward Speciality in an effort to expand its new insurtech programme.

Cowbell's programme, Prime 250 Cyber Liability and Prime Tech, safeguards businesses against cyber and technology errors and omissions risks.

To be eligible, businesses must generate revenue of up to US$500 million.

To strengthen its capacity to deliver its coverage, Cowbell will have access to Skyward Specialty's industry partners.

Commenting on the partnership, Jack Kudale, founder and CEO of Cowbell, says: "We continuously monitored 95 per cent of US small- to medium-sized cyber risks for the last four years and have found that there's a massive gap in cyber protection that is overlooked for this underserved market. The insurability gap for these businesses is championed through this exciting new partnership with Skyward Specialty."

NRRA accelerates campaign against RRG discrimination in Florida

Following the failure of the Florida Senate Bill 516 to pass into law, the National Risk Retention Association (NRRA) is accelerating its campaign to challenge what it describes as "illegal discrimination against risk retention groups (RRGs) in Florida."

The Florida Senate Bill 516, which looked to change the definition of "motor vehicle liability policy", and redefine the term "RRG", failed to pass into law on 5 May.

It was heavily criticised by the NRRA, who vowed to launch a pushback against it.

The association's executive director Joe Deems has since said: "No time is being wasted to see what previously ill-conceived legislative phoenix might rise from the ashes here."

Deems announced the association's next steps following the news that other entities within the state appear to be relying on the Florida Office of Insurance Regulation's (FOIR's) "Pop-up" Notice — essentially to prevent RRG members from trying to do business in the state.

The FOIR's Pop-up Notice states that RRGs are "not authorised" to write liability insurance in the State of Florida.

Deems says this is "legally incorrect and unnecessarily negative and prejudicial".

He adds: "Although federal law allows them to operate, RRGs are not chartered in Florida, meaning the state guarantee fund is not available to them in the state of insolvency. This is giving a false impression that RRGs are financially unreliable and steering businesses and governmental entities away from RRGs and towards traditional carriers."

Additionally, he says: "the FOIR does not appear to be enforcing its own pop-up directly, but is encouraging other state agencies and municipalities to do so, causing them to be the ones to violate federal law, and be subject to potential legal liability."

The NRRA says its next campaign target is the Florida Department of Transportation (FDOT) as it claims prior orders and directives undertaken by the FDOT were part of the motivation behind the Florida Bill 516.

On 24 May, the NRRA issued a letter to the FDOT, explaining how the department is in "direct violation" of the Liability Risk Retention Act "as a front for the FOIR".

Deems has urged all RRG groups to join the NRRA's fundraising campaign.

Bermuda Captive Conference returns

The Bermuda Captive Conference is set to take place in-person from 12 to 13 September. 2023 marks the conference's 19th year and it will be the first time the event has been held in-person since the COVID-19 pandemic.

The newly-launched Bermuda Captive Network is expected to bring expanded membership to the conference.

The theme of the event is adaptability, which Bermuda says highlights the strength and stability of its captive industry.

The hybrid conference will feature educational sessions, keynote speakers, interactive discussions and opportunities to reconnect and network. ■

Ian-Edward Stafrace
Chief strategy officer
Atlas Insurance PCC

Leveraging protected cells for ESG:

a forward-thinking approach

Ian-Edward Stafrace of Atlas Insurance PCC shares his insights on leveraging protected cells for advancing ESG goals and driving sustainable change

In a world in which ESG considerations increasingly dictate business strategy, risk and insurance managers are uniquely positioned to lead the charge. As ESG, sustainability and climate change adaptation ascend corporate agendas, insurance-protected cells can provide potent tools to drive positive ESG outcomes.

The strategic intersection of protected cells and ESG

With their flexibility and efficiency, protected cells can significantly bolster their parent organisations' ESG strategy. They align with the long-term strategic view of leading organisations, working proactively to meet the escalating pressures and expectations from investors, governments, regulators and consumers. In this context, risk managers should integrate ESG considerations into their risk financing strategy, aligning with and positively influencing the wider group's ESG priorities.

The UN Environment PSI

The UN Program's Principles for Sustainable Insurance (PSI) provide a global framework for addressing ESG risks and opportunities. Cell owners can reap several benefits by adopting the PSI for risk management, innovation and solution development, policy influence and transparency, and accountability. The PSI encourages organisations to consider ESG issues in their decision-making process, which can lead to more comprehensive risk management.

By identifying and addressing ESG risks, cell owners can protect their assets and ensure long-term sustainability.

The PSI promotes collaboration to develop solutions for ESG issues, which can lead to innovative covers and services that meet the cell owner's and society's evolving needs.

It encourages engagement with governments, regulators, and other stakeholders to promote action on ESG issues, which can give cell owners a voice in shaping policies that impact their business and wider society.

In addition, the PSI requires regular public disclosure of progress in implementing its principles. This transparency can enhance a cell owner's reputation, build stakeholder trust and demonstrate commitment to sustainable practices.

This adoption can provide cell owners with a strategic approach to managing ESG risks and opportunities while demonstrating their contribution to the broader societal goal of sustainable development.

Commitment to sustainability

Atlas Insurance PCC is actively committed to sustainability and community engagement. It has recently partnered with renowned swimmer, ocean activist and world record holder Neil Agius. Agius' 'Wave of Change' initiative is a movement that raises awareness of the impact daily decisions have on our seas and oceans. Through this collaboration, Atlas supports initiatives related to sustainability, lessening pollution and increasing wellbeing. The partnership underscores Atlas's belief in the power of community engagement to drive positive and sustainable change.

Addressing emerging climate change risks

Organisations face emerging climate change issues, including transition and adaptation risks. Companies can use their protected cell as a pre-funding and uncertainty management tool for future risks. They can identify current or future transition risks that will have the most significant impact on the organisation and which assets are likely to be most exposed. They can leverage their data and relationships with actuaries and reinsurers to plan for and address these risks.

