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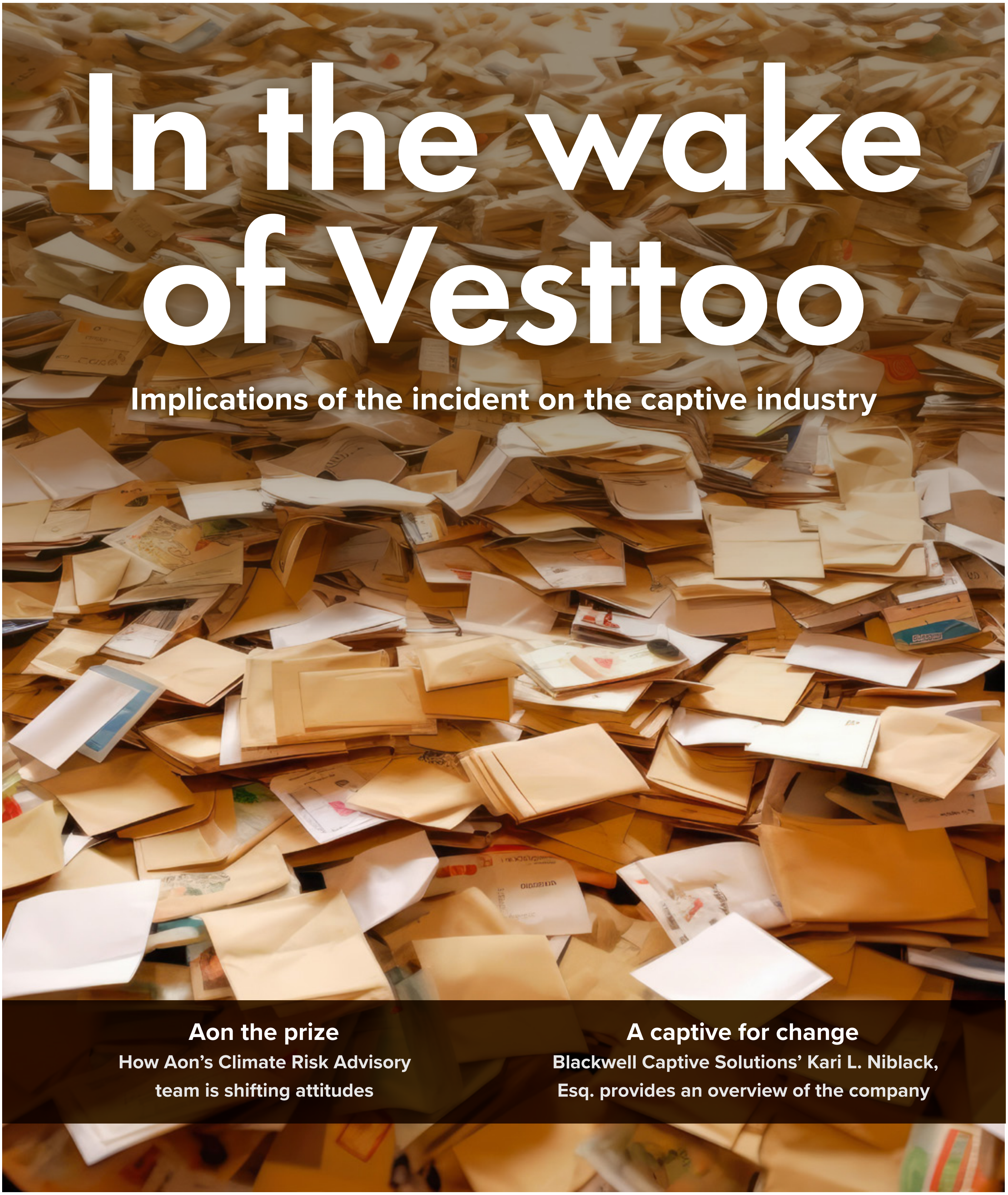

# In the wake of Vesttoo

## Implications of the incident on the captive industry

### Aon the prize

How Aon’s Climate Risk Advisory team is shifting attitudes

### A captive for change

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## Editorial

**Group Editor: Bob Currie**
bobcurrie@blackknightmedialtd.com

**Deputy Editor: Jenna Lomax**
jennalomax@blackknightmedialtd.com

**Reporter: Frances Jones**
francesjones@captiveinsurancetimes.com

**Contributor: Ned Holmes**

**Lead Designer: James Hickman**
jameshickman@blackknightmedialtd.com

## Marketing and sales

**Publisher: Justin Lawson**
justinlawson@captiveinsurancetimes.com

**Associate Publisher: John Savage**
johnsavage@captiveinsurancetimes.com

**Office Manager: Chelsea Bowles**

**Follow us on Twitter: @CITimes**



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PARIMA 10 YEARS
CHAMPIONING RISK MANAGEMENT IN APAC SINCE 2013
2023 Tokyo Conference














### CICA announces topics for 2023-2024 essay contest

The Captive Insurance Companies Association (CICA) has announced the case study topics for its 2023-2024 essay contest.

The winning essays will be exclusively published in Captive Insurance Times.

The contest is named ‘Captive Insurance Solutions for Today’s Risk Management Challenges’ and is sponsored by Hylant Global Captive Solutions (Hylant GCS).

Essay contest winners will receive cash prizes and the opportunity to present their winning papers at the 2024 CICA International Conference. This will be held from 10 to 12 March at the Westin Kierland Resort & Spa, Scottsdale, Arizona.

Student teams will pick one of three case study topics: Vale University, LoveIt Rentals and Beta Airlines. The case studies were developed by the Hylant GCS team, who will also mentor the students.

CICA president Dan Towle comments: “The captive insurance industry needs curious minds and creative thinkers who will help to develop innovative solutions for the complex problems captive insurers are addressing.”

He adds: “That’s why we are pleased CICA’s Essay Contest brings in students from insurance, risk management, actuarial science and business majors.”

Contest details, full case study descriptions, entry requirements and award details are available on the CICA website.

### Guernsey: Captives could be a vehicle for carbon offsetting

On the first conference day of Sustainable Finance Week in Guernsey, the rewilding of the environment and carbon offsetting dominated discussions. The first panel discussion, ‘Insurance and the Opportunities of Net Zero’, saw Natalia Dorfman, CEO and founder of Kita Earth Limited, Glenn Ellis of AIRMIC, and Stuart Logue of Flood Re discuss challenges and opportunities facing the industry.

On captives and carbon offsets, Ellis said: “Captives could potentially be one of the risk financing vehicles for the efficacy of carbon offsets.”

Dorfman added: “The insurance industry has huge potential with climate change, both to provide resilience when things go wrong, as well as using insurance as an innovative way to understand new industries that can be insured.”

Panellists taking part in the second session outlined a variety of new standards and disclosures in sustainable finance, and asked if this plethora of standards is driving investors towards net-zero.

The day concluded with an address by Alison Gavey of the Guernsey Financial Services Commission, who announced the launch of a discussion paper on The International Sustainability Standards Board.

### Authentic raises US$5.5 million to launch captive insurance platform

Startup Authentic Insurance (Authentic) has raised US$5.5 million in a seed round to launch its ‘Captive in a Box’ platform.

The round was led by Slow Ventures with participation from Altai Ventures.

Based in New York and Ohio, Authentic is made up of professionals from technology and insurance companies, including Next Insurance, Amazon and Canary Consulting.

