captive insurance times

The primary source of global captive insurance news and analysis

July 2024 - Issue 269

Apollo's first modern captive syndicate

Apollo's Andrew Gray and Matt Newman talk about the launch of the first captive syndicate of the 'modern era'

Captive Dissolution

We need to talk about exit solutions

Education

Bridging the talent gap in captives

Conference Preview

Vermont: Where the captive world meets

captive insurance times

Issue 269

www.captiveinsurancetimes.com

Published by
Black Knight Media Ltd

Unit 23, Metro Business Centre, Kangley Bridge Rd, London, SE26 5BW

Publisher: John Savage
johnsavage@captiveinsurancetimes.com

Publishing Director: Justin Lawson
justinlawson@captiveinsurancetimes.com
020 3667 3244

Office Manager: Chelsea Bowles
accounts@captiveinsurancetimes.com

Group Editor: Karl Loomes
karlloomes@blackknightmedialtd.com
020 3617 1722

Reporter: Diana Bui
diana@captiveinsurancetimes.com
020 3372 5997

Reporter: Jack McRae
jackmcrae@assetservicingtimes.com

Junior Reporter: Klea Neza
kleaneza@blackknightmedialtd.com

Lead Designer: James Hickman
jameshickman@blackknightmedialtd.com

Follow us on Linkedin

Contents

images by moofushi/stock.adobe.com

North Carolina passes captive bill

The North Carolina General Assembly has passed captive bill SB 319, which includes a two-year premium tax holiday for captives redomesticated in the state.

The bill sponsored by the North Carolina Captive Insurance Association (NCCIA) has been sent to the Governor, who has 10 days to sign it or let it become law without his signature.

In addition to the tax exemption, the amended legislation proposes changes to the retaliatory tax applied to risk retention groups (RRG), reducing the maximum rate language in the statute to 1.85 per cent.

The bill also states that the commissioner may examine any RRG if he deems it prudent and reasonable, and that the examined RRG will pay for such examinations.

This year, North Carolina has become the third-largest captive domicile in the US, behind Vermont and Utah. The state currently hosts 311 captive entities, up from 294 in 2022, with Utah holding 439 and Vermont licensing 659. ■

Artex acquires London-based insurance consulting firm

Artex, a captive and alternative risk transfer solutions subsidiary of Gallagher, has acquired London-based insurance consulting firm Implement Compliance Solutions and Resources (ICSR).

ICSR provides consulting and support services on compliance, governance, risk and operations to insurance firms primarily in the UK.

Kenneth Underhill, director of ICSR, and his team will remain in London under the guidance of Paul Eaton, head of Artex EMEA.

Patrick Gallagher, chairman and CEO of Gallagher, comments on the acquisition: "ICSR represents an excellent strategic fit for Artex and will strengthen our capabilities in serving clients undergoing regulatory and transformational change."

Eaton adds: "ICSR, under Kenneth's stewardship, has built a well-respected reputation in the London market for the delivery of cost-effective and pragmatic solutions, helping insurance clients with the establishment, operation, remediation, and transformation of their businesses.

BCIC launches omnichannel insurance ecosystem

British Caribbean Insurance Company (BCIC) has introduced its omnichannel insurance ecosystem built on the EIS Group's cloud-native SaaS platform, and implemented by EY.

The initiative aims to deliver an enhanced digital experience for customers and brokers while reducing the cost of provision and claims through automation and advanced fraud detection capabilities.

The multi-phased rollout begins in Barbados, with plans to expand to Jamaica later this year and then to the rest of the Caribbean.

The digital ecosystem will increase access to BCIC's existing products, enable the launch of new products at pace, and ensure that every engagement is tailored to meet the specific needs of the Caribbean's diverse population.

Initially, BCIC customers will be able to purchase motor insurance, with other types of insurance, such as home and commercial, becoming available soon.

Peter Levy, managing director at BCIC, states: "Our business is complex, serving a diverse population across different territories with distinct needs. We wanted a platform that can provide everything needed to offer a world-class customer-centric experience today but also has the flexibility to adapt as we evolve our offering and expand into new markets."

He continues: "We chose EIS because their platform is modern, digital by design, and provides a development environment in which we are the masters of our own destiny.

"It gives us a digital technology engine to scale, launch new, relevant products, and adapt to our customers' changing needs without increasing the cost of doing business." ■

Guernsey's captive insurance potential showcased at GIIA Airmic conference

Industry experts highlighted the potential of the captive insurance industry in Guernsey as Europe's largest captive domicile during the one-day conference, organised by the Guernsey International Insurance Association (GIIA) and Airmic. The event titled 'Positioning for the future', which took place on 25 June at Pierre Park Hotel, Guernsey, featured a full schedule of sessions covering subjects such as disaster relief financing, parametric insurance, and the future of reinsurance markets.

In his welcome address on behalf of the Government of Guernsey, Deputy Mark Helyar highlighted: "Guernsey is Europe's premier captive jurisdiction. We are a centre for innovation, and because of the unique constitutional relationship [with the UK], we have a very stable political and economic environment in which to do business."

Meanwhile, Julia Graham, chief executive of Airmic, remarked: "Guernsey is an internationally recognised centre of finance and associated knowledge and expertise, including in the area of captives and associated risk financing solutions."

Addressing the changing global risk landscape, Adele Gale, chairman of GIIA, notes: "Guernsey is front and centre of the global captive industry, and as corporations look to their risk divisions to help them build resilient strategies, the captive becomes one of the mainstream tools at their disposal."

Guernsey is Europe's largest captive jurisdiction, with 199 captives domiciled at the end of 2023. The island reported four new captives and nine new captive cells formed last year. The jurisdiction is also the domicile of choice for 40 per cent of FTSE 100 companies, saving UK businesses almost £100 million and providing specific coverage to UK businesses.

Registration opens for DCIA's Fall Forum

Registration for the Delaware Captive Insurance Association's (DCIA) Fall Forum is open. The event will take place from 23 - 24 October at Hyatt Place, Wilmington. The conference aims to bring together captive owners, service providers and captive regulators for educational discussions combined with business opportunities.

According to the Delaware Department of Insurance, 43 new captives were licensed in 2023, for a total of 670 licensed captives.

The state's captive bureau launched Delaware Captives 2.0 with the DCIA last year, aiming to continue to innovate and compete with other domiciles.

Cayman Captive Forum registration opens

Registration is now open for the Cayman Captive Forum 2024, scheduled from 3 - 5 December at the Ritz-Carlton, Grand Cayman. According to the organisers, the event will feature more than 100 speakers from around the world, with an agenda covering the most relevant topics, from ESG, healthcare, group captives, workers' compensation, ILS, and reinsurance to blockchain, cyber insurance, and crisis management. The full agenda of the conference will be released in September. Cayman is known as one of the biggest captive domiciles in the world, with 41 new captive formations in 2023, bringing the total number of captives in the jurisdiction to 567 at year-end.

Marsh gets new captive licence in Cayman Islands

The Cayman Islands Monetary Authority (CIMA) has issued a licence for Mangrove Insurance, Marsh's new segregated portfolio facility in the Cayman Islands.

With this move, Marsh aims to provide diverse risk management solutions with a composite licence covering both general and long-term business opportunities.

The firm offers a variety of cell captive facilities under the Mangrove brand, located in different domiciles. These facilities allow clients to experience the advantages of an owned captive without assuming the administrative, capital, and governance costs of a single-parent captive.

images by alimyakubov/stock.adobe.com

Aon launches US$350 million insurance programme to support Ukraine

Aon has partnered with the US International Development Finance Corporation (DFC) on a US$350 million programme to build insurance capacity and accelerate new capital investment and economic recovery in Ukraine.

In detail, Aon coordinates a US$50 million reinsurance facility, working closely with the DFC and the Ukraine Ministry for Development of Economy and Trade, to support the issuance of on-the-ground war risk policies to businesses operating in Ukraine.

Aon and the DFC also collaborate on an additional US$300 million in war risk insurance specifically designed for Ukraine's health care and agriculture industries.

ARX, a Ukrainian subsidiary of Fairfax Financial, is the first company to receive certification as a qualified Ukrainian insurance company to access the reinsurance facility.

The company will work with Aon and the DFC to build a portfolio of war risk insurance policies for companies operating in Ukraine and support ARX in expanding its war risk insurance offering in the country.

Eric Andersen, president of Aon, comments: "Capital will not go where it is not protected, and this unprecedented programme with the DFC is intended to unlock and accelerate investment in Ukraine at a time when the need is most acute.

"This groundbreaking facility will enable the local insurance industry to appropriately price risk and draw much-needed new capital into Ukraine, while creating capacity and capability in the country to support reconstruction." ■

AM Best upgrades outlook for global reinsurance industry to 'positive'

AM Best has revised its market segment outlook for the global reinsurance segment to 'positive' from 'stable', citing the robust profit margins along with higher attachment points and tighter terms and conditions that followed a period of drastic repricing. According to the rating agency, despite decelerating reinsurance rate increases, underwriting discipline is maintained, and profit margins remain healthy enough to absorb higher loss activity than recently experienced.

Carlos Wong-Fupuy, senior director at AM Best, comments: "Demand for coverage remains strong due to heightened natural catastrophe loss activity and general economic uncertainty. We also considered the expectations of a slower reduction in interest rates than originally anticipated, which are likely to support strong returns in the short term."

AM Best also notes that recently improved and stabilised underwriting margins followed a string of disappointing results in the years after heavy weather-related losses in 2017, notably Hurricanes Harvey, Irma, and Maria.

Various actions aimed at tightening terms and conditions compounded the repricing efforts, with a diminished appetite for aggregate protection, a focus on named perils, a shift from proportional to excess loss covers, and a sharp increase in attachment points.

The agency observes that reinsurance books for the largest players continue to expand owing to a combination of higher reinsurance rates, a flight to quality, and increased demand.

While large losses, such as the collapse of the Francis Scott Key Bridge in Baltimore, impacted loss ratios during the first quarter of 2024, underwriting margins and annualised return on equities remained strong.

Guy Carpenter forms Capital & Advisory group

Guy Carpenter has launched the Capital & Advisory group as part of its Global Capital Solutions and has appointed Alexander Schnieders as global head of the new division. The newly formed unit aims to expand Guy Carpenter's offerings to C-suite clients globally and bring more capital to (re)insurance risks. The team will raise capital for clients, provide advice on capital and M&A transactions, establish new market capacity, and support the formation of new companies.

Schnieders will report to Laurent Rousseau, CEO of Europe, IMEA and Global Capital Solutions, Guy Carpenter. He joins the firm from Teneo Holdings, where he was the head of Financial Institutions Group and co-head of the M&A unit. Prior to that, Schnieders worked for Goldman Sachs and Perella Weinberg Partners in similar roles.

Rousseau comments: "The addition of a Capital & Advisory team to our already strong Global Capital Solutions unit, which includes cat bonds and other insurance-linked securities through GC Securities and legacy products through Global Risk Solutions, creates an offering that is unmatched in the industry.

CTCIA hosts first stop of regional tour in Boston

The Connecticut Captive Insurance Association (CTCIA) welcomed business owners, industry leaders, and insurance professionals from Greater Boston to the first stop of its regional tour. In the event, held at KPMG headquarters in Boston, guests were provided with an overview of captive insurance, their applications, collaboration examples, as well as insights on tax and accounting details associated with captive insurance entities.

Connecticut leaders also shared information about the benefits of the domicile and the path to establishing a captive in Connecticut.

Speakers highlighted the state's recent legislative updates, including Connecticut House Bill 5503, which concerns insurance market conduct and licensing, the insurance department's technical corrections, and other revisions to the insurance statutes and captive insurance.

The amended law introduced a new measure that will allow a business that initially insured its business through a protected cell, the ability to create and form its own pure captive insurance company, without any impact on the assets, rights, benefits, obligations, and liabilities of the protected cell.

P.J. Cimini, president of CTCIA, stated: "We were extremely pleased with the turnout and excitement for this inaugural event held in Boston, our neighbour to the north. The outpouring of interest in support by Massachusetts companies and leaders in Connecticut as a captive insurance domicile option was heartening."

Meanwhile, Fenhua Liu, assistant deputy commissioner of captive insurance at the Connecticut Insurance Department, remarked: "The Connecticut captive insurance domicile provides a unique opportunity for innovative captive owners, managers, and companies to establish and grow in a strong regulatory environment. As one of the fastest growing domiciles in the country, I was pleased to speak at this event and spread the great news about the Connecticut 'captive advantage' that we provide."

Kerry Wood, Connecticut state representative and house chair of the Insurance Committee, commented: "Connecticut's business-friendly insurance environment, with strong in-state workforce support, continues to prove itself as one of the top captive locations in the world.