Carbon footprint and sustainability reporting

A captive may need to report on ESG due to regulatory requirements. Protected cell companies (PCCs) may have economies of scale to share in this area as they evolve with the changing regulatory reporting landscape. As a PCC is a single legal entity inclusive of the cells it hosts, it has proven itself to be efficient in external reporting. In the EU, for example, a PCC produces a single own risk solvency assessment (ORSA), regular supervisory report (RSR) and solvency and financial condition report (SFCR).

The Partnership for Carbon Accounting Financials (PCAF) has recently created a standard for calculating insurance-associated carbon emissions. Broadly speaking, this entails multiplying the carbon footprint of the insured by the insurance premium charged, divided by the revenue of the insured, which is then added to the insurer's carbon footprint. There is, therefore, an added carbon cost for insurers and reinsurers. Consequently, forward-looking risk managers are keen to help their organisations reduce their carbon footprint as it can help their long-term risk financing ability.

A group may also fall within the European Corporate Sustainability Reporting Directive (CSRD) scope. Leading organisations can benefit from CSRD by improving their transparency, accountability and reputation among their stakeholders. It may help risk managers gain further insights into their ESG risks and opportunities, which could help align the organisation's strategy with the EU's sustainability goals while enhancing its resilience and competitiveness. However, captives could potentially face challenges when complying with CSRD, such as collecting and managing data from multiple sources, ensuring consistency and comparability of disclosures, adapting to changing standards and expectations, and controlling costs and resources. To combat this they can adopt shared resources of PCCs.

Investing with purpose

By investing in sustainable funds that are potentially ESG-rated, a protected cell can align its investment strategy with the group's purpose. This alignment supports the group's ESG strategy and demonstrates a commitment to sustainable investment practices.

More asset managers are now offering high-quality liquid funds with sustainability credentials that can fit the typically lower risk appetite for liquidity and credit risk, helping contain capital requirements. The EU's Sustainable Finance Disclosure Regulation (SFDR) is accelerating progress through the creation and availability of such investments.

The advantage of domiciling in the EU

With an elevated focus on broader sustainability and ESG considerations, the domicile preference onshore versus offshore often depends on stakeholders' expectations, regulators, tax authorities, investors, customers or employees.

Although offshore jurisdictions can offer a low capital and cost base, growing stakeholder pressure has heightened interest in the establishment of risk financing vehicles within the EU.

Ireland, Luxembourg and Malta are among the EU member states that have tailored themselves to proportionally enable captives while still adhering to EU minimum standards and requirements, including Solvency II and the Insurance Distribution Directive.

Malta, in particular, stands out as the only EU member with protected cell legislation, offering unique advantages for organisations seeking to establish protected cells.

The efficiency and substance of protected cells

Protected cells offer a unique blend of cost-effectiveness and efficiency. EU Solvency II recognises cells as ring-fenced funds, meaning there are no minimum capital requirements for individual protected cells having recourse to the core, as these apply at an overall company level.

Stakeholders are raising the bar for substance. Insurers, including captives, are increasingly expected to have adequate on-the-ground staff and employed key function holders. PCCs can help address substance requirements as cells form part of a broader single entity that provides shared board, governance and key functions in Malta.

Maltese PCCs have shared economies of scale and they are placed within the remit of the EU, yet they are without a standalone company's complexities, costs and time restraints. These factors can potentially save capital. Additionally, some PCCs actively write EU business through their active non-cellular core. Atlas's core, for example, is a long-established contributor to its local economy as a traditional non-life domestic insurer. Through occupying multiple branches and offices in Malta, Atlas can provide ample substance to the PCC.

PCCs that actively cover risks in their domicile also address arbitrage objections from stakeholders on insurance companies that only cover risks outside their domicile.

As the world continues to grapple with ESG challenges and opportunities, the role of protected cells in driving positive outcomes is becoming increasingly evident. By leveraging the unique advantages of these structures, organisations can meet their ESG objectives and drive improved risk management.

Ultimately, the journey towards a sustainable future is a shared responsibility. On this journey, protected cells can serve as powerful allies, equipping organisations with the necessary tools and strategies to navigate the complex landscape of ESG risks and opportunities. ■

Resilience is critical

Zurich Commercial Insurance's new group head of captives Emma Sansom and head of UK captives, Esme Gould, talk through their new roles and the forward path for captive insurance

Congratulations on your new role. What are the main focuses?

Emma Sansom: My role is to ensure that Zurich remains relevant on a global basis, recognising that each local market has unique dynamics and needs. I am passionate about driving innovation, educating and promoting the benefits of captives to a new wave of sophisticated risk managers who want to take control of their risk and explore alternative risk transfer options. I'm also passionate about developing people, whether that be in Zurich or in the wider industry.

Esme Gould: We work closely with our customers to provide them with a great experience. We can front their captive insurer, deliver continuous improvement in service and grow a strong captive offering.

What brought you into the captive industry?

Sansom: I joined the captive team very much by chance, and the same is true of my initial entrance into the insurance sector. I took on a secondment role as a captive underwriter, but I quickly realised what an interesting part of the industry it is, and was fortunate enough to be able to make it a permanent position. It remains an incredibly dynamic part of the industry; the topics I discuss on a daily basis are broad and far-reaching. I continue to enjoy engaging with the challenges that present themselves.

Gould: Risk is developing at an ever-increasing pace, so it's a particularly exciting time for the captive insurance industry. Having spent nearly nine years in energy and heavy industry underwriting with Zurich, I was keen to use my experience of portfolio management and providing complex international solutions for our customers. I wanted to help expand that across all lines of business by joining Zurich's UK captive team.

Being relatively new to the captive industry, I'm looking forward to getting to know the market better, working with brokers, customers and the wider captive industry to build confidence for the future.

What are your key goals over the next 12 months?

Gould: To partner with customers to build their resilience, lead with actionable insights, innovate to build differentiating propositions, and strengthen our global leadership position.