The company’s turnkey platform makes it possible for SaaS companies, franchises or associations to launch captive insurance programmes for their members.

Captive in a Box handles the logistics of setting up a captive

insurance company, including legal, underwriting, reinsurance and capital and claims management.

Authentic allows its partners to receive commission on every policy sold and to keep the majority of underwriting profit.

MGV, Upper90, Clocktower, Commerce Ventures, Mischief Ventures, Core Innovation Capital also invested in the seed round, among others.

Sam Lessin, managing partner at Slow Venture, comments: “Authentic’s Captive in a Box allows them to sidestep the current distribution problems of adverse risk selection that the insurance industry has struggled to overcome.”

Cole Riccardi, CEO and founder of Authentic, comments: “Captive insurance provides many benefits to organisations and their members, but until now, setting one up was a very long and expensive process.”

He adds: “Through Authentic’s platform, anyone can create their own captive insurance programme and realise the benefits within days.”

**PARIMA’s last 2023 conference to take place in Tokyo**

The Pan-Asia Risk and Insurance Management Association (PARIMA) is set to conclude its 2023 conferences at the Akasaka Intercity Conference Centre in Tokyo on 19 October 2023. PARIMA’s 2023 conferences are themed ‘Adapting to Permacrisis,’ reflecting the challenges businesses face in the 2020s, including COVID-19 and geopolitical shifts.

The PARIMA Tokyo 2023 Conference will feature 13 educational sessions covering topics including captives, the future of risk management, geopolitical risks, disaster recovery, cyber threat landscape, parametric, people risks, insurance-linked securities, business continuity response and ESG.

The association expects that more than 250 senior risk professionals and industry experts from the APAC region will attend. Participants will include Shin Hosaka, vice-minister for international affairs at the Ministry of Economy, Trade and Industry.

In addition, PARIMA will celebrate its tenth anniversary at the conference. Its founding chairman Franck Baron comments: “Over the years, I have seen tremendous progress as we strive for a better future for the risk and insurance management industry and community in APAC. Starting from Singapore, our vision expanded across APAC, and today, Japan proudly stands as one of our flagship regions.”

**AM Best affirms “Excellent” ratings of Maxseguros EPM**

AM Best has affirmed the financial strength rating of A- (Excellent) and the long-term issuer credit rating of “a-” (Excellent) for Maxseguros EPM.

The outlook of these credit ratings is stable.

Maxseguros is a single-parent captive insurer owned by Empresas Públicas de Medellín E.S.P. (EPM), the Colombian power generation and multi-utility company.

AM Best says the ratings reflect Maxseguros’ balance sheet strength, which it assesses as “strongest”, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

The ratings also reflect Maxseguros' risk-adjusted capitalisation being at the strongest level, as measured by Best's capital adequacy ratio.

It is supported by a comprehensive and adequate reinsurance programme, coupled with a conservative investment policy and limited premium risk exposure.

Additionally, Best adds the ratings recognise the captive's role within its corporate parent structure. Maxseguros provides reinsurance to the EPM group, covering property damage and business interruption, commercial crime, cyber risk, directors and officers, errors and omissions and general liability exposures.

"These positive rating factors are partially offset by EPM's substantial financial leverage and Maxseguros' limited business and market scope. This is mitigated somewhat by the company's stable results, favourable geographic spread of risk and the history of Maxseguros' growing surplus position", according to Best.

## City of London to consider benefits of UK captive insurance regime

City minister Andrew Griffith and risk management participants attended a roundtable to consider the potential benefits of introducing a UK captive insurance regime.

This is the first time the UK government has convened market experts to listen to the benefits that a captive regime could bring to the country.

The roundtable was organised by Griffith and the London Market Group (LMG), the UK capital's trade body for commercial (re)insurers. The event was attended by captive owners, brokers, insurers and the wider risk management community.

The creation of a UK captive framework is a key pillar of the LMG's roadmap to improve the business environment for risk transfer in the UK. It is also a part of its latest 'Plan for the Future' which launched on 18 September.

Caroline Wagstaff, CEO of the LMG, comments: "Despite being the global hub for risk transfer, the UK's regulatory regime is not conducive to businesses setting up captive insurers here."

### Artex acquires Bermuda-based Frontier

Artex Capital Solutions (Artex), a division of Artex Risk Solutions, has acquired Bermuda-based Frontier Financial Services Limited (Frontier). Frontier is a management firm specialising in consulting, recruitment, business services and immigration services, predominantly to reinsurance clients in Bermuda.

Frontier director and co-founder Peter Brodsky, CEO Derek Winch and the rest of their team will remain in their current location. They will continue to operate business-as-usual, however their clients and employees will have access to Artex's resources.

Kathleen Faries, CEO of Artex Capital Solutions, comments: "Frontiers' reputation in recruitment and staffing consulting services means we will be better positioned than ever to offer a one-stop solution to our clients. This includes assisting startups and mature companies with their short- and long-term staffing requirements and related services."

### Risk Strategies acquires orchestrateHR and eBen Benefits

Risk Strategies has acquired orchestrateHR and its affiliate, Ebenconcepts. The mandate will add additional capabilities to its national employee benefits practice.

orchestrateHR's specialty operating subsidiaries, Employers Direct Health and Employers Direct Administrative Solutions, were also included in the transaction.

Based in Texas, orchestrateHR is a provider of holistic employee benefits solutions. In conjunction with its associated operating groups, it offers services including human resources and technology consulting as well as third-party administration.

Established in 1999 as an orchestrateHR affiliate, Ebenconcepts Company is an HR consulting and custom employee benefits brokerage firm with offices throughout the US. Under the new mandate, Ebenconcepts will conduct business as eBen Benefits. ■

# In the wake of Vesttoo

**What implications will the Vesttoo incident have on the captive insurance industry? Frances Jones investigates**

The allegations concerning fraudulent Letters of Credit (LoC) related to Israeli insurtech Vesttoo programmes have sent shock waves through the insurance industry. Vesttoo provides the insurance industry with access to capital markets through insurance-linked securities (ILS) — an alternative form of reinsurance.

Investors on the Vesttoo platform have been accused of dispensing fraudulent LoCs to insurers for reinsurance transactions. This reportedly occurred after China Construction Bank denied all knowledge of a LoC related to a Vesttoo-facilitated reinsurance transaction.

Rating agency, DBRS Morningstar, estimates that the allegedly fraudulent LoCs issued to insurers will total US$4 billion, according to various media reports, including Israeli newspaper ‘Calcalist’, which translates to ‘Economist’.

Although captive insurance companies are not directly impacted, it has led many in the industry to question the scrutiny of LoCs and ILS-transactions.

It has also shaken captive insurers’ confidence in insurtechs. Subsequently, some industry participants are expressing reluctance to engage in ILS-transactions.

On 7 September, Vesttoo filed its first interim bankruptcy report to the United States Bankruptcy Court for the District of Delaware. In the same statement, Vesttoo said that its investigation identified that “pervasive and systemic misconduct” was carried out by a limited set of Vesttoo executives and other third-parties outside of Vesttoo.

Ami Barlev, Vesttoo’s interim CEO, continued to name and shame former Vesttoo executives, whom he notes “acted with external entities such as employees of China Construction Bank and Standard Chartered.”

## Captives and collateral

ILS provides insurers with a ‘fully secure’, collaterised form of funding which can be dedicated to a precise risk requiring coverage.