IAG mitigates earnings volatility through reinsurance deals

IAG has entered into five-year reinsurance agreements with Berkshire Hathaway and Canada Life, along with securing adverse development cover (ADC) for its long-tail risks from Enstar Group.

The first deal allows IAG to receive long-term natural peril volatility protection from Berkshire Hathaway and Canada Life, providing up to US$680 million of additional protection annually and up to US$2.8 billion over the entire five year period.

In conjunction with IAG's quota share and traditional reinsurance protections, this will effectively limit natural peril costs to US$1.28 billion in this fiscal year, an increase of approximately 17 per cent from US$1.1 billion estimated last year.

The reinsurance against natural perilous events provides material downside protection for future earnings volatility against extreme weather events and weather patterns.

Nick Hawkins, managing director and CEO at IAG, notes: "Australians and New Zealanders have experienced multiple extreme weather events over the past five years, which has resulted in increased reinsurance costs and ultimately property insurance premiums.

"This long-term agreement will help to provide greater certainty over the cost of the cost of natural perils as extreme weather events become more frequent and severe."

He continues: "For our shareholders, this transaction builds on IAG's comprehensive reinsurance strategy, provides greater earnings stability, and reduces our capital requirements."

Zurich expands into India with acquisition of Kotak

Zurich Insurance has acquired a majority stake in Kotak Mahindra General Insurance from Kotak Mahindra Bank for US$670 million through a combination of fresh growth capital and a share purchase.

The company states that this transaction represents the largest foreign investment in India's general insurance sector to date, and it is the first by a foreign insurer since the foreign direct investment cap was raised from 49 to 74 per cent in the country in 2021.

With this entry, Zurich aims to foster the development and expansion of India's insurance sector in keeping with the Insurance Regulatory and Development Authority of India's goal of achieving 'Insurance for All' by 2047.

In due course, the business will adopt a new brand that represents both Zurich and Kotak as shareholders.

Tulsi Naidu, CEO of Asia Pacific, Zurich Insurance Group, comments: "The acquisition of Kotak General Insurance sets the way forward for Zurich to be a leading player in a very significant growth market—India. This is a key strategic step for Zurich.

"India's insurance market offers immense potential, and together with Kotak, we are committed to supporting its growth and development."

Shanti Ekambaram, deputy managing director at Kotak Mahindra Bank, says: "We are excited about the partnership with Zurich as we aim to leverage our combined local knowledge and global expertise to enhance insurance coverage in India.

"The new entity will unlock the next phase of growth for Kotak General Insurance and create a leading non-life insurance franchise that will focus on technology and scale, while prioritising customer needs."■

Captive premiums report rapid growth in Michigan

Michigan captive insurer premiums exceeded US$3 billion in 2023, marking an increase of 25 per cent over the previous year, according to the Michigan Department of Insurance and Financial Services (DIFS).

Based on premium volume, Michigan is in the top ten for US-based captive domiciles.

The DIFS remarks that the total number of captive insurers increased to 26 in 2023, indicating a growing demand for alternative insurance coverage options in Michigan for businesses and other organisations.

Captives are licensed with DIFS and are subject to some of the same insurance regulations as traditional insurers in the state.

DIFS director Anita Fox says: "Michigan's captive insurance programme, administered by DIFS, provides an important way for businesses to obtain insurance coverage for certain types of risks."

She continues: "With a nearly 25 per cent increase in total captive insurer premiums, Michigan has continued the trend of attracting new captive formations to the state." ■

In addition to existing protections covering long-tail lines, IAG has also purchased an ADC from Cavello Bay Reinsurance, a subsidiary of Enstar Group. This will provide US$650 million of protection for the long-tail reserves of approximately US$2.5 billion.

It applies to portfolios across Australia, including product and public liability, compulsory third-party motor, professional risks, and workers' compensation. The agreement also includes explicit coverage for molestation and silicosis, up to a sublimit of US$50 million.

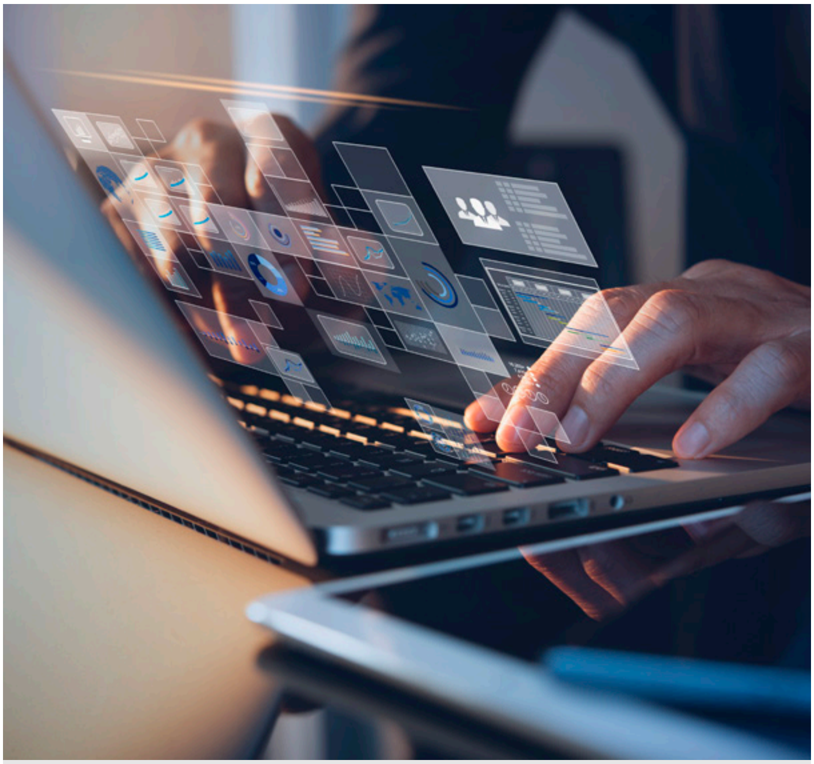
The new long-tail protection plan, combined with the existing cover, strengthens IAG's capital base, providing a solid foundation for the company's ongoing business development efforts in both Australia and New Zealand.

William McDonnel, chief financial officer at IAG, states: "This additional long-tail protection is a further demonstration of IAG's ability and ongoing effort to reduce financial risk, capital requirements, and earnings volatility. This reinsurance protects against deterioration due to the inherent uncertainty of long-tail insurance risks such as adverse judicial developments and superimposed inflation."

Argenta to close Sydney office

Argenta, a subsidiary of Hannover Re, has closed the Sydney office of its service company, Argenta Underwriting Asia, which operates on the Lloyd's Australia platform. The business currently underwritten in Sydney, as well as future business in the city, will now be managed from London.

MHIA, Argenta's other Australian office in Tuggerah, which offers insurance coverage to over 20,000 customers in land lease communities across Australia, will remain unaffected.



S&P Global launches new solution for credit risk assessment

S&P Global Market Intelligence has launched RiskGauge Desktop, a scalable solution to streamline credit risk assessment for corporations of all sizes.

RiskGauge Desktop offers a proprietary scoring methodology that integrates market, financial, and business risk inputs, along with analytics data featuring macroeconomic scenarios, qualitative adjustments, and loss given default overlays.

It also provides customer trend analysis by country and industry, detailed reports on over 50 million companies, and access to S&P Capital IQ's data assets, including financial statements for over 12 million companies.

Whit McGraw, head of Credit and Risk Solutions, S&P Global Market Intelligence, says: "RiskGauge Desktop provides data-based insights that help credit leaders mitigate risk, identify new opportunities, and enhance their overall credit risk management capabilities.

"Our goal was to build a product that forms the backbone for sustainable growth for organisations of all sizes and levels of sophistication, especially important in today's dynamic market environment." ■

Zurich and Aon launch clean energy insurance facility

Zurich Insurance Group and Aon have partnered to launch a clean energy insurance facility, providing coverage globally for blue and green hydrogen projects with capital expenditures of up to US$250 million.

This initiative, with Zurich as the lead insurer and Aon as the exclusive broker, aims to accelerate the development of clean hydrogen projects.

The new multi-line clean energy insurance facility offers coverage through a single integrated policy, encompassing construction, delay in start-up, operational cover, business interruption, marine cargo limits, and third-party liability.

It also includes coverage for carbon capture, utilisation, and storage technologies, providing businesses with a complete suite of solutions across the entire value chain of hydrogen production.

Over the past two years, Zurich and Aon have conducted research and engaged with customers to gain insights about the specific needs and challenges of developing blue and green hydrogen projects.

Blue hydrogen is derived from natural gas and uses carbon capture technologies to reduce its carbon intensity; green hydrogen is produced by splitting water into hydrogen and oxygen via electrolysis powered by renewable energy.

Sierra Signorelli, CEO of Commercial Insurance at Zurich, comments: "Insurance is a key enabler to facilitate the net-zero transition, providing protection as well as risk expertise. Clean hydrogen has immense potential as an eco-friendly alternative to fossil fuels, and we strongly believe it can play a critical role in the energy transition."

Supercede secures US$15 million to invest in reinsurance technology

Reinsurance technology platform Supercede has secured US$15 million in a Series A funding round, led by Alven Capital.

The investment also counts contributions from Mundi Ventures and existing investors Outward, Seedcamp, MMC Ventures, and AFG Partners.

With this new capital, Supercede plans to expand its team, attracting talents to enhance platform development and implementation.

Representing over 140 member companies globally, including insurers, brokers, and reinsurers, Supercede's platform automates the reinsurance process, enhancing risk management, coverage, and pricing outcomes.

Jerad Leigh, CEO and co-founder of Supercede, states: "Securing this funding is a testament to the transformative power of our platform.

"This investment accelerates our ability to deliver unparalleled value to our clients and drives us closer to our goal of becoming the indispensable operating system for the global reinsurance market."

SRS finalises acquisition of Robus Group

SRS has completed the acquisition of Robus Group, expanding further its captive management service throughout Europe.Operating from Guernsey and Gibraltar, Robus provides professional management services to captive insurers, open market insurers and reinsurers, insurance intermediaries, MGAs, ILS fund managers, and other corporate entities around the world.

Robus will continue to operate out of their existing locations. Gibraltar will be a new domicile offering for SRS.

Shell's captives retain 'Excellent' ratings

AM Best has affirmed the financial strength rating of 'A' (Excellent) and the long-term issuer credit rating of 'a+' (Excellent) of Solen Versicherungen (SVAG) and Noble Assurance Company, captives owned by Shell. The outlook of these credit ratings remains 'stable'.

The agency notes that these ratings reflect SVAG's balance sheet strength, which was categorised as very strong, as well as its strong operating performance, neutral business profile, and appropriate enterprise risk management.

The captive has a track record of strong operating performance, underpinned by robust underwriting results. SVAG's key performance metrics are expected to remain supportive of a strong assessment over the medium term.

According to AM Best, SVAG's business profile assessment reflects its key role in supporting its ultimate parent's overall risk management framework as Shell's principal captive.

The captive's non-life business mostly consists of offshore and onshore property and liability risks, as well as the associated business interruption cover. SVAG also writes a small book of life business derived from reinsurance of the group's pension liabilities.

Meanwhile, Noble's ratings reflect its status as a member of the SVAG rating unit and Shell subsidiary. As a captive domiciled in Texas, Noble underwrites Shell's US business and cedes the risks to SVAG, its sister company, through a quota share reinsurance agreement. ■

FERMA urges EU leaders to make Europe 'risk-ready for a brighter future'

The Federation of European Risk Management Associations (FERMA) has released its EU Policy Manifesto, which outlines what EU leaders must address to help bolster the overall resilience of the bloc.

The document, titled 'Making Europe risk-ready for a brighter future', requests the simplification of the regulatory maze to maintain the competitiveness of European companies.

To address this, FERMA calls upon policymakers to task the Fit for Future Platform (F4F) and proposes supporting the implementation of adopted legislation in concert with impacted stakeholders.

Moreover, the association asks for supporting the transition to net-zero by taking a risk management approach, building a more cyber secure and resilient EU and bolstering the EU's preparedness and response capabilities for future crises.

Commenting on the Policy Manifesto, Charlotte Hedemark, FERMA president, remarks: "The incoming EU leaders are facing a risk landscape of almost unparalleled complexity heightened by growing geopolitical tensions, ongoing economic uncertainty, and the constantly expanding cyber threat.

"Our Manifesto aims to promote risk-focused solutions to help elevate resilience and boost competitiveness across the EU, as well as apply FERMA's comprehensive risk expertise to drive positive action on these four critical pillars."

Typhaine Beaupérin, FERMA CEO, further adds: "We will use our manifesto to provide a robust basis for productive discussions between the incoming EU leaders and FERMA."

images by anselm/stock.adobe.com

Lemonade secures improved terms in 2024 reinsurance renewal

Insurtech firm Lemonade has completed this year's reinsurance renewal on better terms.