> *"At Zurich, we have seen a significant increase in the number of enquiries around cyber, within the captive portfolio"*
>
> **Esme Gould**

Sansom: My background is very much in the London market, so I will spend most of the next 12 months engaging with the local markets, meeting our current and potential customers.

I look forward to networking with existing captive owners and those who are considering, or could consider, a captive structure to optimise their risk financing and management strategies.

Of course, brokers, captive managers and consultants are a key part of the captive value chain, so I'll be spending time getting to know our local partners in this space.

The main objective is to understand the rapidly-evolving challenges our customers are facing, to anticipate their fronting needs, and ensure our propositions and products are designed to provide relevant and meaningful solutions to these needs.

Innovation around digitisation and data insights is a key pillar of Zurich's strategy and in the captive space there is no exception. It is important to help shape our focus in this area, for customers, brokers, and captive managers alike, as well as to be flexible and adaptive when needs change.

Our people are key to our success as is developing talent. Building on their knowledge and capabilities is central to all of our business objectives.

By understanding and anticipating our customer's changing needs, we can introduce innovative solutions and provide tangible benefits for our customers.

I'm especially looking forward to working with our teams to achieve this over the coming months.

What are some of the biggest trends and challenges in the captive insurance industry?

Gould: Cyber is still one of most discussed topics in the market. At Zurich, we have seen a significant increase in the number of enquiries about cyber within the captive portfolio. While this conversation is not a new one, many ongoing discussions are often speculative. However, cyber has changed from being a 'tick-box' purchase to a 'critical coverage'. This means feasibility studies are often being converted into viable captive solutions, designed to address specific challenges.

The increasing amount of data that is being generated around cyber risk exposure means that captive owners and insurance carriers are in a better position to make informed decisions around which covers to take into the captive.

Over time, many risks have taken on the characteristics of more attritional risks (high frequency or low severity events) due to the increasing frequency. This means they are becoming more predictable and the exposures can be easily quantified and modelled. At the same time, volatility potential remains, as the market has also seen several full limit losses.

This risk profile actually seems to suit a standard captive model, whereby the captive retains attritional losses and moderate risk excess is deductible. It insures, or reinsures, the catastrophe risk that sits in the traditional insurance or capital markets.

Also, Zurich is committed to supporting the net-zero transition – and International Financial Reporting Standard 17 to navigate industry changes surrounding sustainability reporting.

Sansom: The captive industry is being driven, in part, by a prolonged hard market which has seen increasing rates and a reduction in capacity across most lines of business. The increasing inflationary environment, both social and economic, has underpinned a rapidly-evolving risk landscape, the emergence of social and governmental requirements, and an ever-pressing need to focus on sustainability.

Captives are being recognised more widely as an attractive option for organisations looking to gain more control over their existing and future risk. As risk managers are becoming more sophisticated in their approach to understanding and managing exposures, there has been a significant growth in the number of entrants into the protected cell market by customers who would not have previously considered a captive.

This is reflected in the changes we are seeing in the regulatory framework across many jurisdictions that are looking to recognise these market developments. Most notably, the regulators in France and Italy are introducing legislation to enable the establishment of onshore captives.

The French treasury has made it known that there is an expectation that captives will be used to support organisations, management of cyber risk. Luxembourg has recently announced it is open to discussing the possibility of cell captives in the domicile, so this is one to watch.

The mere presence of a captive can be considered as a positive part of an organisations' approach to ESG, which at its very core is about understanding and mitigating risk. A captive is a strategic tool providing a holistic and long-term commitment to risk management, with a focus on resilience before insurance. It demonstrates a clear commitment to addressing ESG considerations.

Captives can provide insurance capacity to insure climate-related risks (such as windstorms or wildfires), transitions risk (such as the implementation of more sustainable production techniques that utilise new technologies), or improvement projects such as the installation of solar panels. Captives can also incubate emerging technology risks which can then be transferred into the traditional market as more data is collected around claims and exposures.

Through data collection, a captive can provide valuable insight into risks so that targeted improvement activities can be undertaken, and insurance solutions can be tailored around the residual exposures. In the employee benefit space, data insights are particularly useful for wellbeing, especially as new generations enter the workforce. Not only can companies widen their employee benefit offerings to attract new talent, data insight can help to focus efforts on specific areas such as stress in the workplace.

Climate anxiety has recently emerged as a risk to wellbeing, particularly affecting Gen Z. Climate anxiety may present itself in a number of ways such as burnout, absenteeism, decreased productivity and ultimately, reduced profitability.

Engaging with a workforce and implementing wellness programmes focused on tackling climate anxiety demonstrates a clear commitment to tackling climate change. An organisation can help to reduce the impacts of mental health concerns by ensuring that it is seen as the employer of choice for potential talent.

> *"Captives find themselves in a paradoxical situation where they need to provide sustainable, cost-effective risk financing solutions that are also innovative, flexible and adaptable"*
>
> **Emma Sansom**

How can businesses take more advantage of captive insurance, both in the UK and globally?

Gould: While companies running captives are often large multinationals, in recent years smaller and medium-sized businesses have also been able to benefit from innovative captive-type arrangements through protected cell companies (PCC) structures.

A captive could potentially provide them with a stable long-term solution in instances where we see customers taking increased self-insured retention — particularly in high hazard business classes.

Sansom: The one constant is change. Captives find themselves in a paradoxical situation where they need to provide sustainable, cost-effective risk financing solutions that are also innovative, flexible and adaptable to the changing needs of its organisation.

Risk management is a fundamental part of this and is a dynamic process that should be embedded into the DNA of an organisation. A captive is an extension of this process and can be a strong enabler for the business.

Understanding upcoming changes in the external environment through proactive engagement with a business is beneficial; insurance needs can be anticipated, and risks that can't be eliminated or managed can be transferred to the captive via tailor-made solutions. This can be developed in collaboration with fronting carriers and reinsurance markets.

Engagement with your fronting insurers is also an important aspect of this process. Early engagement can help with the design of products and projects. Underwriters will be looking to understand future changes in regulations, especially around obligations in the transition to net-zero and reporting requirements around the emissions produced by organisations.