The collateral is often a highly-rated, highly-liquid investment and provided by capital market investors, for example: a government gilt fund.

Marcus Schmalbach, CEO of RYSKEX, says: “Captive insurers are increasingly attracted to ILS-transactions for several reasons, particularly the ability to diversify risk by offloading it to capital market investors and tapping into alternative, and possibly more cost-effective, capital sources.

“Other reasons include the design of bespoke risk coverage structures, securing immediate financial resources during unexpected significant claims, meeting regulatory and rating benchmarks, and elevating their market profile through advanced risk strategies,” he continues.

“ILS can prove especially useful for captives when they have a desire to diversify the reinsurance tower,” according to a Marsh article entitled ‘Insurance-Linked Securities Provide Another Reinsurance Option for Captives.’

ILS is intrinsically linked to catastrophe bonds, high frequency and low severity events.

The Marsh article provides an example of a captive transaction that used ILS for reinsurance: “Through a Bermuda ILS vehicle, a captive placed US$300 million of US earthquake risks, focused on the west coast. [It also featured] a parametric trigger.”

Nils Ossenbrink, managing partner of products and distribution at Twelve Capital, says: “The predominant risks covered by the ILS market are natural catastrophes, in particular hurricanes and earthquakes. Climate change is increasing the frequency of natural catastrophes, specifically convective storms, floods and wildfires. This means that these risks are becoming more relevant and are increasing the need for protection. This drives the demand for alternative risk capital and ILS-transactions.

“What we see on the horizon is cyber. On the investor side, we are seeing some hesitation toward the adoption of cyber; it’s a question of accurate modelling. Cyber risks and demand for protection are growing fast,” Ossenbrink adds.

## The fallout of fraud allegations

Captive industry participants, along with the rest of the insurance industry, are left examining collateral issues in the wake of the scandal.

However, the event's significance should not be overstated. Ossenbrink says: "Vesttoo is primarily an ILS and insurance industry event. The wider client base at Twelve Capital doesn't really recognise it, it's only something brought up by those who are close to ILS markets. It's something widely discussed at conferences," such as the recent Monte Carlo Rendez-vous de Septembre — the largest reinsurance gathering in the sector.

It also emerged as a hot topic at the Vermont Captive Insurance Assocation's annual conference held at the start of August this year, which inspired this reporter to write this article.

Schmalbach notes: "It is a damaging image for all innovative fintechs involved in ILS and captives."

He adds that the Vesttoo incident followed the collapse of FTX in late 2022 — another company with a unicorn rating (which has since been revoked).

Vermont's deputy commissioner of captive insurance, Sandy Bigglestone, mirrored this sentiment, commenting that going forward "start-ups and market opportunities will face additional scrutiny."

"Our priority is to safeguard the stability and continuity of the captives we regulate," she adds.

Schmalbach says that recent events have shown that "despite all technologies and early warning systems, as well as regulation, those who cheat will find a way."

Adding his thoughts, Ossenbrink comments: "A general positive for the industry is that Vesttoo is a company-specific event, not a systematic risk. It highlighted again that market participants have to take due diligence procedures seriously."

## A regulator's perspective

The scandal has increased captive regulators' responsibility to ensure the security and legitimacy of collateral arrangements within the captive insurance industry.

Vermont's Bigglestone outlines the measures the domicile already takes. She says: "Our regulatory activities, and the framework, include a review of fronting agreements, collateral arrangements and related credit for reinsurance considerations."

However, she adds: "There is an expectation for fronting carriers to do their due diligence when considering the credit risk associated with the form of collateral they accept and how the transaction will meet credit for reinsurance requirements. The assessments should include information about the financial backing of the risk taker."

"Captive insurers can expect the tightening of existing regulatory frameworks to guarantee that they, and related parties, rigorously evaluate counterparties and collateral options to preclude potential fraud."

## A blockchain of events

In the aftermath of Vesttoo, Schmalbach proposes that captive insurers reevaluate the role of blockchain technology to aid collaboration between captive insurance, ILS funds and intermediary platforms.

Blockchain hasn't necessarily taken a lead within the captive industry, nor has it fulfilled expectations as an industry disruptor. However, the need to fight fraud is changing industry opinions toward technology. It is starting to be seen as an additional layer of protection for captive insurers engaging in ILS-transactions.

Schmalbach says: "It aids collaboration between captive insurance, ILS funds and intermediary platforms through a number of key mechanisms. It offers smart contracts, which are self-executing and can automatically trigger insurance-related actions, based on predefined criteria. The transparent nature of blockchain's distributed ledger boosts trust and reduces disputes, as all parties can view the same immutable data."

He adds: "Blockchain also facilitates real-time data sharing, which is beneficial for risk assessment. It offers secure identity verification, reduces costs by minimising intermediaries and provides interoperability so that different systems and platforms can easily communicate. It essentially has the ability to enhance transparency, security and trustworthiness of transactions. The automation of processes can reduce human error and potential manipulation, namely fraud."

However, on the other side of the coin, Schmalbach does note that challenges such as adoption barriers, interoperability issues, scalability concerns and privacy matters may impede its full-scale adoption in the ILS market.

> *"There are different opportunities for captive insurers to seek capital from the capital market, such as catastrophe bonds or ILS, to meet the increasing demand for capital amid the challenges of climate change"*
>
> **Nils Ossenbrink, Twelve Capital**

## Lessons learnt

The rating agency KBRA released a report entitled 'What Could Possibly Go Wrong? Fronting Market Changes Overnight'. It notes that "recent negative events underscore the critical importance of effective enterprise risk management and could be positive catalysts for change."

It says: "The reputation of those in the insurance value chain is likely to suffer short-term damage as various fronting insurers, reinsurers, cedants, brokers and MGAs assess the full financial and operational impacts."

However, by the same token, the report concludes that "the insurance sector is well positioned to apply lessons learned and potentially emerge as a stronger and more robust participant in the overall insurance market."

Going forward, Bigglestone says: "Communication and cooperation will be critical." She adds that "the scandal will not have a significant impact on the regulation of captives."

Schmalbach says: "Engaging ILS capacity requires a comprehensive understanding, so captive owners should first invest time in education and research. Before diving into ILS, assess your risk appetite to ensure alignment with the securities you're considering."

It is perhaps fair to say that Vesttoo's nature as an isolated incident should not dissuade captive insurers from obtaining ILS capacity. Mirroring this view, Ossenbrink says: "Increasing demand from investors for ILS can encourage captive insurers to participate in capital markets and enhance resilience of their own capital structures through innovative structures."

Rating agencies, including AM Best, DBRS Morningstar and KBRA, agree that the overarching impact of the event highlighted the importance of insurers' managing counterparty risk.

"There are different opportunities for captive insurers to seek capital from the capital market, such as catastrophe bonds or ILS, to meet the increasing demand for capital amid the challenges of climate change," affirms Ossenbrink.

He concludes: "Captives considering ILS transactions should engage with ILS market specialists. The first step is to understand the needs of the capital market, which differs from the needs of the reinsurance market. Education, networking and a long-term perspective is key." ■

**Eric Funk**
Captive senior account manager
NFP Risk & Insurance Strategy Collective

# Can’t stop the Funk

## Emerging talent Eric Funk talks to Frances Jones about his experience serving at NFP RISC and his future aspirations working in the captive industry

### How has your previous experience prepared you for your current role in captives?

I’ve been in the captive industry for six years now. I started at Aon, spending five years there as account manager before being promoted to senior account manager. I’ve now been with NFP Risk & Insurance Strategy Collective (RISC) as a senior captive account manager for eighteen months.