The programme will be led by the same tier-one carriers as the expiring treaty, which is in effect for a standard 12-month term and oversubscribed on all dimensions.

The core of the programme is 55 per cent quota share protection, the same level as in recent years. The variable ceding commissions are projected to be roughly equivalent to, or better than, those enjoyed under the outgoing agreements.

Daniel Schreiber, CEO and cofounder at Lemonade, comments: "Partnering once again with the world's largest and most respected reinsurers who have chosen to stake their capital on the performance of our business is a big deal for Lemonade."

Lemonade established Lemonade Re, a new risk-bearing entity, in the Cayman Islands last year to hold some of the retained risk.

To retain most of Lemonade's windstorm exposure, the firm also established a captive cell at a Bermuda transformer. While windstorm reinsurance capacity was available, this structure was determined to offer a better cost-benefit profile.

AutoRek joins forces with J.P. Morgan to improve premium processing

Insurtech firm AutoRek has partnered with J.P. Morgan Payments to help insurance firms improve premium processing and cash allocation. The firms say the new solution enhances financial data flows from banking sources for cash allocation, matching and credit control and offering benefits to clients through the integration of both systems.

Darren Snoxell, head of insurance, EMEA at J.P. Morgan Payments, says: "Working with a specialist company like AutoRek will complement our existing solutions to help deliver an end-to-end solution across the entire insurance value chain. ■

Apollo's first captive syndicate of the 'modern era'

Apollo's Andrew Gray and Matt Newman talk to John Savage about the launch of the "first captive syndicate of the modern era" managed by the company at Lloyd's market

Apollo Syndicate Management launched Captive Syndicate 1100 in June — the first of its type at Lloyd's — after the London (re) insurance market released a guide for applicants in January 2023, which allows companies to operate a captive within London's insurance market.

The launch signals the start of a new initiative at Lloyd's, where large captive clients can retain risk through their own Lloyd's-rated syndicate instead of via more traditional captive models.

What motivated Apollo to pursue the launch of this pioneering captive syndicate at Lloyd's, and what specific advantages does this model offer to your major global client?

Since the introduction of Syndicate 1971, our goal at Apollo has been to equip our core long-term partners with bespoke products and risk management solutions, from inception through maturity.

Among these solutions is the opportunity for them to host their captive syndicate at Lloyd's, enabling them to retain risk on highly rated paper while maintaining control over their risk management processes. Drawing on our extensive real-world experience in establishing and growing syndicates, we are uniquely positioned to partner with entities aiming to achieve this.

We have numerous examples of maintaining close partnerships with our clients from the early stages of their growth to when they become significant players in their marketplaces, capable of retaining a substantial portion of their own risk.

The primary advantages of a Lloyd's captive syndicate include allowing the organisation to retain significant risk within its own Lloyd's capitalised vehicle. This comes with several benefits, such as Lloyd's international underwriting permissions, which include the capability to underwrite direct insurance in 80 countries, and reinsurance licences that enable syndicates to reinsure local direct writers where Lloyd's lacks direct underwriting permissions. This setup reduces the need for costly fronting arrangements and allows the captive to set and control their own risk appetites, retentions, and wordings, with Apollo serving as their Lloyd's managing agent partner.

Additionally, captive syndicates benefit from sharing the financial strength rating of the Lloyd's market, often resulting in lower collateral requirements and the ability to retain both first-party and related third-party risks.

As the first modern captive syndicate at Lloyd's, what were some of the key challenges or hurdles you faced during the application and approval process, and how did you navigate them?

As with any pioneering effort, particularly when crafting new innovation, our team faced challenges that demanded creative thinking, collaboration, commitment, and patience.

In this venture, Apollo, our captive partner, and Lloyd's are fully committed to success. Whenever obstacles arose, transparency and a willingness to explore potential solutions are paramount, driven by the knowledge that the ultimate reward would justify the effort.

Future captive syndicates now stand to benefit from innovation and the refined Lloyd's captive proposition.

We at Apollo eagerly anticipate collaborating with new partners to take advantage of Lloyd's captive syndicate.

Matt Newman
Active underwriter for captive syndicate and chief engagement officer
Apollo

How does this captive syndicate align with Apollo's broader strategy and commitment to delivering innovative solutions and mutual success through long-term partnerships?

At Apollo, we have enjoyed a collaborative relationship with our global partner for several years, offering tailored (re)insurance solutions to meet their business needs.

Our shared commitment to innovation and aligned values have strengthened this partnership, ultimately leading us to establish a Lloyd's captive syndicate together.

We take great pride in our ability to deliver customised (re)insurance solutions to some of the world's most innovative clients. The bespoke Lloyd's captive syndicate is a prime example of the diverse solutions we offer.

Apollo also brought the first syndicate dedicated to what was described as the gig economy but has now evolved into the broader digital economy to Lloyd's (Syndicate 1971), the first Lloyd's innovation consortium to the market, and has been a key contributor and mentor for the Lloyd's Lab.

Lloyd's guide highlights the importance of selecting the right managing agent partner. Could you share insights into your collaboration with the managing agent and how their expertise and support facilitated this achievement?

As a Lloyd's managing agent, we possess deep expertise and a successful track record in establishing new syndicates at Lloyd's.

Our innovative approach played a pivotal role in the successful launch of this new captive syndicate. By working collaboratively with our partner and Lloyd's, we developed a proposition that delivers substantial benefits to all involved parties.

Regarding capital and risk management, how did you approach determining the appropriate capital requirements and risk mitigation strategies for this captive syndicate, particularly in light of Lloyd's capital-setting framework?

At Apollo, we possess a wealth of expertise in risk management, actuarial science, and capital requirements, which is deeply embedded within our organisation. Our profound understanding of risk and Lloyd's specific capital requirements allowed us to negotiate a capital agreement that met both our client's and Lloyd's expectations.

From an operational standpoint, what were some of the critical considerations in establishing the necessary legal arrangements, banking facilities, and licensing arrangements for the captive syndicate?

With the support of our external legal advisers, Norton Rose Fulbright, we developed a legal structure and relationship that met Lloyd's requirements and addressed the complexities of a captive syndicate. Additionally, we worked closely with our partners to structure the captive insurance programme in accordance with all local licensing requirements, utilising fronting arrangements as needed. Liquidity and investments play a crucial role in the financial management of any new syndicate. To achieve this, we provide support and guidance on a variety of operational aspects, including risk recording, financial and regulatory reporting, claims management, reserving, exposure management, and outward reinsurance.

As the captive insurance industry continues to evolve, how do you foresee this pioneering captive syndicate model impacting the broader captive landscape and potentially inspiring other organisations to explore similar structures?

Lloyd's is currently the only UK onshore domicile for captives, and it is the go-to marketplace for innovative (re)insurance expertise and solutions. Lloyd's captive proposition is particularly thrilling and presents substantial potential benefits for organisations seeking to internalise significant risk.

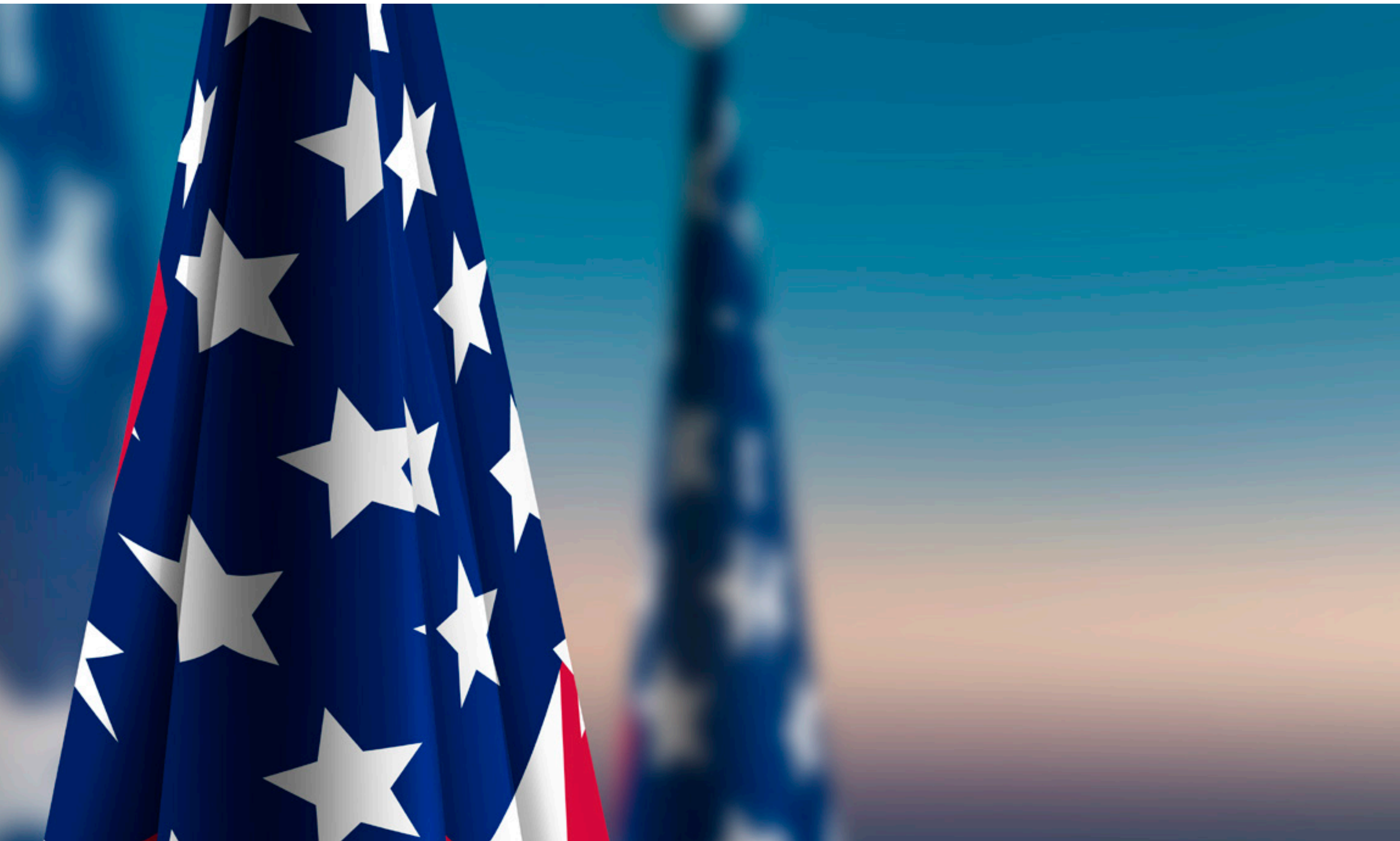
Compared with other captive domiciles, Lloyd's excels with its global licensing, financial robustness, and flexibility inherent in the Lloyd's model.

In terms of governance and oversight, what measures has Apollo implemented to ensure adherence to Lloyd's Principles framework and ongoing regulatory compliance for this captive syndicate?

As established managing agents at Lloyd's with a track record of managing multiple syndicates, we at Apollo leverage our mature and robust governance framework that aligns with Lloyd's Principles.

We adapt this framework to ensure that oversight is proportionate and accurately reflects the risk profile and operating model of the captive syndicate. ■

Andrew Gray
Director of strategic partner syndicates
Apollo



Navigating captive regulations across US states

Continuing the discussion about captive legislation in US states, in the second of two articles on the topic, Diana Bui speaks to regulators from Missouri, Delaware and Oklahoma about their strategies to stay competitive and adapt to industry changes

Missouri: Leading domicile in Midwest

Since the enactment of the captive law in 2007, Missouri has become the largest domicile in the Midwest, well-known for its stability, responsiveness, and regulatory-friendly approach. Missouri, with its strategic location in the central region of the US, boasts a thriving business community, making it an ideal and accessible choice for companies looking to establish their captives in the state. The domicile witnessed a surge in its gross written premium, increasing 142 per cent year-on-year in 2023 to more than US$8.6 billion.

Sam Komo, captive manager at the Missouri Department of Commerce and Insurance (MDCI), states that Missouri maintains a trained in-house team that can perform everything from application to examination. "This group of experienced professionals understands the captive industry, state captive law, and works hard to regulate without over-regulating. This regulatory balance is what makes captives grow strong in Missouri while protecting their long-term success," says Komo.

He emphasises: "At a time when the stability of governance is more important than ever, Missouri stands strong by design. Missouri has a variety of industries that develop captives within the state. To ensure success, we work to understand their needs and provide guidance in developing their captive structure. This exemplifies our commitment to supporting all businesses, regardless of their primary industry."

The captive manager asserts that while each captive may share similarities, their creation stems from the distinct needs of their parent company. Missouri understands this concept. As a result, the regulators interpreted the laws in a way that supports the captives licensed in the state. The MDCI has partnered with the Missouri Captive Insurance Association (MOCIA) on industry needs and legislative relationships to assure the ability to make changes when the need arises.