Changes to liability are another consideration. The EU's recently published draft of the "AI Liability Directive" introduces new rules aimed to reflect the nature of product risk in a digital age. At Zurich, we understand how these changes may impact liability claims and captive retention. From there, we can proactively consider how structures may need to adapt in response to these changes.

How have recent global trends (COVID-19, the Ukraine war, and subsequent inflation) affected the captive insurance industry, and how is Zurich dealing with these changes?

Sansom: All these factors have led to a significant increase in demand for the establishment of captives. But behind every establishment there are at least twice as many feasibility studies that are undertaken.

Ultimately, a captive is not going to be for everyone. However, at Zurich we pride ourselves on the depth and breadth of our industry knowledge, and we are committed to supporting our customers on their journey to establishing a captive.

Education and collaboration is something we are keen to engage in — whether this be with organisations who want to consider establishing a captive, our distribution partners who want to engage their clients around this topic, or risk management associations looking to educate their membership.

More tangibly, some of the risks that we've discussed in this article are difficult to measure, but they have the potential to significantly impact and impair a business and its operations. That's why we're working closely with our Zurich Resilience Solutions, a newly established unit dedicated to providing actionable insights and specialist tools. The unit helps customers make informed decisions and understand their risks. It includes our Zurich Risk Advisor self-assessment tool, and My Zurich, a one-stop shop with access to real-time data for risk management.

Our Zurich Climate Change Resilience Services supports organisations to identify, assess, quantify, mitigate and adapt to current and future risks associated with a changing climate.

They provide support for the development and implementation of a sustainable business model strategy, as well as reporting for various frameworks, including Task Force on Climate-related Financial Disclosures. We also help customers build resilience with risk methods through our Zurich Cyber Security Services.

Resilience is critical if customers are looking to take on more risk in a sustainable and considered way. ■

Emma Sansom
Group head of captives
Zurich Commercial Insurance

Esme Gould
Head of captives UK
Zurich Commercial Insurance


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Fewer options, more fees:
commercial insurance in 2023

Increased claims and expenses for commercial insurers have led to rising premiums, a reduction in coverages from umbrella policies, and greater challenges when obtaining and retaining cyber insurance. Shoshanna Simmons of CIC Services explains the increased complexities in the excess and surplus insurance markets

Driven by increased claims and shrinking profit margins, commercial insurers are paring down their coverage offerings. For businesses, the areas feeling the most impact are those within the excess and surplus insurance markets, cyber security policies and umbrella coverages.

Of course, inflation in 2022 was a contributing factor. However, the increase in premiums was inevitable. Cumulatively, rates have increased by around 50 per cent since 2018 (Lang, 2018). Thankfully, as inflation has calmed so have rate increases. However, the changes in premiums, as well as added limitations in coverages, make it essential to note some key points.

The rising threat of cyber security and the lack of appropriate coverage

In a report for Statista, data journalist Anna Fleck reviewed the cyber security outlook, noting that the global financial impact from cybercrime is expected to jump from US $8.44 trillion in 2022 to $23.84 trillion by 2027. With such a huge jump, and new horror stories of cybercrime being reported every day, it would make sense for commercial insurers to provide extensive coverages and policies. So why are they pulling back?

Carriers have a lessened appetite for the risk. They compensate by increasing their premiums to make up for the lack of incentive to provide the coverage.

This also runs directly into the fact that insurers are aware of the threat that cyber risks pose to businesses of all sizes. This creates a perfect storm where carriers are limiting the coverage they'll provide based on the possible risk of cybercrime against that industry. For instance, if the potential policyholder is in an industry that frequently grapples with hackers and cybercrime, the commercial carrier is far less likely to provide the cyber coverage necessary as the policyholder would likely receive a payout of their policy.

It's therefore no surprise that, according to the Council of Insurance Agents & Brokers, the premium prices increased by a staggering 27.5 per cent in Q1 of last year. This is compared to the previous quarter which saw its own increase of 34.3 per cent in Q4 of 2021.

While insurers keep a discerning eye on where they provide coverages, and to whom they cover, this doesn't negate the fact that the frequency and severity of cybercrime has increased across the board for all businesses.

This fact contributes to commercial insurers' hesitancy to provide coverage when compared to previous years. While the federal Terrorism Risk Insurance Program (TRIP) can cover losses from cybersecurity breaches, the U.S. Government Accountability Office (GAO) found that cyber attacks on businesses usually do not meet the criteria necessary to be covered by TRIP.

Relating back to the reduction in cyber security insurance provided, GAO also reported that U.S. Congress will need to discuss whether increased federal insurance and protections are warranted, given the continued growth in cybercrime. Meanwhile, businesses are stuck between a rock and a hard place when trying to acquire and maintain adequate cyber coverage from traditional insurers.

Umbrella coverages are getting more difficult to obtain

Umbrella coverages offer peace of mind regarding risk to you or your business. In essence, umbrella insurance exists to cover your business where other policies are unable to. For instance, in a lawsuit, your business is covered by liability insurance, to a limit. Once that limit is reached in the policy, any further costs must be paid. That's where umbrella coverage comes in and pays out the remaining total, keeping your money (or your firm's money) and assets safe. Coverage from an umbrella policy usually starts at $1 million.

Alarmingly, these policies are experiencing reductions in risks covered, as well as increases in prices to policyholders, as claimants have increasingly had claims above $1 million dollars and insurers have lost money.

To compensate, commercial insurers are tightening their umbrella policies or, at the very least, are charging more. Contributing factors to these increases are motor vehicle accidents, attorney involvement, increased cybercrime or cyber damages and market volatility.

The hard insurance market is now softening

During the COVID-19 pandemic, and in the immediate period following it, commercial insurers were more reluctant to issue policies as they were losing money from increased claims. States such as California, New York, New Jersey and Georgia have approved commercial insurers' requests to raise rates. Now, carriers feel more comfortable providing policies to more people, as well as to non-standard customers and consumer segments.