I dived headfirst into the captive insurance industry straight from college. I have learned a lot working on different company accounts. Working at NFP RISC has given me client-facing experience and improved my financial knowledge — building both soft and technical skills. Before working in the captive industry, I worked in banking, where I gained financial experience.

### How did you end up in the captive industry?

In my sophomore junior year of college, Diane Hanson from Aon came to our class and gave a presentation about captive insurance. Most of us had never heard of it before. However, what I heard I found really interesting.

It presented a new alternative to auditing. Hanson said you get to work with clients, including Fortune 100 companies, which caught my attention.

A year and a half later, she reached out to my professor and asked if he could recommend any candidates or any students that might be a good fit for a role Aon had available.

My professor passed my name along. I interviewed and subsequently secured the role. Before college even finished I had a great job lined up.

### From your experience, what would you say are the key benefits of working in captives?

The best part is interacting with people you probably would never get to meet otherwise. Early on, you can benefit from connecting with high-level professionals and learning from their expertise. This is where the captive industry differs from other industries.

Captive conferences and the size of the industry are other key benefits. The industry, although sizable, is relatively small compared to the wider insurance industry.

The size of the community tends to make people feel like they’re part of something. You quickly start to recognise faces, everyone’s friendly. At conferences, you often re-connect with the same people and we all enjoy spending time with each other.

A final benefit is flexible hours — particularly when compared to auditing. You often have the ability to work from home and can take time off when you need it, especially in the summer.

### Who has influenced you in the captive industry?

While I worked at Aon, a senior account executive Becki Minoli took me under her wing. She’s now retired, but we have remained friends. She became a mentor to me and taught me a lot — helping me grow and cultivate as a person, as well as a captive professional. It was invaluable having that one person to go to. She is extremely smart and provided me with opportunities from the get-go.

Captives’ small supportive community helps to drive me because I feel like I’m working with friends.

> *"My ultimate goal is to experience similar levels of success to my company's managing directors Tracy Stopford and Kara Tencellent, who started the practice a few years ago"*

This includes my relationship with service providers, clients and a wide array of other people in the industry; they provide a combination of mentorship and collective influence. This is also why I love living in Vermont because it's a small state that's home to a big, friendly hub of captive industry participants.

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

I'm trying to continue down the path that I have already started to forge. I'll continue to challenge myself by addressing more complex risk solutions, as well as being more outward-facing in the industry itself.

My ultimate goal is to experience similar levels of success to my company's managing directors Tracy Stopford and Kara Tencellent, who started the practice a few years ago. They have set up a practice that actively encourages career growth, client excellence and a community that makes everyone feel like they belong.

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

My advice is to go for it. Just try it out. You will quickly realise captives is a multifaceted industry and if you're interested in a particular area there will be ample avenues for you to travel down.

There's a lot of scope for trying new things. If you want something dynamic, fun and challenging then this industry is for you. Go into a role with an open mind.

Each day is probably going to be a little different from the last, but that's exciting and keeps me engaged.

### Personal biography

With a captive career spanning more than six years, Eric has worked on a multitude of company accounts, including 50 state risk retention groups, small and large pure captives, cell captives and the traditional.

He is an accountant by trade but also has a minor in Spanish. Eric is originally from Maine but currently lives in Vermont. ■

*"Writing a recommendation for Eric to be selected as Captive Insurance Times's Emerging Talent was such a pleasure. In the short time he has spent in the captive industry, Eric has quickly become a subject matter expert in alternative risk financing and client management. He has been quick to conquer the fundamentals of captive insurance and to grasp the never-ending complexities that are inherent in managing captive insurance companies. The connection he has with his clients is evident and he has a wonderful ability to build long-lasting trust relationships with them, as well as with his colleagues and peers. NFP RISC has been lucky to have Eric on its team and we look forward to seeing his upward trajectory!"*

**Tracy Stopford, ACI**
Senior vice president, managing director
NFP Risk & Insurance Strategy Collective

# My captive saves

**Franck Baron speaks to John Savage about the benefits of his Singapore-domiciled captive Odeon Re, the captive insurance company of International SOS**

**What is your role within the organisation, and what are your primary responsibilities in relation to the captive insurance programme?**

I lead the risk and insurance division at International SOS. I'm responsible for enterprise risk management and life and non-life insurance.

I am also the CEO of Odeon Re, our captive insurance company, domiciled in Singapore. We have insurance and reinsurance licences for both life and non-life insurance. I am based in Singapore.

In addition, I am the chairman of the Pan-Asia Risk and Insurance Management Association (PARIMA) and president of the International Federation of Risk and Insurance Management Associations (IFRIMA).

**Could you provide some background information about International SOS, its industry, and the reasons behind establishing its captive insurance company, Odeon Re?**

We specialise in international health and security risk management. At International SOS, we work to protect the global workforce from health and security threats. We have 13,000 security, medical, logistics and digital experts standing by to provide daily 24-hour support and assistance across more than 1000 locations in 90 countries.

Due to our business and operating model, it is critical to ensure that our risk financing strategy matches our unique risk footprint. This is to nurture the relevant level of risk retention and to align with our group's risk appetite.

**How has Odeon Re helped to manage and mitigate risks specific to your industry? What benefits have you experienced by having a captive insurance company?**

It provides the necessary structured capacity we need to nurture our risk retention. It also provides us with the platform to develop and fund our risk management programmes in terms of prevention and protection.

The tailored part of the captive is important to structure our cyber coverage compared to the terms available in the markets.

**How did Odeon Re respond to the COVID-19 pandemic? Could you share some examples of uninsurable risks that your captive covers?**

Over the COVID-19 years, we identified a few countries in which our local medical insurance programmes were excluding pandemic-related situations. Thanks to our captive-based medical programme we have been able to buy-back such exclusions.

**In a recent interview, you mentioned that you have developed your ESG plan to support your group's sustainability strategy. How do you plan to utilise your captive, Odeon Re, as part of this strategy?**

Our captive is one of the first to have signed up to the United Nations Environment Programme Finance Initiative. Our underwriting and investment policies are ESG-led. Furthermore, our captive is well-positioned to fund internal initiatives and programmes supporting our group's ESG goals.

**What factors did your company consider when it selected Singapore as the domicile for your captive insurance company?**

Firstly, the ability to develop and gain approval for a holistic business plan for (re)insurance, life and non-life. This avoids delays in our underwriting decisions.

Secondly, we value the merit of establishing the captive where our group is headquartered to develop the necessary collaborations with colleagues.

The local regulator, Monetary Authority of Singapore, is providing a very stable environment and is committed to developing the captive platform.

**What do you think are the strengths of your captive programme? How has your captive influenced your risk management strategies and overall risk profile?**

Our strengths are the flexibility of underwriting and insurance capacity, alignment with our enterprise risk profile and operational performance due to self-management and localisation.

The captive is core to our risk management decisions and it helps us to structure and fund risk prevention plans. It fits our risk financing needs that cannot be matched by insurance markets.

*"The local regulator, Monetary Authority of Singapore, is providing a very stable environment and is committed to developing the captive platform"*

**What do you hope to achieve in your role as president of IFRIMA?**

IFRIMA is the international umbrella organisation for risk management associations, representing 20 organisations and more than 30 countries around the world. As an "association of associations", IFRIMA's primary objective is to provide a forum for interaction and communications among risk management associations and their members.