"The stage was set in the beginning when we passed our first captive legislation in 2007 and expanded that legislation in 2013. Each stage in this process allowed the agency the needed flexibility to ensure we could view every application on its own uniqueness and merit while still maintaining our commitment to regulatory requirements," Komo explains.

The MDCI regulates more than 2,000 insurance companies, the wide scope of which means the department has a great deal of experience and flexibility in administering (re)insurance and programmes. Captive structures available include pure, association, industrial insured, branch, sponsored, and special purpose life insurance captives. The Missouri legislation stipulates that pure captives cannot insure risks other than those of their parent or affiliated companies, and no captive can offer personal auto or home insurance coverage.

Furthermore, the law states that no captive is allowed to accept or cede reinsurance, though they may reinsure workers' compensation under a qualified self-insurance plan of their parent and affiliated companies. In addition, MDCI rules relating to insurance solvency and company regulation dictate that all captive companies must have an annual audit by an independent certified public accountant.

Even though Missouri has not moved forward on new legislation in the past few years, state regulators believe that the jurisdiction already has the tools needed to develop advancements in the captive realm.

The domicile seeks to be proactive, rather than reactive, towards the captive industry. Komo notes: "From my discussions with the group, there is an ongoing effort to develop proposals that can be part of future legislation. These efforts include the organisation conducting a legislative day at the state capital in January each year and working on an event that will coincide with the governor's conference on economic development in September as a way to educate the legislature on the captive industry.

"The state programme will continue to work within the flexibility of our laws to address current needs while remaining open to the ideas of our community partners," he adds. The captive manager asserts that the art of risk management lies in the ability to understand future trends while maintaining flexibility to address the unknowns of this ever-changing industry.

"Since 2007, Missouri has been part of key conversations on industry trends, has developed a captive team that accepts new challenges head-on, and works directly with industry specialists through the MOCIA to find solutions. This winning formula is why Missouri is where captives grow strong," Komo says.

Delaware: Business-friendly approach

As the global financial market continues to harden, more companies are turning to captives as a viable alternative to traditional commercial insurance. Among the fastest-flourishing captive domiciles in the US, Delaware has experienced a significant increase in its captive insurance industry, growing from just five licensed entities in 2005, to 670 by the end of 2023. Known for its business-friendly policies, including low-cost tax and simplified corporate laws, Delaware has established itself as a preferred location for companies looking to incorporate their business and optimise operational efficiencies.

Disclosure of officers and directors may not be required in company formation documents filed with the state. Furthermore, if the business does not conduct its operations in Delaware, the state's corporate income tax may not apply. Instead of paying the income tax, Delaware businesses pay a much lower franchise tax. Additionally, the jurisdiction also has a strategic location on the

East Coast — proximal to the US financial centres of New York, Philadelphia, Boston, and Washington DC. The state attracts a diverse array of corporate structures — from domestic and foreign corporations to limited liability companies and partnerships — all eligible to set up captive insurance entities. Delaware's captive statute also permits the licensing of numerous types of captive insurance companies, including pure, associations, special purpose and series captives, and others.

Trinidad Navarro, Delaware insurance commissioner, remarks: "The captive industry in Delaware is strong. The industry benefits from our exceptional team of dedicated regulators, our responsive and robust regulatory environment, and our partnership with the Delaware Captive Insurance Association (DCIA). As a result, Delaware remains a leading captive formation jurisdiction in the US and around the world. As the 'First State', we hope to be the 'First Choice' for captives."

Over the past year, the Delaware Department of Insurance has made significant strides with its Delaware Captives 2.0 initiative, launched in October 2023, to refine the regulatory framework for captive insurance companies. The department has adopted a more flexible approach to captive applicants' capitalisation requirements, including allowing the use of brokerage accounts in certain circumstances. Additionally, the department has recalibrated capital and surplus requirements to prioritise consulting actuaries' adverse case projections.

Several process changes are anticipated to improve approval timelines and speed to market. Unless otherwise noticed, the review of initial application filings will decrease from a goal of days, to 30 days. All routine requests for approvals, such as dividends, business plan changes, statutory dormancy, and changes in approved service providers, will now be reviewed within ten days of receipt.

Stephen Taylor, Delaware Captive Bureau director, emphasises: "These process and regulatory improvements have increased the competitiveness of and interest in Delaware captives. These have helped to foster new formations, and we expect to see an increase in the number of captives and premiums written.

"Under a new law that went into effect in 2022, the department has also provided crucial advice on how to license captives set up to write corporate Side A Directors and Officers (D&O) coverage. Implementation of this law, including the creation of regulatory guidance, will serve to expand opportunities for affordable D&O coverage in a hardening commercial market."

Meanwhile, Navarro states that the Delaware Captive Bureau continues to engage with the captive insurance community, including the DCIA, to address additional needs or concerns and respond to both emerging opportunities for innovation and emerging areas of risk.

Predicting the future direction of the sector, Taylor comments that the industry could benefit from risk management in areas of cyber defence, parametric risk transfer, ESG, surety and performance contracts, as well as in public captives. "While successes in other domiciles certainly draw our attention and are an area we would draw from for ideas, Delaware has proven time and time again that we are comfortable being out in front in creating innovative opportunities as well," he adds.

Most recently, the Delaware Senate passed SB 249 to update captive regulation. This bill amends Chapter 69 of Title 18 relating to captive insurance to reflect the current financial environment and practices of financial institutions and captive insurers. Financial institutions other than banks can safely hold assets, and in many cases, the type of risk does not necessitate their holding in Delaware. In addition, the Commissioner will have the authority to impose additional capital and surplus conditions on captives, ensuring their solvency and efficient operations.

Commenting on the efforts of state regulators to stay up-to-date with the industry, Navarro says that the Captive Bureau will continue to codify, revise, and eliminate outdated processes to reflect the current regulatory and business environments and reduce unnecessary and burdensome friction points. "At the same time, we continue to work to address existing and emerging issues and trends, allowing us to best serve both current and future captives," he says.

On the other hand, Taylor remarks that Delaware supports identifying and eliminating real abuses, but hopes those efforts are better targeted so as to not sweep up the companies that have established legitimate insurance operations under the law verified by state regulators.

"Current and prospective captives can see that Delaware's firm regulatory environment helps them to clearly combat any related concerns. We are also closely monitoring the proposed rulemaking from the IRS, which could impose reporting requirements on certain captives using the Section 831(b) election if they fail to meet a new loss ratio test or trigger a related-party financing test. The criteria outlined may unfortunately saddle many productive, compliant, and lawful captives with undue reporting burdens and strict penalties in addition to our already robust state-based regulation," says Taylor.

Delaware is dedicated to becoming a top choice for licensing captive insurance companies by constantly improving its regulatory environment to keep up with the industry's changing needs. Moving forward, Delaware's emphasis on flexibility and business-friendly rules is set to propel even greater expansion and achievement within the industry.

Oklahoma: Fast-growing captive domicile

Oklahoma implemented its captive legislation in 2004, but it was not until the state revised the law in 2012, introducing a premium tax cap of US$100,000, that it began to gain traction in the industry.

This strategic change paved the way for significant growth, and by the end of 2023, the state reported a total of 59 captive entities, marking a robust 31 percent annual increase in licensed captive insurers.

The diverse landscape of licences includes 34 pure captive insurers, one association captive insurer, fourteen special purpose captive insurers, two sponsored captive insurers, four entity-protected (incorporated) cells, one protected cell, and three series captive insurers.

Additionally, while not part of the licensing process, Oklahoma tracks the federal tax election made by the captive insurers. Of the 59, 16 opted for the Internal Revenue Code Section 831(b) election, while 43 chose Section 831(a).

Glen Mulready, Oklahoma's Insurance Commissioner, remarks that the state's captive insurance programme continues to surpass expectations, saying: "I am pleased to see the continued growth of the captive insurance industry, which provides economic opportunities for our constituents and generates revenue for the state."

Commenting on the captive legislation framework in the state, Steve Kinion, captive insurance director at the Oklahoma Insurance Department (OID), notes: "The department's policy for the captive insurance programme is to work with captive insurers so they succeed. Accordingly, the OID applies its captive insurance laws in a fair but firm manner."

One reason for the state's success in attracting captive insurance companies, according to Kinion, includes being one of five captive insurance domiciles in the world that is recognised by the International Centre for Captive Insurance Education (ICCIE) as a trained organisation.

He explains: "The ICCIE awards the trained designation to captive insurance organisations having a high degree of captive insurance training. The captive industry seeks out domiciles with highly trained and experienced regulators, and the OID provides exactly that."

To qualify as an ICCIE-trained organisation, at least 20 per cent of the captive professionals in that organisation must hold the designation of Associate in Captive Insurance (ACI) in good standing.

Furthermore, at least 30 per cent of the company's captive professionals must either be ACIs, Certificate in Captive Insurance (CCI) holders, or currently enrolled in the ACI or CCI programme.

With this recognition, Oklahoma has proved its position at the forefront of the rapidly expanding captive market. As one of the fastest-growing domiciles nationwide, the jurisdiction continues to draw in a growing number of companies seeking to conduct business in the state. Kinion says that the Captive Insurance division in the OID is committed to making sure the state's statutes and regulations keep pace with the changing needs of the captive insurance industry, and Commissioner Mulready is dedicated to providing regulation that is both innovative and stable.

Furthermore, the captive director notes that in 2023, the Oklahoma Captive Insurance Association (OCIA) resurfaced as the voice for Oklahoma's captive industry. "Every successful captive domicile has a successful association. Working together, the OID and OCIA will create opportunities for captive companies in the state," he emphasises.

Speaking about updates on the captive legislation in the state, Kinion reveals that recently, Oklahoma Governor Kevin Stitt signed SB 620, which will become effective on 1 November 2024. The bill allows Oklahoma corporations to use captive insurance to protect their current and former directors and officers against liability, even when such corporations are not empowered to indemnify them. This protection is customarily referred to as Side A D&O insurance. Oklahoma is the second state, after Delaware, to adopt this legislation.

Despite low D&O rates and ample capacity throughout much of the 2000s, the market shifted dramatically after 2019, with prices skyrocketing. An uptick in US litigation, larger settlements, and a rise in class action lawsuits fueled this escalation, further exacerbated by COVID-19-related insolvencies. As with any challenge in the commercial marketplace, there was a sudden interest in captives.

Kinion explains: "Side A coverage will pay for legal fees as well as settlement, and sometimes judgement costs. Without Side A coverage, the officers, directors, and employees would have to use personal assets to defend themselves in lawsuits and pay any settlement or judgement expenses. Consequently, these persons have a direct interest in the insurance."

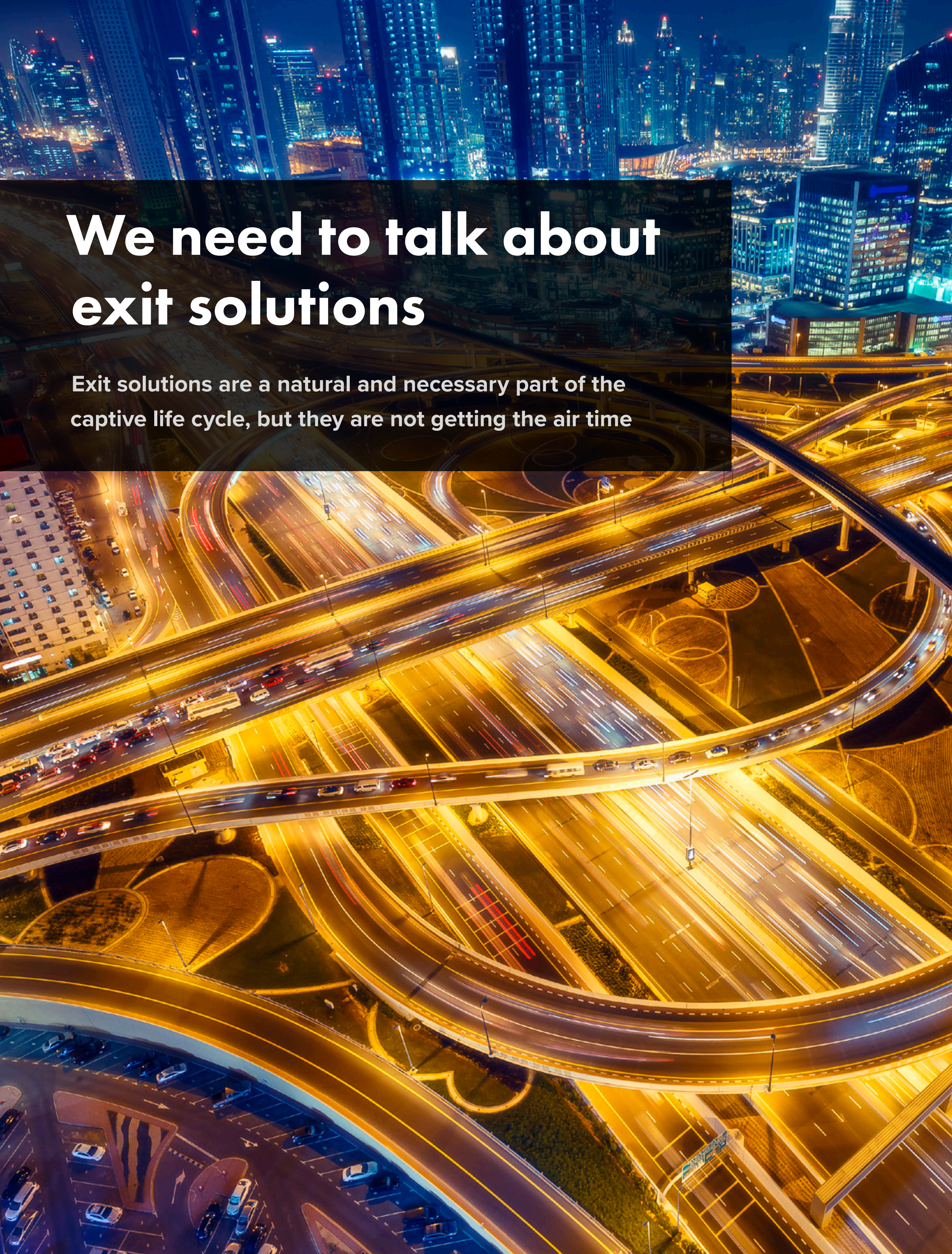
He emphasises that specific areas and sectors that can benefit from this change in Oklahoma captive legislation include joint ventures, special purpose acquisition companies related transactions, cryptocurrencies, cannabis, environmental, initial public offerings, cyber risks, and fiduciary fee litigation.