Given that change, it's essential that those seeking additional coverage from carriers or wanting to add policies to their captive insurance subsidiaries look to the excess and surplus

> *"Regardless of what you add to your captive's current coverages, the customisable nature of your captive is a powerful tool"*

(E&S) markets for the policies their businesses need. Though, for captives, depending on locations and insurance guidelines, some insurers and policy regulatory bodies may need A-brand coverage for policies in cyber. If this applies to your captive, you can apply for an excess line into your coverage, and acquire the necessary policy that way. Although, the E&S market has experienced a drop in commercial insurers.

Complexity in the excess and surplus marketplace

Given the complexities of the past few years, the number of organisations entering the E&S marketplace for policies has increased, subsequently leading to price increases.

AXA XL's president of global excess casualty, Donnacha Smyth, wrote that pre-COVID-19 loss ratios for commercial providers, and those in the excess space, has been declining since 2012 as the frequency and severity of claims has increased.

Following the pandemic, this has been exacerbated and median award amounts from payouts and legal verdicts are much higher than they were — increasing by tens of percentage points between 2018 and present day. Opportunities to find coverage for captives certainly still exist in the E&S marketplace or in Lloyd's specialty coverages. However, today's marketplace necessitates that policyholders and potential policyholders put forward more capital to gain coverage.

Common coverages in the captive insurance segment

With all the shifting that's occurred across the insurance marketplace, businesses previously on the fence about adding a captive to their portfolio have ample reason to finally make the move. When building out coverages and policies within a captive, there are some major components frequently included.

These items are coverages for general liabilities, cyber, management and professional lines, purchase order, directors and officers, professional liability, commercial crime, exclusive provider organisation coverages and medical stop-loss coverage. Regardless of what you add to your captive's current coverages, the customisable nature of your captive is a powerful tool.

Looking ahead

Commercial insurers have made major changes to the risks they're willing to cover, as well as the policies they provide access to. Looking at the unique blend of a softening insurance market, rising premiums and less optimised coverage from umbrella and cyber policies, it has become essential for business owners to look out for themselves and secure the right coverages for protection.

Customising a captive insurance portfolio allows for the perfect blend of coverages tailored to your business. It can mean the difference between having the protections you need versus waiting an average of 12 to 18 months for a traditional provider to create a new policy. ■

Shoshanna Simmons is responsible for evaluating the unique risks of each business insured by CIC Services and its captive clients, as well as recommending coverages to address those risks. She has more than 10 years of risk management and insurance experience.

Prior to joining CIC Services, Simmons served as the risk manager for The Integral Group in Atlanta, Georgia where she created and managed the company's corporate insurance programme through individualised risk mitigation strategies within enterprise risk management, underwriting, claims management, property management, safety, compliance and regulatory reporting standards.

She holds her property and casualty insurance licence, participates in multiple professional insurance organisations, and is a member of The Risk Management Society. ■

A conference of collaboration

The NCCIA's annual conference held in Asheville, North Carolina, on 7 to 10 May, showcased more than 40 speakers representing the best of the global captive insurance industry. Frances Jones reports on the highlights

The North Carolina Captive Insurance Association (NCCIA)'s 2023 Annual Conference saw captive industry experts, associates and newcomers descend on the Renaissance Asheville Downtown in the heart of the Great Smoky Mountains.

The event was titled "Elevate: Reaching New Heights" to represent the conference's new location in Asheville, North Carolina.

During the opening panel, which was introduced by Claire Richardson, captive consultant at Hylant, panellists gave "An Introduction to the Fundamentals of Captive Insurance." They reviewed the roles of seven vital providers and their impact on the five main stages of a captive's lifecycle. No stones were left unturned in the discussion, with an in-depth evaluation of a company's feasibility assessment for a captive programme — a process that takes roughly five years to complete when including a claims history evaluation and tax considerations.

Bailey Roese, a partner from Dentons, compared the tax auditing stage to reality TV show The Bachelor. She said: "Every year there is at least one contestant that isn't there for love, instead using the reality show to leverage social media fame and advance their careers — they are on the show for the 'wrong' reasons. So when firms come to me for advice on whether to set up a captive. I channel The Bachelor and ask: 'are you here for the right reasons?'"

This is a topical subject, in light of the recurrence of microcaptives in the IRS' dirty dozen list every year. The misconception and stigma around people setting up captives purely for the 'tax benefits'' is a challenge most industry participants will be familiar with.

This issue was addressed in more detail in the conference's panel "Perceptions Versus Realities in Dealing with the IRS'', which included an up-to-the-minute report on pending captive audit and appeal cases. The introductory panel framed a captive as "a problem-solving vehicle" which enables companies to "contain and manage its own risks."

Panellists explained that the captive feasibility study is a meticulous process in which a variety of professionals assess the suitability of a firm's claims background against the regulatory requirements of a domicile. North Carolina's suitability was articulated by the association's deputy commissioner Lori Gorman.

She said: "Regulators are here to help and support captive growth in their domiciles."

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Another panel was entitled: “You Want to Insure What?” in which the speakers were Aaron Hillebrandt, principle and consulting actuary at Pinnacle, and Andy Rhea, president of Align Risks Solutions.

An auditor and captive manager explored some of the potential for future policy as well as more obscure areas such as ChatGPT, music and psychedelics.

Rhea asked attendees whether they used ChatGPT in their roles, to which the majority replied that they didn’t, although some admitted to testing it out.

This begs the question: “how can captive insurers utilise the platform?”, particularly in an environment where AI use is exponentially on the rise.

Rhea said: “ChatGPT can be used to analyse vast amounts of data. If used correctly this could be extremely useful for insurers. It is important to consider where all that data is going. There are issues of privacy and data protection, leaving companies open to cyber exposure.”

Following the topic of psychedelics, the panel “Drug and Alcohol Policies: Dealing with Changing Atmosphere,” explored the legalisation of Tetrahydrocannabinol and revision of drug policies as well as their effect on the workplace.