I hope to transform IFRIMA into a more action-driven and visible organisation for the global risk professionals' community. During my mandate, I am refocusing the association to better support local associations to develop territories and initiatives in order to form new ones. This is to facilitate a better dialogue among members and elevate the voices of our risk professionals community. ■

*"The captive is core to our risk management decisions and it helps us to structure and fund risk prevention plans"*

**Franck Baron**

Group deputy director of risk management and insurance, International SOS

President, The International Federation of Risk and Insurance Management Associations

# How tall is your tower?

**Frances Jones investigates how captive owners can engage with reinsurance markets and why they should also be a consideration for captives**



Reinsurance markets can benefit captives by giving them access to higher towers.

"Moving up higher reinsurance towers allows captives access to more reinsurance carriers and potentially better terms," asserts Grainne Richmond, an executive vice president and head of captives at Aon Bermuda.

"This ultimately better protects the policyholder. It also gives the captive access to additional knowledge and experience from different areas. For example, we're seeing increased access to cyber, in particular. Parent companies obviously have very experienced risk managers, but for niche areas, such as cyber, they will not have that subject-specific knowledge. Their captive will be able to access that through reinsurance markets."

A 2021 segment report from AM Best, entitled 'US cyber: the hardest of the property and casualty markets', finds that captives are using third-party technology and forensic cyber consultants to help with underwriting cyber. This is in addition to the regular monitoring of parent's cyber security policies, procedures and testing. Cyber risk modelling improves as more data becomes available. Therefore, captives that engage with reinsurance carriers — with a wealth of existing cyber data and experience — should be able to provide improved cyber services to a parent. This could also be more cost-effective for the parent, as they will forgo the cost of engaging with third-party cyber consultants.

The cyber market continues to grow. In the executive summary of its 'Cyber Summit', Lloyd's of London predicts that the cyber market is going to treble in size from £13 billion (US$16.8 billion) in 2022 to £35 billion ($45.3 billion) in 2030. Subsequently, the need for cyber coverage is projected to exponentially increase to fill coverage gaps left by the traditional market. Cyber modelling capabilities of reinsurance carriers and opportunities for captives are also expected to increase.

## A long-term and a short-term solution

Rick Hartmann, a senior vice president within the captive segment of Guy Carpenter, says: "Captives and risk managers should consider engaging the third-party reinsurance market to allow access to additional capital and to potentially identify more efficient risk transfer solutions. Prospective treaty and facultative reinsurance solutions can help captives manage volatility and protect their balance sheets."

> *"Guy Carpenter's captive segment actively places treaty reinsurance on behalf of more than two-dozen group captives, and we have executed more than 65 transactions with single-parent captives"*
>
> **Rick Hartmann, Guy Carpenter**

Treaty reinsurance is insurance purchased by an insurer from another company. It is utilised when an insurance company wants to share the risk of a certain group of policies, called a book. For example, all policies for marine insurance that are held by the insurance company will be in its marine book and it may choose to reinsure its associated risk. It indicates that the companies involved will engage in a longer-term relationship.

Demian Smith, head of mutual, agency and captive reinsurance solutions for global marine and energy at Guy Carpenter, says: "A treaty-style reinsurance approach will not suit all captives. There is a certain level of scale and technical capital management know-how that will be required to achieve the pricing and administrative simplicity benefits that can be achieved."

He adds: "This is in comparison to traditional captive reinsurance predicated on specific risk protections. The end result is always very bespoke and requires active management of the captive in the day-to-day risk-taking activities of the captive."

On the other side of the coin, facultative reinsurance typically considers each policy individually and signifies that the companies will work together in the short-term.

Hartmann comments: "Guy Carpenter's captive segment actively places treaty reinsurance on behalf of more than two-dozen group captives, and we have executed more than 65 transactions with single parent captives."

Considering the macroenvironment, he adds: "In the face of rising commercial insurance costs, risk managers and captive owners are looking to increase the utilisation of their captives to both finance and transfer risk more efficiently. As a result, we have executed structured reinsurance solutions for several large and publicly-traded companies."

Hartmann lists the range of solutions the reinsurance market can offer a captive. He includes employee benefits, medical stop-loss, parametric, structured risk and insurance-linked securities which provide a blend of risk financing and risk transfer.

## Don't just buy one

It almost goes without saying that captives can only access higher towers through purchasing multiple lines. Richmond says: "It really boils down to diversity, you want multiple lines to diversify your captive. We always recommend that our clients don't just go with one line in their captive, that feeds into the reinsurance carriers as well."

Hartmann adds: "For casualty group captives, writing multiple lines of business affords the opportunity to add balance to a potential reinsurance solution where one line may be underperforming or more challenged compared with others."

When captives gain access to additional reinsurance carrier's, they can also use its data and analytic modelling tools. Willis Tower Watson's report 'Insurance Marketplace Realities 2023 Spring Update — Captives', says that data and analytic capabilities are "key enablers of change".

Access to these advanced analytics tools, via reinsurance carriers, could enable captives to cover emerging risks, including those associated with the climate crisis. "Captives are starting to delve into climate, leveraging the knowledge of reinsurance carriers and their existing climate assessment capabilities," says Richmond.

The report also finds that, in US domiciles, the diversification of a captive's portfolio continues to drive innovation. Therefore, captives looking to increase their sophistication and innovation should consider diversifying their offering by purchasing multiple lines from reinsurance carriers.

Smith gives his thoughts: "In particular, diversification can lead to better risk assessment and pricing in addition to smoother returns. This is due to more stable and predictable outcomes across the portfolio and overall risk reduction through the diversified nature of the portfolio."

"Having diversity in your captive gives you that control. It also makes reinsurance carriers aware of the stability a captive can bring."

## Amid challenging market conditions

A 2023 AM Best market segment report, 'Global Reinsurers Face Challenges Even as Conditions Improve', finds exactly what its title outlines: "Despite challenging conditions, the global reinsurance segment still returned an underwriting profit in 2022."

The report notes concerns about economic and social inflation, central banks' contractionary monetary policies, asset market volatility and the recent underperformance of the global reinsurance segment, have all underpinned a higher cost of capital.

It highlights its stable outlook of the market is due to reinsurers' prudent approach to deploy capital, balanced with market participants' pressure to innovate and expand.

Richmond comments: "Amid hard market conditions, it has been good to see players in the reinsurance market working with our clients and with the brokers to provide the coverage where that is possible."

Against this backdrop, Hartmann considers the incentives for captives to purchase extra reinsurance coverage. He says: "Captives, similar to traditional property insurers, have faced a confluence of macroeconomic factors, which has led to an increase in demand for reinsurance. These factors range from continued core and social inflation to elevated levels of global catastrophe losses. We believe demand for reinsurance will grow with reinsurers' willingness to deploy capital."

The WTW report highlights that property markets remain challenging which is reflected in the increased use of captives as vehicles to assume greater levels of risk retention.

Hartmann stresses that reinsurance coverage and risk transfer solutions should be set in accordance with its risk tolerances and aligned with the captive's enterprise risk management framework. He notes: "Captives should look to avoid situations where rating agencies, such as AM Best or Fitch, may perceive its operating performance as over-reliant on reinsurance."