Talking about the challenges in regulating captive insurance, Kinion says: "Captive industry professionals do not always read the laws and regulations. Unfortunately, this can lead to regulatory consequences. The OID expects all captive managers managing captive insurers in Oklahoma to understand the laws. If there are questions about interpreting the laws, the captive manager should contact the regulator for clarity."

He believes that Oklahoma's captive insurance industry will continue to set a high standard for innovation, efficiency, and regulatory excellence. "Experience and training are how the OID prepares. One step is the ICCIE Trained designation, while another is individual training. At the OID, every captive insurance analyst holds the Associate in Professional Insurance Regulation, and the director holds the ACI designation. The ACI is key since it is the highest professional designation for captive insurance, and fewer than 800 people worldwide hold it," says Kinion.

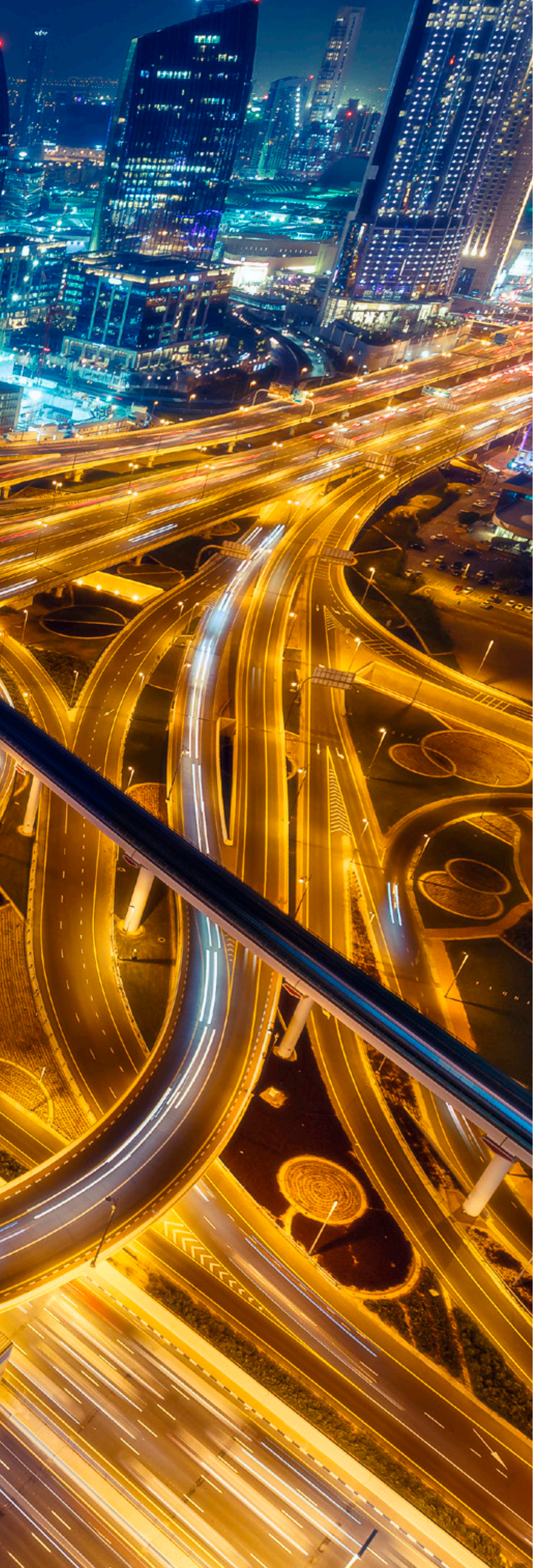
Amid the rising competition among domiciles for captives, Oklahoma stands out by fostering a dynamic and resilient environment for captive insurers. The OID remains dedicated to continuously enhancing its policies to incorporate best practices, ensuring that its regulatory framework is both robust and adaptable. By cultivating a well-trained regulatory body and working closely with companies and industry associations, Oklahoma is well positioned to navigate market changes and drive future growth in the sector. ■


VERVE
Bespoke Insurance products for the Captive Industry
Bringing vision, passion and innovation to the Captive insurance industry, our underwriters have been providing specialist management and professional liability products and solutions to the Captive industry for over 20 years.
Ready for a fresh approach to building resilient businesses? Talk to Verve.
VERVE
scott.simmons@ververisk.com
www.ververisk.com
Verve Risk Services Ltd, company number 14615598, is a company registered in the UK with a registered office at 32 Threadneedle Street, London EC2R 8AY. Verve Risk Services Ltd is an Appointed Representative of Advent Solutions Management Limited which is authorised and regulated by the Financial Conduct Authority FRN 308751



We need to talk about exit solutions

Exit solutions are a natural and necessary part of the captive life cycle, but they are not getting the air time



Exit strategies, a critical yet often under-discussed aspect of the captive insurance lifecycle, are essential for captive owners planning their future transitions. Although these strategies can be complex and sensitive, which might not suit early conversations with prospective captive owners, more transparent discussions about the strategies involved, and when they are appropriate, can only be beneficial.

More sophisticated approaches exist beyond the basic options, such as loss portfolio transfers and company liquidation. These include transferring additional risks with a different profile into the captive in order to make use of the underwriting capacity. Some domiciles, such as Luxembourg, also offer specific solutions — Luxembourg having an active market for captive sales, for example. By integrating the captive within a group of financial vehicles, structured finance solutions can optimise the exit strategy. As the industry evolves, a transparent conversation about exit strategies for captives is vital for maintaining financial stability and compliance.

Why and how?

Just as with setting up a captive, the motivations for seeking an exit solution can vary significantly. Strategic changes, regulatory considerations, financial underperformance, and shifts in risk profiles, are all common drivers. According to Carolyn Fahey, executive director at AIRROC, the common theme is that they are "all circumstances where there are liabilities and owner capital trapped in the captive."

Fahey elaborates: "The reason for the creation of the captive may no longer be core to business, or it may have become redundant after a merger. Run-off liability can be the result of age, inheritance, cessation of writing certain lines of business, or just liability capitation after a certain period. The owner might want to invest in a completely new business.

"Captive owners should constantly evaluate their captives' current operational needs and look at best practices in light of market conditions. Considering a legacy transaction is a part of this process."

Explaining the options for captive owners that seek exit solutions, Paul Corver, founder and director of Revroc Consultancy, notes: "One is to liquidate the captive. However, if the captive has the potential for future claims, liquidation may not be a viable option, particularly if the captive operates under a front company.

images by funny_studio/stock.adobe.com

"If the captive has the potential for future claims, liquidation may not be a viable option, particularly if the captive operates under a front company"

Paul Corver
Founder and director
Revroc Consultancy

In that scenario, the captive could potentially commute with the front company, paying them a premium to assume the risk and eliminate the associated liabilities within the captive."

According to Corver, an alternative solution would be to sell the captive. "It may be attractive to a party that wishes to establish a captive in that jurisdiction, but it is likely just as simple to start one afresh. However, there is a large legacy market that acquires captives, as well as regular insurance or reinsurance companies. While a sale process would entail administration, it provides a full and final exit. The courts could unwind a voluntary liquidation in certain situations," he says.

In the right circumstances, dissolving a captive insurance company presents numerous benefits. This move can significantly cut operational costs, lessen administrative burdens, simplify regulatory compliance, and improve strategic alignment. Most notably, it can also free up capital for other uses.

"The key advantage is that you get your investment back," says Gabrielle Morella, managing partner at Morella & Associates. "If you have accumulated assets within your captive, this was not only an insurance decision but also an investment decision. When you liquidate, you eventually get that investment back."

Morella notes: "There will be tax implications, but once the investment is out, you can do whatever you want with it — reinvest in various other business opportunities, take distributions out to the owners, whatever the applicable parties would like to do."

Despite the limited options available to owners in the past, the ever-evolving captive landscape and run-off market, estimated by PwC's 2024 Global Insurance Run-Off Survey to have grown beyond US$1 trillion, now offer a broader array of solutions, increased expertise, and greater flexibility and sophistication in navigating the exit process.

With more options and better resources than ever before, it is important to ensure that captive owners find the solution that is best suited to their specific situation. Fahey explains: "The primary run-off transactions are loss portfolio transfers, adverse development covers, commutations, novations, and sales."

She continues: "Legacy providers often specialise in certain types of transactions. The legacy space has experts in all sizes and types of transactions. No transaction is too small to bring to market.

"Legacy experts recognise that these transactions can often be a new concept for captive owners and managers. Use their expertise to explain and outline the transaction's relative merits and related mechanics."

More and more (re)insurers and reinsurers are transacting with the legacy market to protect against volatility, release capital, and improve operating efficiencies. Corver observes that reinsurance can provide financial finality for discontinued lines, aged liabilities, or expired policies, or it can novate the policies for full finality, subject to relevant parties' approvals.

"This removes collateral obligations and can free up capital for distribution to parents, support next year's renewals, or even write new perils into the captive," he says.

The approach for participants in a group captive is a little different for the owners of single-parent vehicles, but added flexibility comes at a cost — and one that is not always considered. Phillip J. Holowka, chief operating officer at Complete Captive Management, observes: "When an insured is a participant in a group captive, they have much more flexibility to exit that group captive simply by way of notice. You inform the captive that you intend to leave, and then the captive will respond."

Holowka notes: "Your golden handcuffs involve relinquishing a portion of your unearned underwriting profits, or losing access to your capitalisation or a portion of the collateral. Those golden handcuffs are a vital and often overlooked factor to consider.

"Often, clients enter these groups as captives, and they don't know the cost of exit. There is a cost that is often being ignored."

Referring to single-parent captive owners, he rationalises: "they have a lot more latitude to unwind the captive solution at their pace rather than making a decision that will impact others."

All too often, however, heading for the exit door is not the course of action that owners will take, with dormancy seen as a more attractive alternative.

Morella says: "Others will just do nothing, which is maybe the easiest option because it is just ignoring the situation. They'll do nothing, but we try to caution against that for anything beyond the short term because you still have governance requirements, meaning tax returns to file. You are still a business entity, and your funds are still sitting there. There are investment opportunities for accumulated assets within the captive, so as long as the owner understands what dormancy means, they are fine to stay there for a period of time."

Dormant captives: A missed opportunity?

An estimated 20 per cent of the nearly 7,000 single-parent captives globally are dormant, meaning they have established themselves but are not actively underwriting any insurance policies or participating in insurance-related activities.

Indeed, a significant number of captive domiciles, including many of the biggest and best respected, have introduced dormancy legislation to reflect the evolving need and desire within captive owners for flexibility and adaptability. The legislation differs from jurisdiction to jurisdiction, but regulatory relief and cost-saving benefits are common themes across the board.