This comes as the number of cannabis captives has increased over recent years, due to the difficulties of insuring the substance in traditional markets.

Bespoke or tailor-made?

In the panel: “Taking Parametric Insurance to the Next Level Using Captives,” parametric insurance and captives were described by Nick Lamparelli, head of product at Green Shield Risk Solutions, as “a match as good as Friends’ Ross and Rachel.”

The panellists explained that parametric insurance “requires a trigger and is more simple than indemnity loss”.

They cited the incentives for captive owners as “needing no deductibles and being especially useful in hard market conditions.”

Jeff Kleid, founder of Elite Risk Insurance, provided an example of just how ‘tailor-made’ and ‘targeted’ a parametric policy can be.

“There is a parametric policy in place for a specific acre of a hemp farm where the trigger is the water level. A parametric trigger can be almost anything, even a single moment in time.’’

Incorporating parametric policies was another best-use example for business interruption, which is a crucial challenge for captive insurers in the age of climate change and COVID-19.

Business interruption can be quantified and insured by parametric triggers, whether that is flood-, hurricane- or sickness-related.

Jeremy Colombik, president of Management Services International, added: “The ultimate decision in parametrics is determining what the best triggers are. Parametrics are measurable. It’s a balance of finding the right trigger payout when needed, but not too much. The fact that parametrics can be so bespoke makes them such a nice fit for captives.”

From dawn till dusk

On the second day of the conference, industry veteran Mike Causey, North Carolina’s insurance commissioner, shared his thoughts on the state of the industry during the ninth Annual Commissioners Lunch.

The lunch also featured the award ceremony of outgoing North Carolina directors RH CPA’s Diana Hardy, Milliman’s Mike Meehan, and Marsh McLennan’s Adam Forstot in recognition of their three year board tenures.

Notably, Hardy had finished her term as the association’s first female chair. For her outstanding contributions to the board, Hardy was presented with a plaque of honour by Nate Reznicdek, the association’s incoming president.

Later that evening, RH CPAs and Pinnacle’s “Views and Brews” event showcased curated local microbrews from the city of Asheville, which is dotted with highly-rated independent microbreweries and tapas-style eateries.

The final networking event, held on a warm and sunny evening, saw RH CPAs host again, with a drinks reception accompanied by a live band on the conference’s patio terrace.

The Renaissance Asheville Downtown’s sky-high venue catered for a brilliant orange sunset over the blue-grey hazy silhouette of North Carolina’s Great Smoky Mountains. ■

A bright future

In February 2023, Guernsey was confirmed as Europe's most successful captive domicile. Ned Holmes examines what makes it an industry leader and what comes next

Even by its own high standards, it's been an impressive 12 months for the Guernsey captive insurance industry.

The island has long been regarded as one of the world's leading offshore domiciles, however, two recent landmarks have pushed it to new heights.

In November 2022, Guernsey celebrated 100 years since its first captive formation, while in February 2023, it was crowned as the largest European domicile – overtaking Luxembourg.

12 new licences and three surrenders in 2022 took Guernsey's total tally to 201.

William Lewis, UK insurance representative for We Are Guernsey, says this latest landmark was not a specific target for the domicile, but was recognition of the hard work put in by the industry and affirmation that Guernsey "ticks all the right boxes".

"The focus has been on our products, our services, and ensuring that Guernsey remains a leading jurisdiction that provides cutting-edge solutions and first-class servicing," explains Christina Bell, head of captive and ILS insurance underwriting at Aon in Guernsey, and chair of the Guernsey International Insurance Association (GIIA)'s Captive Working Group.

Depth of talent

The island's ongoing success is built on its experienced insurance community, which comprises nearly 1000 professionals from both global names and notable independents.

"The landmark is evidence of the depth of talent that Guernsey has to offer across the whole captive ecosystem," says We Are Guernsey's Lewis. "It's not just the captive managers, it's the lawyers, the accountants and everyone else."

Aon's Bell adds: "The experience and knowledge that we have on the island enables us to create bespoke solutions to individual problems. There is always going to be something that is specific to a client. Guernsey comes to the table and is able to provide answers. I don't think this has ever been more obvious than in the current environment. There just isn't the ability or the capacity in the commercial market. The focus is to build on alternative solutions such as insurance-linked securities or pension longevity. The ability and the capability for that is here in Guernsey."

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> *"It's clear that the regulator and the domicile's captive industry are aligned in their goals to see Guernsey flourish"*
>
> **Christina Bell, Aon**

Innovation

The Guernsey captive industry's willingness and capacity to offer solutions to emerging problems is reflective of what Justin Upson, describes as the domicile's "history of innovation". Upson is a director at Robus Guernsey and part of the GIIA's Captive Working Group.

In 1997, Guernsey pioneered the introduction of protected cell companies (PCC). Nine years later it introduced incorporated cell companies (ICC). More recently, a Memorandum of Understanding between Guernsey and China has started to yield results. China has also seen great success with the establishment of its own ILS and pension-longevity structures.

In 2020, Guernsey flexed its muscles as an innovator once again with the introduction of a pre-authorisation pilot scheme for insurance cells.

As Robus Guernsey's Upson explains: "With hardening markets that came through in 2020, the Guernsey Financial Services Commission introduced the Pilot Fast Track Scheme, which provided the pre-authorisation of insurance cells that were subject to meet certain criteria.

"The Pilot Fast Track Scheme allows a cell to be authorised within 48 hours, subject to customer due diligence into the Commission within a two-week period. This has proved hugely successful for the domicile."

He adds: "From what we saw, it provided a solution for clients who were faced with a lack of capacity and increased premium spend – particularly around the professional indemnity market in 2020 when rates were going through the roof. During this time, there was a lack of willingness from the market to go down to lower levels."

Regulation

Guernsey benefits greatly from its close proximity to the UK and mainland Europe, yet it is not an EU member. Therefore, it is not subject to Solvency II — an advantage from a regulatory perspective.