Captives can also be used to incubate multiple risks against hard market conditions. Smith writes that, "in addition to excess of loss reinsurance protections, diversified captives can approach the structured reinsurance markets to identify stop-loss and risk finance programme reinsurance solutions to protect the captive from attritional volatility."

## Commit to a long-term relationship

Hartmann says: "In the face of macroeconomic or market headwinds, and decisions on where to allocate capital, reinsurers will differentiate between those partners with whom they have established trusted relationships and those looking to start a relationship."

Aon has long-standing relationships with provider-owned, specialty and commercial medical professional liability (MPL) insurers within the medical malpractice (med mal) space. It serves 20 MPL ceded companies and places more than US$225 million of reinsurance premium with 30 reinsurers in the US, London, Bermuda and Europe.

Richmond comments: "Captives can create long-term reinsurance relationships through their brokers, such as Aon and their captive manager. By jumping from reinsurance carriers on a year-on-year basis, you're losing a lot of the understanding and knowledge that has built up in the personnel you're dealing with. As we saw in the last few years of the hard market, those who did not have those relationships experienced tight capacity with those reinsurance carriers."

Richmond, providing an example, says: "We have seen an uptick in towers being purchased in the med mal space. Renewals in the healthcare space have been difficult for brokers and underlying insureds for the last few years. We did see some players in the reinsurance market stepping away from med mal coverages."

She concludes: "However, for Aon's clients in that space — where towers were in place through the captive — the relationship was the key for renewals. Aon is a professional service firm, which is paramount. We cannot lose that touch with our clients." ■

# A captive for change

**Kari L. Niblack, Esq. talks to CIT about Blackwell Captive Solutions' offering and the company's contribution to the field of medical stop-loss insurance captives**

**Can you provide an overview of Blackwell Captive Solutions and its mission in the field of medical stop-loss insurance captives?**

Blackwell Captive Solutions (Blackwell) was founded on the premise of providing a single-source, turn-key employee healthcare solution. This solution is for businesses seeking innovative alternative risk management solutions for their employee healthcare programmes. In essence, it spreads risk across a captive layer ensuring that premiums are more affordable, more transparent and less volatile year-on-year.

Our team has more than 80 years' combined experience paired with a "nothing to lose" attitude. We fully understand the many complexities within the healthcare marketplace. We still enjoy guiding business owners to the vast alternatives to fully-insured medical programmes.

**What distinguishes Blackwell Captive Solutions in terms of its approach to cost containment and flexibility?**

Blackwell seeks to change the industry by giving clients more transparency than ever. Domiciled in South Carolina, it offers two distinct treaty dates and allows a Letter of Credit for collateral. It also empowers clients to choose the exact combination of cost-containment solutions that best meet their individual needs.

We position clients in the driver's seat as an active participant in their plan performance.

Our clients have the potential to earn a return of up to 50 per cent of their premium via their experience-rated refund which begins in year one — this distinguishes us from other captive solutions. There is no multi-year wait or murky reconciliation process. To say we embrace the motto, 'Essential Stability. Desired Flexibility,' is an understatement!

**Could you elaborate on the types of industries that Blackwell welcomes as clients and what criteria is considered when targeting health plans with a range of member lives?**

Blackwell welcomes all industries. We price favourably for midsize employers, from 50 – 1500 lives. We pride ourselves on solving the healthcare puzzle. We customise our solution based upon each individual client's business and financial needs.

*"Our clients have the potential to earn a return of up to 50 per cent of their premium via their experience-rated refund which begins in year one — this distinguishes us from other captive solutions"*

This is opposed to forcing clients to simply purchase a non-negotiable solution via a narrow selection of brokers. All consultants and all clients are welcome to pull up a chair, roll up their sleeves and strategise beside us.

The door is open, coffee is hot. Everyone is welcomed at the Blackwell table.

**Blackwell Captive Solutions emphasises tax reduction and carrier profits as part of its offering. Can you explain how this strategy benefits clients, even if their claims spend remains unchanged?**

Clients must be self-funded to participate in a group insurance captive. Being self-funded eliminates some insurance carrier and state-mandated costs like carrier risk charges, state premium taxes and state mandates.

Furthermore, a captive is allowed to take a federal tax deduction for unpaid amounts on retained risks, also known as reserves. Whereas, a self-insurer can only take deductions for paid amounts on retained risks. It's all about cash flow and the investment income earned on this accelerated tax deduction.

> ***"Our bedrock belief in innovation and charting a new path, is why we named the company after Dr Elizabeth Blackwell, the first woman to attend medical school in the US"***

**"Cutting-edge solutions: Where buying power meets tailoring freedom" is one of your key messages. Can you provide examples of innovative solutions that clients can opt into and how these solutions contribute to cost savings and member health improvement?**

Today's customers expect a highly personalised experience — the essence of self-funding. When executed well, these experiences can drive long-term client engagement and loyalty, which allows us to differentiate from other captives and to subsequently gain a sustainable competitive advantage.

For example, our clients can opt for Liviniti, a channel partner and pharmacy benefit manager (PBM), a solution based upon transparency, affordability, quality, service and innovation.

This PBM partnership saved a new Blackwell client in Ohio over US$155,000 in prescription lasers, versus the incumbent.

**Your company takes inspiration from Elizabeth Blackwell, a pioneering figure who challenged the status quo. How does this spirit of innovation influence Blackwell Captive Solutions' approach to serving clients in the insurance industry?**

Innovation is a cornerstone of our company. Our bedrock belief in innovation and charting a new path is why we named the company after Dr Elizabeth Blackwell, the first woman to attend medical school in the US.

We take inspiration from Dr Blackwell's trailblazing efforts to challenge the status quo and bring new perspectives and ideas to a profession stunted by adherence to tradition. We know, as Dr Blackwell knew, that there is a better way forward — a path that offers more success by pursuing new ideas, promoted by new participants. Staying nimble and sharing winning solutions amongst clients is a win-win and would make Dr Blackwell proud!

**Could you describe the benefits that organisations can expect when they join Blackwell Captive Solutions?**

Stop-loss coverage protects your organisation when catastrophic claims arise. However, contract terms and conditions may vary significantly each year. Our team fully understands the value of contract differences and potential policy gaps. It puts safeguards in place to manage high-cost gene therapies. Leveraging these nuances and securing advantageous contract terms for our clients reduces annual trend increases. This results in year-over-year savings to ensure financial stability for those who may not otherwise be able to afford self-funding. ■

**Kari L. Niblack, Esq**
President
Blackwell Captive Solutions

# Aon the prize

**Climate risk has never been a more critical topic. Ned Holmes investigates how Aon's Climate Risk Advisory team, launched in May this year, is keeping up with shifting attitudes and how captives fit in**

The impacts of climate change are now impossible to ignore. Global records continue to be broken for all the wrong reasons, while the effect and regularity of unpredictable, extreme weather events mean that climate resilience is more important than ever.

Organisations are repositioning themselves to ensure they can better understand the perils facing them to have the right frameworks in place.

In May, Aon announced the launch of a new Climate Risk Advisory team in a move to realign their approach and refocus their climate risk offering to clients. As part of the initiative, the company has advanced its climate data and analytics.

However, giving climate risk advice is by no means a novel concept for Aon; the company has been delivering it for decades. Its professionals, such as Liz Henderson and Megan Hart, have been motivated by the ever-changing understanding of climate-related perils.

They look at how those perils are modelled, and, most importantly, the concerns of their clients.