Talking about the benefits of keeping a captive dormant, Corver remarks: "If the owner envisages at some point reinvigorating the captive to underwrite new risk, then leaving it dormant could be advantageous. For instance, if the owner initially established the captive in a hard pricing market and it became dormant during a subsequent soft market, it could prove beneficial to retain it during another hard market cycle.

"The benefit of keeping it dormant would depend on local regulatory requirements and associated costs. Regulators may still require annual returns and licence fees, especially if the captive still has liabilities."

Many captive owners use dormancy as a strategic decision to reactivate when market conditions or their risk management needs change, but it has disadvantages, especially when used as a longer-term alternative to exiting.

"It's a safe investment," says Morella. "It's sitting there, it's safe. Since it does not actively participate in an insurance treaty, there is no risk associated with the use of the accumulated assets, making it easy to let it sit there until they are ready to make a decision."

She further explains: "You are not going to be writing any premiums — the insurance activity has ended, but you are still a participant in an insurance arrangement. You will be part of the insurance program audit, you will be filing a tax return, and a lot of programmes have yearly maintenance fees.

"Others are probably just waiting for a time period where they want to reinvest the funds, where they need the funds, or where they have plans for business expansion. It just depends on what the business owner is thinking."

Holowka asserts that captive owners should typically not view dormancy as a long term option. "If a captive is not within the 18-month plan, then there is no real duty to maintain it," he says.

"A regulator is not going to be too keen on a captive that has no duty, no obligation, and no purpose. You may even get outside pressure from the regulator to liquidate, shut down, or write policies again."

Holowka continues: "The insured incurred a sunk cost to maintain the operations of a dormant captive that has no purpose or duty. If a business can have an internal rate of return of X, and now there is free and clear capital coming into that business, that's the return that any business wants to look for."

Given this perspective, the question persists: why do more captive owners not utilise exit solutions to wind up their captives, reduce operating costs, and free up capital for other business ventures?

"It is so business-dependent and dictated by what their long term plan is," says Morella. "I think probably half of that 20 per cent just do not want to deal with it at the moment. I would love to say people have a long term plan for decisions, but sometimes it's just easier to wait until something becomes more pressing. Others are probably just waiting for a time period where they want to reinvest, where they need the funds, or where they have plans for business expansion."

Fahey remarks: "With the options that are prevalent in the legacy space, I see few advantages to keeping a dormant captive unless the owner has reason to believe that it might need to be reactivated at some point. Also remember that an owner can consider exiting an entire captive or carving out just specific liabilities. The flexibility gives the owner a way to truly remove any part of a captive that benefits their strategy.

"The strategic, financial, and operational benefits of sustaining a captive can surpass the challenges and expenses involved in its exit. This leads many captive owners to maintain their captives despite changing business conditions or potential disadvantages. Each situation is unique."

Given the flexibility of the available solutions, the fact that such a large chunk of captives are dormant represents a missed opportunity for many owners and the industry in general. Adding further to this point, Fahey emphasises: "As a business owner, if you no longer 'need' a part of that business, isn't it just smart to stop putting any resources into it?"

She argues: "Maintaining a dormant captive drains staff resources. Captives may find themselves in any range of situations where considering an exit solution is a smart and strategic portfolio management tool.

"One of the key features of any exit strategy is that the options are flexible, and the parties involved find a solution that makes sense for all involved and for the scenario they are working with."

She continues: "Educating captive owners and managers about the benefits of a legacy transaction still requires a significant amount of work. This is partly why AIRROC continues to prioritise this goal. We have seen a marked increase in captive transactions over the last ten years, and we expect that to continue to grow."

Incorporating exit solutions into business strategy

Captive owners should regularly review their structure to ensure its viability, but exit strategies should be established from the start. Rome was not built in a day, and similarly, unwinding a captive entity is not an overnight task.

This complex process can span months, sometimes even years. Therefore, it is crucial to integrate exit strategies into the conversation and planning stages right from the beginning.

Corver explains: "Captive owners are specialists in their industry fields, whether pharma, energy, transport, or the very many other industries that benefit from captive usage. They are unlikely to be insurance experts, and they are certainly unaware of the legacy sector. I have been actively engaged in the captive sector for over a decade, educating captive managers and owners on their options regarding legacy solutions.

"This is not just disposals but also loss portfolio transfers, novations, or adverse development covers that provide economic or complete finality to their obligations. It has also been commented that captive managers are not necessarily incentivised to highlight the possible exit solutions, as it could eliminate or reduce fee income from that captive. When I was actively acquiring captives, we would merge them together into a single company in each jurisdiction, thereby reducing overhead and costs."

Meanwhile, Holowka remarks: "When we do our consultations with new captive owners, we also talk about the exit strategy and the succession plan. What should be your captive liquidation endpoint triggers? The word 'investment' holds significant importance. The employer is investing in the captive. When you invest in equity, you should go in with a point and a limit to sell it. Why is the captive so different?"

Unfortunately, whether it is exit plans for single-parent structures or the 'golden handcuffs' issue facing group captive participants, the appropriate messaging is not always there. "It is dependent on the captive management team that you work with," says Morella. "We have a complete solution for our clients, so if they come to us and say we need to prepare for liquidation, we know what we need to tell them to advise them so they understand all the consequences and what steps need to be taken.

"It can not be included in the captive sales pitch as it is impossible to sell both the product and its liquidation simultaneously. You can connect them, but it is ultimately an educational subject and sometimes it might get overlooked."

Holowka agrees: "It should be part of the conversation. The compelling story often goes unnoticed, primarily because the captive's life story receives insufficient coverage.

"Everyone is bullish on forming captives, but then there is no discussion about exit strategies. There should be equal importance placed on why you form a captive and why you close one up." ■

Vermont

Where the captive world meets

Kevin Mead, president of the VCIA, discusses the association’s 39th conference highlights, and the innovative ways it has adapted to address current industry challenges in an exclusive interview with Diana Bui

The Vermont Captive Insurance Association (VCIA) is set to host its annual conference from 12-14 August at the DoubleTree by Hilton in Burlington. Celebrating its 39th year, the conference, known for being America's largest captive insurance gathering, embraces the theme: *'Where the captive world comes to meet.'*

How has the VCIA adapted its conference format or content to address the current challenges and changing landscape of the captive insurance industry?

Every year, we start fresh with the content and plan our annual conference just one month after the previous one ends. We launched our preparations for this year's conference in September 2023. This effort spans nearly 11 months to organise a mere 3-day symposium. Our task force, which includes about 30 members, works closely with professionals from across the industry to identify the most pressing and relevant issues.

All task force members propose potential themes and vote on them, a democratic approach that ensures our conference aligns with the current industry discourse. Additionally, we maintain flexibility in our schedule to accommodate emerging topics or to adjust existing sessions in response to evolving industry dynamics.

This year, we are focusing on several key issues that have gained prominence in the industry. Technology's application in our field, specific challenges in underwriting such as parametric risk, and the evolving landscape of settlements in the nuclear power industry, particularly how these affect captive insurance, are all on the agenda.

How do the changes in the conference schedule aim to enhance the attendee experience this year?

We have consistently received recognition for our high standards in educational content at the conference, but after closely listening to our members and attendees, we realised they were seeking more networking opportunities. In response, we adjusted our schedule to initiate the full conference activities starting Monday, 12 August. Previously, the first day primarily featured a golf tournament, and perhaps one session.

Now, we are kicking things off at lunchtime on Monday. Additionally, the Vermont Captive Insurance Emerging Leaders (VCIEL) are organising a Sunday night reception to welcome early arrivals. Our Monday reception will be a joint celebration with the International Centre for Captive Insurance Education (ICCIE) as they mark their 20th anniversary.

We have also introduced more social and networking events throughout the conference to ensure attendees derive the maximum value from their experience. It is shaping up to be a particularly engaging conference.

What are you most excited about for this year's conference, and can you highlight some of the key events?

Sandy Bigglestone, the Deputy Commissioner for Captive Insurance at the Vermont Department of Financial Regulation, is one of our internal keynote speakers for this year's conference. Colleagues often refer to Sandy as the regulator whom other regulators consult for advice. She consistently draws high attendance to her sessions, especially the panel she moderates. Attendees are eager to learn from her and her panellists about the ever-changing landscape of industry regulation. This session is scheduled for Tuesday, 13 August, and is a highlight of our conference.

On Wednesday, 14 August, we conclude with a keynote from Jim Carroll, a renowned futurist who will explore potential future trends across technology, demographics, and economics. His insights will help us understand the global trajectory and the implications for the captive insurance sector. I am particularly excited about this session, as it promises to shape our strategic outlook.

In addition to these keynotes, our conference offers a variety of formats, including roundtable discussions that encourage open dialogue and idea sharing among participants. These sessions not only provide valuable networking opportunities but also spark innovative ideas that often lay the groundwork for the next year's presentations.

Moreover, we ensure that our formal presentations qualify for continuing education credits, aligning with our commitment to professional development. I always look forward to these interactions, as they are a fantastic way to highlight and cultivate talent within the industry.

"Our conference offers a variety of formats, including roundtable discussions that encourage open dialogue and idea-sharing among participants"

Are there any specific educational tracks or workshops that cater to different levels of experience or interests within the captive insurance industry?

Historically, we have noticed that 25 to 30 per cent of attendees at our events are first-timers, though not necessarily newcomers to the captive insurance sector. As we gear up for Monday's lineup, we are particularly excited about our captive immersive programme. It is designed for those who are exploring the idea of entering the captive insurance industry. This programme is a comprehensive walkthrough, starting from the initial concept of creating a captive, covering all the necessary stages including actuarial studies for feasibility, preparing application documents with a captive manager, establishing the captive, and even managing the funds and claims processes.

For those new to this field, we have tailored several sessions to meet their needs. Our educational tracks, including Captives 101, Captive Feasibility and Setup, along with the extensive Captive Immersion workshop, are all supported by detailed case studies. Importantly, most of these sessions offer professional credits, which is a major draw for many of our attendees. Each session is also graded by difficulty — beginner, intermediate, or advanced — allowing attendees to tailor their experience based on their expertise level and engage in what we like to call 'choose your own adventure' learning.

In total, this year's conference will feature 30 sessions, 19 of which are educational. Beyond the learning opportunities, networking plays a huge role.

The conference atmosphere is collegial and friendly, a true celebration of the industry. Despite the competitive nature of the industry — with various domiciles and service providers vying for attention — the conference remains a hub of collaboration and connection.

This not only adds an invaluable layer to the educational experience but also enriches the business discussions that naturally occur in such an engaging environment.

How many exhibitors are expected to participate in the conference, and what types of companies or organisations will they represent?

Our exhibit hall is fully booked, featuring 75 booths filled with diverse offerings. This year, we also have AM Best TV stationed on the second floor, where they will conduct interviews with industry leaders.

Adjacent to this, the VCIA exhibit stand will serve as a dynamic space to connect with both members and non-members. Here, we seek feedback to understand the value our community seeks from our association, which aligns with our strategic planning efforts.

Additionally, we are leveraging this platform to enhance our recruitment strategies. We aim to attract a broader and more diverse group of individuals to join various committees that are pivotal in steering the VCIA's direction, from membership to legislative affairs and finance.

The spectrum of exhibitors ranges from major service providers in the captive industry, both locally in Vermont and globally, to specialists in health and safety, particularly those focusing on workers' compensation.

Our exhibitors also include professionals like actuaries, lawyers, and accountants who, while not directly managing captives, play a crucial role in the ecosystem.

Following last year's impressive turnout of over 1,000 attendees, we anticipate an equal, if not greater, number of participants at this year's conference. It is an exciting time for us as we continue to expand our reach and impact within the industry.

"We hope that attendees leave with a profound understanding of how to maximise their captives' potential and access needed support"

Looking forward, what are your visions or plans for the VCIA conference in the next few years, and how do you see the role of the VCIA evolving within the broader captive insurance community?

As we stand on the cusp of our strategic planning exercise, our primary focus is to shape our organisation's future trajectory. We have been experiencing significant growth within a rapidly expanding industry segment, as evidenced by the escalating demand for captive investigations. This demand not only challenges us to scale our staffing adequately, but it also boosts the popularity of our conference, making it the largest of its kind in the US — twice the size of our closest competitor.

Looking forward, the big question for the VCIA's board is: "What's next?" Given our leadership position in the captive industry, it is essential we leverage this to set future directions. However, I must clarify that while strategic decisions are forthcoming, they are not yet defined. We are organising focus groups within our upcoming conference, collaborating with a consultant to help steer our strategic vision. In terms of inclusion and collaboration, we extend an invitation to all domiciles.

This year, representatives from locales like Barbados and Oklahoma, among others, will be exhibiting at our conference. This diversity not only enriches our conference, but also enhances our reputation as what we consider the industry's 'Gold Standard', influencing regulatory models across the board.