"I've been in this industry for more than 35 years. I see the strength of the regulator in Guernsey," says Aon's Bell. "It's got robust yet proportionate regulation. It's clear that the regulator and the domicile's captive industry are aligned in their goals to see Guernsey flourish."

Robus Guernsey's Upson highlights the importance of the "very strong relationship" between the regulator and the industry. "The proportionality, in terms of regulation, is so critical," he notes.

"We've got the industry body, GIIA, and we've got a large pool of seasoned professionals and our independent non-executive directors, who bring a lot of value. Ultimately, it's all about being knowledgeable and commercially-orientated. Having an open mind to regulation is always going to help."

We Are Guernsey's Lewis, who has been interacting with Guernsey's regulators for more than 20 years, also believes it's a helpful environment for new clients. He says: "Being able to approach Guernsey regulators to raise concerns is helpful."

Good timing

The growth in demand for alternative risk management structures is showing no signs of slowing down. Guernsey's new place as Europe's biggest captive domicile puts it in a fantastic position to attract prospective clients – particularly those that might be turning their attention to captives for the first time.

"As Oscar Wilde said: 'There is only one thing in the world worse than being talked about, and that is not being talked about'," affirms We Are Guernsey's Lewis.

He adds: "Companies are going to be looking at captives more than they have done for some years, and when they do, most will do a feasibility study. Right now, whether it's because of the location, what it offers, the experience of the staff, or the regulatory environment, it seems Guernsey is ticking all the right boxes."

Despite the domicile's recent accolades, there is a determination to keep pressing forward.

"We won't be resting on our laurels," says Aon's Bell. "It's a case of building upon our proven track record – to ensure that Guernsey is future proofed."

She adds: "Guernsey has continued to evolve and that's not going to change. We are always working on new initiatives, niche solutions and services, and we'll continue to innovate and promote the captive proposition."

A bright future

However, how can continued growth be measured if the domicile in question is already Europe's most successful?

Aon's Bell affirms: "Guernsey is very much at the forefront of sustainable finance. GIIA introduced the world's leading ESG framework with an accreditation kitemark back in 2021. It was created to manage ESG opportunities and risks, and to deliver a positive ESG impact."

"Guernsey's a member of the UN Sustainable Insurance Forum and GIIA is a signatory to the UN Sustainable insurance principles, so the sustainable development goals are very much aligned with our financial products and services.

"Beyond that, we will continue to expand the connectivity between captives and capital. We'll also focus on providing the solutions that are needed in the hard market, such as additional capacity for programmes. Alternative solutions are very much in demand too."

Robus Guernsey's Upson says: "We will continue to provide solutions for gaps in coverage. That's not just limited to what has been quite topical in terms of cyber, director and officer, and professional indemnity, but it's going to include property damage/business interruption and general liability as well."

> *"Whether it's because of the location, what it offers, the experience of the staff, or the regulatory environment, it seems Guernsey is ticking all the right boxes"*
>
> **William Lewis, We Are Guernsey**

He adds: "I think there's still a lot of growth that can be achieved — it's a case of continuing to innovate. Now we've reached this landmark, Guernsey will see an increase in business opportunities."

Succession planning

If Guernsey wants to keep its place at the top in Europe, it will need to find a solution to the talent gap — a key challenge facing the global captive industry. To counteract this the domicile is placing an emphasis on succession planning.

"We're making sure that we are bringing new talent up through the ranks," explains Aon's Bell. "Talent development has been a considerable focus — so much so that it's led to the recent launch of the Guernsey Certificate and Diploma in International Insurance Management initiative. We're going to have considerable interest [in this initiative]. It will be something that helps to train individuals before they even reach their employers."

"[The initiative will be] fundamental to the continued success of the industry," says Robus Guernsey's Upson. "I look at it as a need to share knowledge and experience.

"The captive industry has a need to bring up the next run of talent, and hopefully, it will provide some future proofing for the next generation," he concludes. ■

Gallagher Re welcomes Linda Johnson

Gallagher Re has appointed Linda Johnson as vice chairperson for its North America team.

In her new role, Johnson will be responsible for producing new business for casualty and structured reinsurance solutions across North America, with a focus on New York and Minneapolis.

Based in Minneapolis, Johnson will report to Tom Wafer, chairman of Gallagher Re North America.

She will drive talent recruitment and retention across the region.

Johnson has more than 30 years of industry experience. Prior to joining Gallagher Re, she spent 15 years at MGA broking group TigerRisk Partners, where she was a founding partner, executive team member and global legacy solutions practice leader.

Jim Bradshaw, CEO of Gallagher Re North America, comments: “Linda’s leadership and mentorship will be a dynamic force in helping colleagues continue to provide clients with strategic insights, advanced analytics and client-centric solutions.” ■

Underwriting firm MSL Captive Solutions has appointed Keith Peterson as assistant vice president and lead business development consultant.

Peterson will be responsible for developing and managing relationships on a national level for MSL.

Based in Philadelphia, Peterson will report to Phillip Giles, managing director of MSL.

Peterson has more than 10 years of experience in medical stop loss underwriting and managing general underwriters.

Peterson comments: “I am thrilled to join MSL Captive Solutions as the captive market continues its growth amid increasing premiums and a high frequency of catastrophic claims.”

AXA’s specialty division AXA XL has appointed Vicky Robert-Mills to its newly created role of head of energy transition.