"[The initiation of the advisory team] was driven primarily by our clients," explains Aon's Henderson, global head of Climate Risk Advisory. She says: "They are looking for more streamlined climate risk support across reinsurance and commercial risk.

"Clients that are exposed to risk, no matter what sector they're in, are going to need access to advanced data and analytics as well as sophisticated advisory support in order to navigate the volatility that's coming their way — particularly climate-related volatility, among other things."

Managing director of Climate Risk Advisory, Hart adds: "Over the past few years, conversations with clients have changed. Rather than waiting to see what the regulators ask for, or what their competitors are doing, they recognise they need to do something.

"They're starting to receive pressure from their senior leadership, investors and employees, in addition to regulators. Clients are realising they no longer have the luxury of time, and they don't want to get caught on their heels; they don't want to fall behind their competitors or miss out on potential opportunities."

## Clients and collaborations

Aon's clients fall into two distinct groups. The first have a good handle on their risk management, but they are trying to understand what the future looks like in terms of their reinsurance strategy. They also need to recognise the increased frequency and severity of events to create a more forward-looking view of risk. The second consists of commercial risk clients – banks, financial institutions, large multinationals and the public sector. They aren't as aware of some of the tools that the insurance industry has been using.

They're looking for strategic advice about their climate change risk framework and how to set up the right guiding principles. These factors will help them interpret the appropriate information for their business and to ensure that they're disclosing accurate and credible results. This means that they should be able to weather the volatility that's inherent in any kind of climate-related exercises.

In an attempt to be a one-stop shop for both those groups, Aon has built a network of relationships with universities. The network includes 14 different academic researchers, as well as climate analytics providers. Their recent collaboration with AbsoluteClimo, a forecasting and risk management company, is an example of this streamlining.

Hart notes: "It shows our commitment to understanding the landscape and all the teams carrying out relevant research and tool development. We are identifying the right organisations to connect with for research and data gathering. We can digest the research and present it to our clients in a way that they can understand."

Henderson adds: "Our understanding of the perils is changing, as are the models designed to prepare for these perils. They both require active levels of research."

"There's a huge amount of uncertainty around all of this work. Therefore, a robust and resilient climate risk framework will lessen uncertainty, allow for better decision making, and increase the level of potential outcomes resulting from such decisions. That's a really critical point; there is not one answer, there is not one vendor, there is not one view that rises above all the others. You have to have multiple views. You have to really be able to wrap your arms around the uncertainty to find the robust and accurate disclosures that are required. That's one of the founding principles of our team."

## Where do captives fit in?

Once a company has a deeper understanding of their current risks, and how they might evolve, captives can come into play as management tools for climate-related risk.

"We describe it as a journey," says Henderson. "Start with the baseline — understand your current risk and identify your guiding principles to handle the inherent uncertainty. Build out a future-focused view of the risks, understand how it will evolve, then bring in solutions that will help to offset that volatility."

She continues: "Financial institutions or multinationals, many of whom already have captive set up — but are starting to think about modelling and quantifying this risk for the first time — now have the ability to manage it off of their balance sheet."

"They can do this in a way that mitigates some volatility. They can create innovative things around reinsurance or parametric cover to further smooth out the results. Financial institutions that have exposure to climate-related risks should question: what can be done to reduce risk, particularly if they are modelling and disclosing to the Federal Reserve and their investors. Captives are definitely one of the tools to help offset volatility. Captives offer a lot of flexibility and support, and should be part of these conversations."

Hart adds: "There are a lot of different facets to climate risk, and some of them are better understood than others. Concerning captives, there's a lot of flexibility and control over what can be covered and how. In instances where the traditional market doesn't have a sufficient amount of data to support it, captives are a great alternative option.

"As we discuss risks with our clients, we sometimes suggest utilising a captive, or to create one, to help solve a problem they might be facing. We're lucky enough to have leaders in our firm across multiple areas of reinsurance, including captives. They can be brought into our clients' conversations to help them understand what their options are."

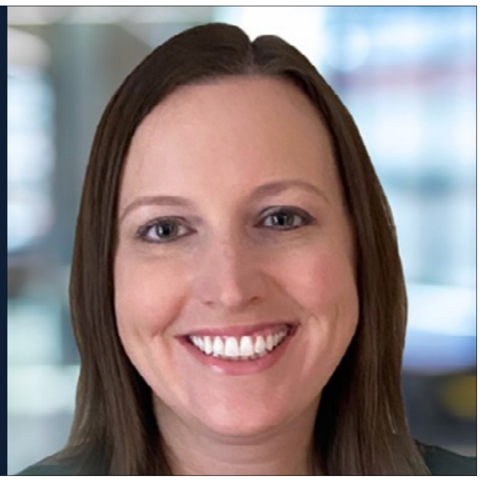
## Climate risk trends

An ever-evolving climate risk landscape means that keeping a finger on the pulse and staying on top of trending developments is vital. Aon has recognised the growing appetite for a more unified approach.

Hart says: "Companies are having to force better collaboration across different parts of their business to handle climate risk. There are a lot of different facets of climate risk and it's often different parts of the organisation that are trying to tackle these different pieces. However, they need to be tackled more holistically. Over the past 18 months, we've seen a shift in industry conversations. There is consensus to create a central unit to bring this all together and make sure that risk is being managed with broader understanding.

*"In the instances where the traditional market doesn't have a sufficient amount of data to support climate risk, captives are a great alternative option"*

**Megan McCullough Hart**
Managing director of Climate Risk Advisory
Aon



The creation of the unit could increase comprehension of how the risk is related across different business units."

Another is strengthening the bond between academia and the industry, which can only be good news for both parties. Hart explains that "better relationships between academia and industry will evolve our understanding of risk across the board."

Aon has outlined climate litigation and liability risk as an area to pay close attention to in the coming years. Elaborating on this, Henderson says: "We have already seen a significant increase in the number of cases that have been brought against oil and gas companies, governments, financial institutions and institutional investors."

These cases often outline the good stewards versus the bad stewards of risk.

"There's been a massive increase – I think tenfold over the past decade – in the number of these cases," Henderson adds. "We've started to track them and identify where there are potential risks that our clients should be concerned about. We are working with an organisation called Praedicat, which is a casualty clash model that also looks at 10 different climate change scenarios that we want to highlight to our clients. It'll help them understand how liability risk will manifest itself across general liability, directors' and officers' liability and workers comp lines of business."

*"We have already seen a significant increase in the number of cases that have been brought against oil and gas, governments, financial institutions and institutional investors"*

She goes on to say: "From an insurance perspective, our clients are asking if there is an aggregation of risk that needs to be addressed. There'll likely be more activity in the climate litigation space from a risk management perspective."

Where climate risk and management is concerned, the topic of parametric insurance solutions is rarely far behind. Henderson says this area highlights "a significant opportunity and it's driven by the fact that climate change is exposing risk in places that people weren't aware of".

She concludes: "Indemnity-type products are just not going to be suitable for covering such risk." ■

*"We are working with an organisation called Praedicat, which is a casualty clash model that also looks at 10 different climate change scenarios that we want to highlight to our clients"*

**Liz Henderson**
Global head of Climate Risk Advisory
Aon

## Hylant appoints Erin Hackett to global captive solutions team

Hylant Global Solutions (Hylant) has appointed Erin Hackett (pictured) as a global captive solutions account executive. Hackett brings more than 10 years of auditing and accounting experience to the role.

Based in Vermont, she joins Hylant from freelancing as an independent consultant.