To explain our collaborative approach, I often use the pie analogy — by working together, we aim to 'grow the pie', increasing the total market size, before competing for a larger slice of it. This philosophy underpins our belief that even if conference attendees find solutions outside of Vermont, it is a victory if they contribute to the overall growth of the industry.

This collective growth fosters a robust reputation and, in the long run, benefits everyone involved. If you ask me again in about six months, I expect we will have a clearer vision of our path forward, crafted through collaborative efforts and strategic insights drawn from our community and leadership discussions.

For someone attending the VCIA conference for the first time, what advice would you give them to make the most out of their experience, and what is the one key takeaway you hope every attendee leaves with?

I recommend attending our newcomers' orientation on Tuesday morning as a first point of guidance. This session is crucial as it provides essential insider information and connects you with our ambassadors, who are specially tasked with facilitating your integration. It is a cornerstone of advice I strongly advocate for. Furthermore, our entire VCIA team is extremely approachable.

It is our primary responsibility to ensure you receive the necessary answers, introductions, and information. I encourage you not to see us as distant or unapproachable. Feel free to approach us during the event, ask questions, or even follow up with an email after the conference. We want to be like state regulators, who are approachable during and after the conference.

We hope that attendees leave with a profound understanding of how to maximise their captives' potential and access needed support. We aim to provide a comprehensive resource network, fostering connections with peers who share similar challenges and can offer valuable insights.

Moreover, we hope our attendees develop an appreciation for Vermont and feel encouraged to return, as we take immense pride in our home and enjoy sharing its merits with others.

Lastly, our collaboration with the Vermont Department of Economic Development is instrumental. They play a significant role in promoting our conference as an excellent opportunity for learning from peers and experts, particularly for those at the exploratory stage of establishing a captive in Vermont. ■

From captive manager to retail brokerage

Jack Foley of AssuredPartners speaks to Diana Bui about his experiences and aspirations to progress in his career in the captive insurance industry

Could you share any insights or experiences you have had in the captive insurance industry? What types of companies have you assisted in captive formation, and what specific risks were they aiming to protect against?

Dunring my career in the captive industry, I initially worked with a captive manager before transitioning to the retail brokerage side of the business.

Describing the world of captive solutions as dynamic and complex barely scratches the surface.

My experience spans the development of numerous group captive programmes and includes orchestrating the feasibility, formation, and management of substantial single-parent captives.

I have dealt with a broad spectrum of companies, from a small manufacturer in Kentucky to firms publicly traded on the New York Stock Exchange (NYSE).

In many cases, middle-market companies have been grappling with a particularly tough insurance marketplace. Joining group captives has provided them with a way to mitigate the volatility they faced and, after demonstrating strong performance, reap substantial premium returns.

My role has also covered a variety of single-parent captives and captive cells, from those set up to fund large retention and tailor policies covering risks excluded in the traditional market to taking on entire insurance layers in response to reduced capacity or the complete absence of traditional insurers.

How has your previous experience prepared you for your current role?

My tenure on the captive management side of our business provided me with a wealth of institutional knowledge and relationships, which have proven invaluable in our retail operations.

Our clients are looking for a deep level of expertise and guidance when joining or forming an existing captive, and my previous roles have prepared me well for that.

Based on your experience, what would you say are the key benefits of working in this industry?

I believe our industry is the best kept secret in insurance, although it has become less so these days. Over the last decade, the traditional insurance marketplace has battered insureds, leaving us able to offer incredibly creative solutions.

I cannot overstate the ability the industry has given me to think creatively and solve extremely challenging problems.

Can you name your main influences in the industry?

Jennifer Gallagher brought me into this business as an intern and played a significant role in my development, as did many of the other leaders at Artex Risk Solutions. In addition, Jeff Kurz is one of those mentors who recently joined our growing group at AssuredPartners after leaving Artex last year.

Personal bio

I began my career in commercial insurance with Arthur J. Gallagher, where I quickly developed a passion for the industry. My journey then took me to Artex Risk Solutions, the world's third-largest captive manager. Here, I have had the privilege of working with corporations from a multitude of industries, focusing particularly on real estate, construction, and transportation firms ranging from mid-market to Fortune 500.

Throughout my tenure, I have built a reputation for guiding clients through the complexities of alternative risk solutions. My expertise spans group captives, segregated cell facilities, and single-parent captives. I am particularly adept at designing and implementing structures such as fronted and reinsured programmes, deductible reimbursement, and tenant liability.

In my current role, I provide guidance and expertise to clients pursuing strategies in the alternative risk sector. My comprehensive understanding of risk and dedication to crafting tailored strategies for each client have proven invaluable. I firmly believe that in our industry, one size does not fit all, and it is this belief that drives my commitment to delivering customised and effective risk management solutions.

"Jack consistently exhibits a level of expertise that surpasses expectations for his age.

"He skillfully leverages his comprehensive understanding of finance and the alternative risk market to devise and implement innovative solutions for our clients."

Jeff Kurz
Alternative risk strategies director
AssuredPartners

"Jack's ability for simplifying complex insurance programmes into clear, comprehensible explanations for his clients is truly remarkable.

"His dedication to identifying the ideal solution, articulating it effectively, and ensuring it reaches his clients distinguishes him significantly from his peers in the industry."

Nick Napolitano
Captive practice leader
AssuredPartners

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

While I do not have a crystal ball, for now I am thoroughly enjoying consulting with our clients and prospective clients and helping them navigate the world of captive insurance. We will continue to expand our practice, adding talented people and resources to serve our clients.

What advice do you have for someone considering a role in captive insurance?

For anyone considering captive insurance as a career, my advice would be to reach out. Our industry is filled with some of the most talented and generous people in insurance, and I know that all of them would be happy to take time to talk about the variety of roles that exist, as well as the incredibly positive outlook that we see moving forward for our space. ■

Jack Foley
P&C captives leader
AssuredPartners

Bridging the talent gap in captives

Facing a critical talent shortage, Hylant and Butler University have joined forces in a partnership to shape the future of the insurance workforce, promising fresh solutions for an industry in need

The insurance industry is facing a significant talent shortage as a considerable portion of its current workforce approaches retirement. Merely replacing these professionals is insufficient. On the other hand, equipping newcomers with the requisite skills and experience poses a considerable challenge.

In response to this emerging crisis, Hylant and Butler University have developed an educational initiative that may provide a crucial piece of the puzzle. In February, the pair unveiled the Hylant Risk Management Certificate, a pioneering programme they tout as a transformative approach to professional development in risk management and insurance. This partnership marks a strategic effort to cultivate a well-prepared next generation of industry leaders.

Proactive learning

The six-week program is part of Butler+, the university's new digital hub for professional learning, and aims to provide a comprehensive foundation in risk management. This course will equip participants with expertise equivalent to two to three years of on-the-job experience. The programme is divided into six weekly modules that cover the breadth of risk management, from introductory concepts to advanced topics like alternative risk financing vehicles, including captives. Delivered in a hybrid format, the course combines self-paced online learning — featuring videos, application exercises, a discussion board, and knowledge checks — with live, synchronous virtual sessions. These weekly sessions, led by Butler faculty and Hylant experts, focus on the application of knowledge through case study discussions.

Each week, participants engage in 90–120 minutes of online learning, and 30–60 minutes of live virtual interaction with instructors and peers. This blend of learning methods is designed to ensure a robust and flexible educational experience.

A pilot cohort of 16 participants recently completed the programme, and another group of 16 will begin in July. Starting in 2025, the programme will welcome quarterly cohorts of around 20 participants each — a size that fosters interactive dialogue and networking opportunities.

But what makes the programme a potential game changer?

Shannon Orr, chief operating officer (COO) of emerging markets at Hylant, highlights that the goal is to give participants "expertise comparable to two to three years of on-the-job experience".

> "We encourage participants to discuss with their broker whether a captive or another alternative might be suitable for controlling their organisation's total cost of risk"
>
> **Shannon Orr, Hylant**

Orr adds: "It will equip risk managers and those with risk management responsibilities with the skills necessary to effectively identify, analyse, evaluate, and then mitigate the risks within their organisations.

"Participants are fast-tracking their career development. People often find themselves in roles that require reactive learning for the first two or three years. When a situation arises, what do I do? Where do I go? The certificate provides proactive learning, equipping them with a playbook to handle those situations effectively."

She continues: "Part of the programme's innovation is its practical design. Participants can immediately apply it to real-life experience."

Meanwhile, Tom Faulconer, clinical professor at Butler, who helped to create the Hylant Risk Management Certificate, notes: "I think the easiest way to explain it is as a boot camp for those in the risk management industry that might not have been trained in risk management.

"With a lot of direction from Hylant, we built six different modules, starting with what risk management is and how it differs from buying insurance, and going all the way through insurance policies, alternative risk financing, how to work with your broker, and things like that."

An ever-changing risk management landscape

Ensuring the certificate syllabus keeps pace with the ever-evolving risk management landscape is a priority for both Hylant and Butler. Faulconer anticipates making adjustments between each cohort and tailoring the programme to meet the specific needs of participants.

"The clients will shape the live meetings, and we will continuously update the programme content," Faulconer explains. "With 14 different insurance policies included, I need to keep them current. Internal discussions with Hylant will address any aspects that are not effective or resonating."

Hylant and Butler acknowledge that while the certificate provides foundational risk management knowledge, it also delves into the role of captives within the industry. This includes insights from experts like Hylant's global captive team leader, Anne Marie Towle.

"The programme focuses on traditional risk management practices but also covers captives," says Orr.

"A module specifically addresses future planning and alternative risk financing options." Participants learn about the formation, management, and strategic use of captives as part of a comprehensive risk management strategy.

Orr notes: "We're not aiming to create captive experts, but to provide foundational knowledge and tools for making informed decisions. We encourage participants to discuss with their broker whether a captive or another alternative might be suitable for controlling their organisation's total cost of risk."

The bigger picture

While there are plenty of risk management education programmes out there, Hylant and Butler University believe they have developed something truly unique with the Hylant Risk Management Certificate.


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.

> **"We need to attract a younger generation to insurance, but training them on the job is challenging and time consuming"**
>
> **Bridget Scott, Hylant**

"This programme is one-of-a-kind in terms of content, delivery, and design," says Orr.

"We offer a blend of self-paced and live, synchronous components, providing unmatched flexibility. From our perspective, there is nothing else like it."

Hylant initially designed the programme with its clients, partners, and prospective clients in mind, and it will expand for external enrollment starting in 2025. Orr explains: "This expansion not only broadens access to our comprehensive risk management training but also sets the stage for adapting and repurposing the programme to cover additional subject matters, making it accessible to a wider audience. In the near future, we will also be introducing an employee benefits component, focusing on human resources, and integrating the concept of total cost of risk. We aim to ensure that this programme is accessible to other brokers, insurance companies, and the wider industry."

A key driver behind this initiative is the talent crisis facing Hylant and the wider industry. "Our industry is ageing out," notes Bridget Scott, Hylant's chief marketing officer (CMO) and a member of the certificate's pilot cohort. "We need to attract a younger generation to insurance, but training them on the job is challenging and time consuming.

Many experienced professionals are ready to retire and do not have a decade to transfer their knowledge. This programme addresses our future workforce needs."

Diversity is another significant focus. "There is not much diversity in this industry," Scott adds. "Partnering with Butler helps us reach a broader audience interested in risk management."

Scott emphasises that the programme is neither an introductory course nor a final stop on the learning journey. "Participants likely have a basic understanding of risk management. Traditional resources are often time-consuming and labour-intensive. In comparison, our programme is quick and provides a supportive network."

While the certificate does not offer a traditional designation, this is intentional.

"Designations like Associate in Risk Management (ARM), Certified Insurance Counselor (CIC), and Chartered Property Casualty Underwriter (CPCU) require over 150 hours and rigorous review," says Orr.

"Our programme, co-sponsored by Butler University, meets academic standards, and we are applying for continued education credits, which require regular content reviews. It's a rigorous programme, but not a formal designation."

Few understand the needs of the next generation of insurance professionals better than Faulconer. "Programmes like the Hylant Risk Management Certificate could be significant in making the sector more accessible," he says. "We've already established the Butler Insurance Academy to train new insurance employees. The industry faces a talent shortage and needs to bring in people without backgrounds in insurance and risk management."

Faulconer highlights the importance of not just attracting talent, but also retaining it. "Our industry has high turnover, especially on the production side. Better training can improve retention. If someone feels like an expert, they are less likely to leave the industry, even if they switch companies."

If successful, the Hylant Risk Management Certificate could become a crucial resource for addressing the talent crisis in the insurance industry. It is not a silver bullet, but it offers part of the solution. The programme provides accessible ways to educate a broader audience, helps the next generation gain the expertise needed to succeed, and gives them the confidence to commit to long careers in insurance. ■

Captive insurance solutions in agriculture

Patrick Johnston, co-founder of 3F Captive Services, explains the benefits of captive insurance in managing risks for agricultural businesses

How can captive insurance solutions help agricultural businesses manage risks that are difficult to insure through traditional commercial policies, such as regulatory changes, legal disputes, or uncommon weather events?