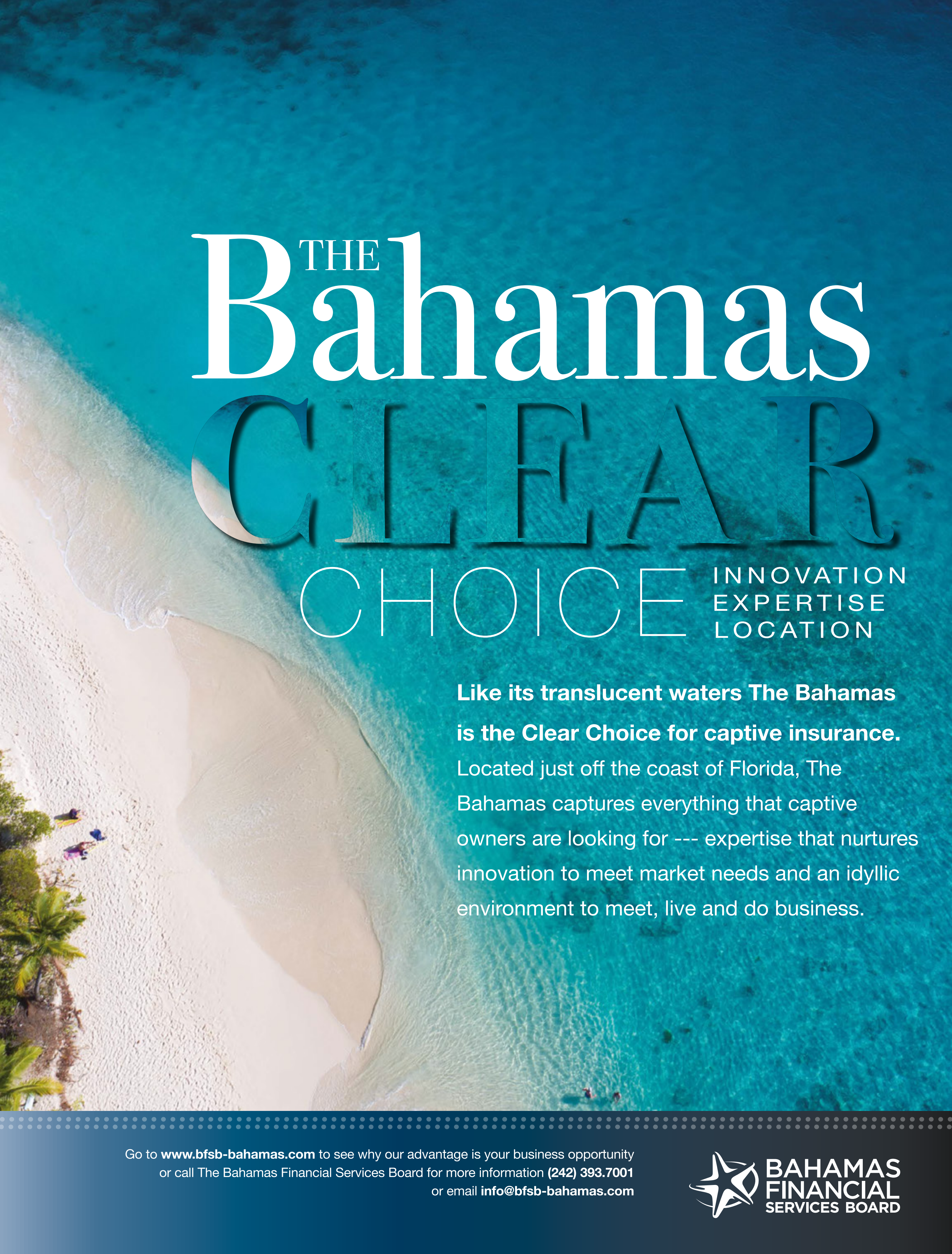
In her new role, Robert-Mills will develop AXA XL’s global energy transition strategy.

This role will combine the capabilities of AXA XL and AXA Group to enable clients to transition to net zero.

Robert-Mills has more than 20 years of experience, having held senior positions in the energy sectors, including in renewables and energy transition exposures.

Robert-Mills previously served as offshore renewables leader at Aon, where she led the London renewables business line. Prior to that, she worked at BP for 18 years, holding senior roles in its global insurance and risk management teams.

Commenting on Roberts-Mill’s appointment, Sean McGovern, CEO of UK & Lloyd’s at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Corvus Insurance appoints Albert Zhou

Corvus Insurance has welcomed Albert Zhou as chief risk officer. In his new role, Zhou will be responsible for implementing risk and actuarial practices by overseeing pricing, reserving, systemic risk modeling, risk accumulation and aggregation.

Based in New York, he will manage risk-taking through Corvus's captive, Corvus Reinsurance Company. He will report to the company's president, Prashanth Gangun and join the leadership team.

Zhou has more than 10 years of cross-functional experience, with specialisms in actuarial, risk and analytics.

Prior to joining Corvus, Zhou served as chief actuarial and analytics officer at SynchronoSure, an early stage commercial managing general agency. In 2021, he founded Toyl Ventures, an arbitrage trading firm focused on digital assets.

Gangun comments: "Albert's experience and leadership will be instrumental in advancing Corvus' approach to managing cyber risks on our journey to be the dominant cyber insurance player." ■

AXA XL, says: "Vicky's appointment is an important step to ensure we are in the best position to help our clients transition to net zero, leveraging our full suite of products, services and insights."

W. R. Berkley Corporation has appointed John Termini as president of Berkley Specialty Excess.

The newly-formed division will offer excess liability coverages in specialised markets, with an initial focus on the environmental and energy industries.

Termini has more than 25 years' experience in property and casualty insurance, with a focus on the environmental and energy sector.

He joins Berkley from Hamilton, a specialty reinsurer, where he served as head of the environmental and energy division.

Prior to that, he held a variety of executive and leadership roles at Markel Corporation, Aspen and Aon.

OdysseyRe has appointed Christopher Shafer as vice president and head of North American cyber underwriting.

In his new role, Shafer will support the company's business partners to address cyber risk.

Shafer has more than 10 years of reinsurance experience. He joins OdysseyRe from Guy Carpenter, where he held senior roles including actuarial analyst, treaty broker and vice president.

Commenting on Shafer's appointment, Brian Quinn, OdysseyRe's North American CEO, says: "[Shafer] has a scope and depth of cyber knowledge that will benefit our efforts in a market that continues to mature and develop at an accelerated pace." ■

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