Hackett previously worked as an audit senior at accountancy firm Crowe, before being promoted to audit senior manager.

Hackett's hire follows Hylant's recent promotion of Dawn Dinardo from director of captive management operations to managing director of captive management operations.

Dinardo will oversee Hylant's captive management operations business unit, guiding strategy, operations and team development.

Prior to joining Hylant, Dinardo was an assistant vice president at Marsh.

Hylant has also appointed Amit Hapani as director of India operations.

In his new role, Hapani will guide strategy and oversee day-to-day operations.

Based in Maharashtra, India, he joined Hylant in October 2019 as senior account manager. Prior to that, Hapani was a deputy manager at Marsh for more than two years. ■

**Arch Bermuda has appointed Matthew Smith as managing director, effective from 1 January 2024.**

His appointment will follow the retirement of Tony Hay who has served in the role since 2018.

Smith will be responsible for managing Arch Bermuda's direct insurance operations. He will report to Mike Lay, chief underwriting officer for long tail lines at Arch International.

Smith has been with Arch Bermuda since 2002 and currently serves as senior vice president and underwriting manager for executive assurance.

Prior to joining Arch, he was a senior professional liability underwriter at Chubb.

Hugh Sturgess, CEO at Arch International, comments: "The fact that we are able to promote from within for this top position speaks to the calibre and depth of our Bermuda team."

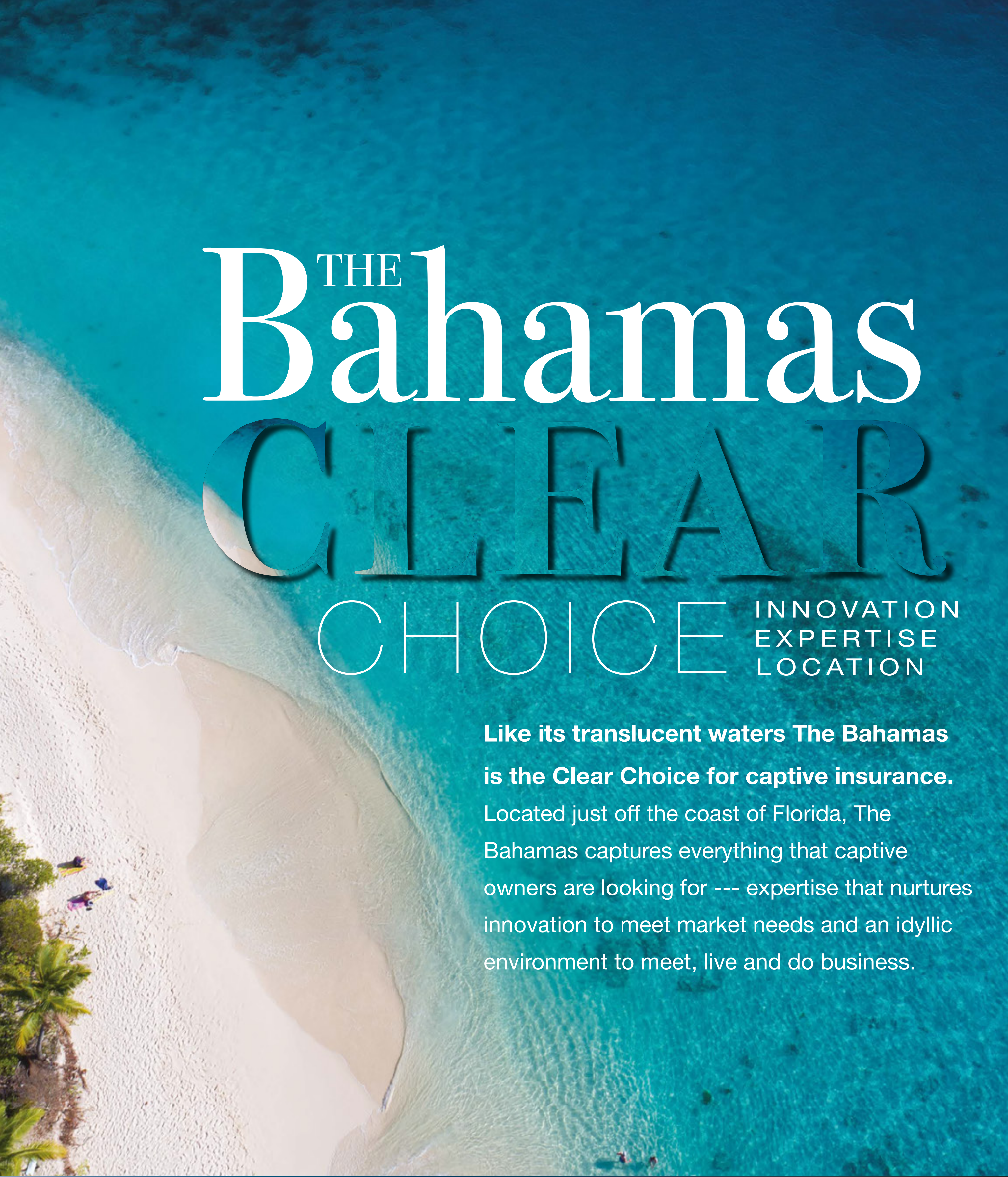
He adds: "Bermuda is a core market for Arch, and we have invested heavily in our talent base there."

**Risk Services has appointed Jennifer Haskell as director of captive accounting.**

Based in Florida, Risk Services provides captive insurance and risk retention group management services.

Haskell has more than 16 years of insurance regulation experience. She spent 15 years at the Alabama Department of Insurance, where she was responsible for regulation of both traditional and captive insurers.

Haskell most recently served as a senior examiner at Examination Resources in Georgia, US.


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

## NARS promotes Chris Reilly to chief growth officer

North American Risk Services Inc. (NARS) has promoted Chris Reilly to chief growth officer.

In his new role, Reilly will oversee the business development team as the company expands.

He will continue to work with Jamie Bernardo, executive vice president at NARS, and the business development team.

Reilly joined NARS six years ago as a vice president of business development. NARS says ‘much of its growth has come from the relationships [he] has formed.’

Reily brings nine years of industry experience. Previously, he served as director of national accounts at Illinois-based Keais Records Retrieval.

He is well known in the industry on Linkedin for his #Mondayquotes, posting inspirational quotes weekly.

Bernado comments: “As NARS expands its business development footprint, we need a leader like Chris to manage and develop the incoming talent on this team. He is knowledgeable about the industry and NARS and is a natural fit for this role.” ■

Commenting on the new hire, Troy Winch, director of captive insurance at Risk Services, says: “[Jennifer’s] regulatory knowledge and background will provide great value to Risk Services’ client base.”

**Aon has appointed Jake Nichols as senior managing director, global clients leader in Bermuda, within its reinsurance solutions department.**

Based in Bermuda, Nichols will report to Dave Nicholson, head of Aon’s global reinsurance clients (GRC) segment.

Nichols will be responsible for developing risk transfer solutions to optimise clients’ capital strategies. He will match risk with capital, with a particular focus on global clients.

He joins Aon from Aeolus Capital Management, where he was a portfolio manager. Prior to that, Nichols served as senior vice president at Guy Carpenter for nearly a decade.

Nicholson comments: “In addition to his specific account responsibilities, Jake will act as a GRC conduit into the Bermuda market, identifying capacity for our clients to navigate volatility by helping to shape better decisions.” ■