Agriculture has long been a sector fraught with uncertainty and risk, and this is unlikely to change in the near future. To navigate these challenges, many farming operations and families are turning to captive insurance programmes as a vital tool for risk management. Unlike traditional insurance, captive insurance offers coverage in areas often overlooked, such as employment-related issues including wage and hour violations, wrongful termination, and general litigation.

One of the standout applications for captive insurance in the agricultural sector is supplemental crop insurance. While the United States Department of Agriculture's crop insurance provides a solid foundation, it often does not fully meet the specific needs of many farming operations. Captive insurance steps in to fill these gaps, enhancing risk mitigation strategies for crop loss or damage.

The versatility of captive insurance is perhaps its most significant advantage. Tailored specifically to the unique needs of each farming operation, it offers a flexible and comprehensive approach to managing the myriad risks inherent in the sector.

What advantages does the captive insurance model offer in terms of incentivising robust risk management practices and loss prevention measures within agricultural operations?

When a farming operation reduces its losses through traditional insurance, the primary beneficiary is usually the commercial insurance carrier, not the farm itself. However, by establishing a captive insurance company, the agricultural business can directly benefit from these reduced losses. In this setup, the captive retains the premiums, minus any losses, instead of paying them out to an external insurer.

These retained premiums can then be invested, growing over time. This process allows the farming operation or family to accumulate significant assets within their captive. As a result, the agricultural business has a strong incentive to minimise losses, as the direct retention and investment of these savings enhances their financial stability and growth.

How does the ability to tailor coverage through captives empower farming businesses to address their unique risk profiles and cultivate a more resilient and sustainable future?

One of the key advantages of a captive insurance model is its remarkable flexibility in coverage from year to year, along with the extensive range of risks it can cover. This adaptability enables the coverage to specifically design and tailor to meet the unique risks associated with the parent company's business operations. This means that farming businesses can make informed decisions each year based on their unique risks, cash flow, and asset base within the captive. This model offers the ability to adjust the level of risk coverage each year, depending on the operator's or farmer's needs and financial situation. Factors like cash flow or the size of the captive's asset base could influence this.

In essence, a captive insurance model enables farming operations to achieve an optimal balance of risk coverage every year, aligning with their financial circumstances and the growth of assets within the captive. This guarantees a precise match between each year's coverage and the business's current needs and capabilities.

What role can captive insurance play in preserving agricultural legacies and supporting rural communities by providing a financial safety net against a broad spectrum of risks?

Agricultural operations, often spanning multiple generations, can greatly benefit from captive insurance programmes.

Over time, the accumulation of retained premiums, invested to build a substantial asset base, strengthens these programmes. Captive insurance is particularly well-suited for agriculture because it can cover a wide range of unique risks inherent to the industry. A captive programme ensures business continuity and enhances future business flexibility by effectively managing and mitigating risks. It helps to smooth out earnings over time, thereby reducing the risk of financial distress.

The captive's asset base grows as it manages and reduces claims, providing farming operations with greater financial stability and flexibility for the future.

In what ways can captives facilitate a more proactive risk management culture within the agricultural sector, shifting the focus from reacting to disasters to actively identifying and mitigating potential threats?

We often become accustomed to the risks we face regularly, but this familiarity does not negate their existence. Recognising these risks is critical, as is managing and mitigating them. A captive insurance company can help business operations proactively address and reduce these risks. These risks are typically ones that businesses have had to accept because of a lack of commercial coverage or because such coverage is not cost-effective. For farming, this approach means no longer relying solely on whatever commercial insurance is available and assuming the remaining risks out-of-pocket. Instead, with a captive, they can identify risks and safeguard them under their self-owned insurance entity.

What challenges or barriers might agricultural businesses face when considering the implementation of a captive insurance solution, and how can these be effectively addressed?

As a farm owner, I would say the main considerations regarding captive insurance are twofold. First, fit — does my farm have enough uncovered risks to justify the cost of starting a captive insurance company? Not all operations do, but many do find it beneficial. We determine this quickly during meetings with the prospective farming operation. If forming a captive is not justified, we inform the operator promptly to avoid unnecessary costs.

Second, implementation — what are the regulatory, compliance, and management requirements for establishing a captive insurance company? This aspect is notably challenging. Due to the complexity and workload involved, no farm operator or business owner can handle it effectively on their own. This is where our expertise comes in. We handle all aspects of formation, compliance, and management, allowing the operator to focus on running their core farming operations efficiently.

How can the agricultural industry leverage captive insurance solutions to adapt to emerging risks, such as those posed by climate change, supply chain disruptions, or evolving consumer demands?

Captive insurance offers remarkable flexibility in coverage options, providing significant benefits for agricultural businesses. Take, for instance, 'business interruption' insurance. Before 2020, introducing this concept to a farming operation might have caused uncertainty. However, the COVID-19 pandemic has highlighted its importance. Captive insurance can also mitigate the risk of non-payment from handlers or customers — an ever-present yet often overlooked threat. When such risks materialise, having coverage can be critical.

In terms of climate change, regardless of one's stance on the issue, there are specific coverages farmers might consider. These include supplemental crop insurance, protection against water loss, and coverage for excess animal death.

Captive insurance can tailor these coverages to meet the unique needs of farming operations, ensuring comprehensive risk management.

In what ways can captive insurance contribute to the financial stability and long-term viability of agricultural businesses, particularly in the face of unexpected events or market fluctuations?

Owned by its parent company, a captive insurance company plays a crucial role in managing uninsured and difficult-to-insure risks, as well as mispriced risks for traditional insurance. The primary goal of any insurance is to protect against losses and stabilise earnings, thereby contributing to long-term financial stability.

Captive insurance aligns with these goals by offering a tailored solution to fill gaps in existing commercial insurance coverage. It can insure risks that are typically uninsurable through commercial carriers, and it retains premiums within the parent company — the farming operation — rather than ceding them to an external commercial insurer.

This structure not only provides comprehensive risk management but also ensures that financial benefits remain within the company, enhancing overall financial stability.

What role can industry expertise and specialised knowledge play in designing captive insurance solutions that accurately reflect the unique risks and challenges faced by different agricultural sectors?

Being a farm owner and having operated a large-scale farm before, I uniquely understand a significant number of the risks that farmers face.

At 3F Captive Services, we specialise in farm operations, allowing us to continuously expand our knowledge through collaboration with various farms. Each client interaction brings new insights, enhancing our ability to assist farming operations effectively.

Farmers often face hidden risks that they may not have considered or even recognised. Our expertise helps identify and mitigate these unseen threats, ensuring that farm operations are well protected. By leveraging our comprehensive knowledge base, we offer valuable support to safeguard agricultural businesses against potential hazards. ■

"Unlike traditional insurance, captive insurance offers coverage in areas often overlooked, such as employlemental crop insurance"

Patrick Johnston
Co-founder
3F Captive Services

Re-rating the outlook on rates, bonds, and equities

Jack Meskunas, executive director of investments at Oppenheimer, shares his views on how captive insurers can manage their assets and investments effectively

For as long as I have been managing money — since 1989 — and as long as I have been doing it for captive insurance companies — since 1991 — there is one common thread that has driven valuations in both the stock and bond markets, and that is the actions of the Federal Reserve, both observed and anticipated.

Captive insurance companies generally invest primarily in bonds and other fixed income investments, and secondarily in equities, either through funds or alternative investment structures.

As such, it is of the utmost importance for captive owners and managers to understand the main factors that affect stock and bond valuations. Understanding how values are derived — and what moves them — allows captives to anticipate how the value of their investment portfolios might change in the near and intermediate term.

There has not been a period of time I can remember where the monetary policy moves at the Fed have had a more direct effect on the markets than the last four years. Let us revisit what happened and how the Fed was the driving force behind the moves.

If we think back to the 2020 pandemic and the subsequent market recovery at the end of 2020 and through 2021, we saw several interesting actions from the Fed as well as the Federal Government — namely fiscal and monetary policy changes that were both outsized and drastic (in hindsight, certainly).

To counter the forced shutdown of the US and global economies, governments wrote trillion-dollar cheques directly to businesses and consumers alike. At the same time, the Fed cut the overnight interest rate to zero. While these actions preserved numerous jobs for the future, they also overheated the economy by giving consumers a significant amount of disposable income at a time when the availability of goods for purchase was at an all-time low, due to businesses closing and being unable to produce the goods these consumers desired. Think about the dramatic increases in the prices of cars, computers, etc.

While the Fed was late to start raising rates in spite of obvious inflation — recall them saying that inflation at that time was only transitory — they dove in and raised rates 11 times in a row. While the overall level of rates now is not historically high (that occurred in the early 1980s), the Fed has never raised rates so quickly from zero to 5.25-5.5 per cent in the short span of 15 months.

As a direct result of this rapid rise in rates, virtually everything else dropped in value. In 2022, the S&P 500 index declined about 20 per cent by the end of the year, and the NASDAQ was down over 33 per cent. In the same time period, the value of bonds fell between 10 and 15 per cent. Almost every other asset class saw double-digits declines, as the markets tried to calculate what would become the ‘new normal’ values in this higher interest rate environment.

While most people have a solid understanding of why bonds decline in value when interest rates increase, the effect on stock valuations might be less well known.

If, in the ‘zero rate environment’ prior to March 2022, a bond was priced to yield two per cent and is now yielding seven per cent

because rates are 500 basis points higher, the price of a 10-year bond would decline over 20 per cent. In the summer of 2020, for example, when there was a 'flight to quality' and rates were zero for the Fed Funds rate, the US Treasury issued 10-year bonds yielding 0.625 per cent.

Today, the bond trades at 80 cents on the dollar and yields 4.25 per cent. That represents a 20 per cent decrease in value.

Higher rates also negatively affect stock valuations. The reasons might be slightly less obvious, but since most corporations rely to some extent on borrowed money, the rapid increase in borrowing costs due to higher rates depresses corporate earnings and future earning potential.

Additionally, high-growth companies are generally bigger borrowers and are more adversely affected than 'cash cows', who rely less on borrowings. In fact, the fastest growing companies declined an average of 62 per cent in 2022 due to the change in rates.

The 'competition' between stocks and bonds also influences corporate valuations. As bond yields increase, corporate earnings are expected to decline or stagnate, and therefore companies are unlikely to raise dividends, or even cut them. Bonds look relatively more attractive than stocks, exacerbating the decline in share prices.

Asset valuations had suffered damage by the end of 2022, but the Fed was far from done. They continued to raise rates until June 2023, but the market started to recover, and 2023 turned out to be a very good year, with the S&P 500 appreciating over 24 per cent and the NASDAQ climbing over 40 per cent.

Why would the markets recover even in the face of rising rates in early 2023, and rates unchanged for the balance of 2023?

This is due to the expectation of future rate movements. In 2022, once the Fed started raising rates, all they talked about were more increases to come. By the summer of 2023, inflation looked to have peaked, and the Fed started talking about a 'pause' in rates. The DOT Plot — the Fed governor's own estimation of the direction and level of rates in the future — went from looking 'flattish', to looking decidedly lower over the next three years.

Captives must revisit their portfolios and analyse how their investments will perform in a falling interest rate environment as the Fed moves to cut rates later in 2024, 2025, and beyond. The types of companies captives own and the bonds in their portfolios need to be re-rated for multiple factors, including their sensitivity to interest rates, a slowing economy, and even a potential change in government policies. This rating and analysis must be reviewed on a consistent basis to ensure that the portfolio is providing the best possible rates of return with the minimal amount of volatility. ■

Industry Appointments

Artex appoints new Chairman and CEO

Artex Risk Solutions has appointed CEO and co-founder Peter Mullen as chairman, effective from 1 Jan 2025, with Zeb Holt succeeding as designated CEO, effective from 1 July.

Mullen will succeed co-founder David McManus as chairman. He returned to Artex as CEO in 2019 after spending eight years as CEO of Captive & Insurance Management at Aon.

Meanwhile, Holt was regional executive vice president in Florida at Gallagher before assuming his role as Artex's CEO.

He started his insurance career as an intern at Gallagher in 2004.

During his tenure, he has held brokerage and sales leadership positions with Gallagher and Artex.

Mullen, McManus and Jennifer Gallagher, founded Artex in 1997, which is Gallagher's wholly-owned subsidiary for alternative risk and captives. ■

Brown rejoins Hylant as Captive Consultant

Hylant's Global Captive Solutions team has welcomed Danielle Brown back as a captive consultant.

Brown worked as a captive account manager at Hylant before she left the company in October 2023 to serve as a captive insurance examiner at the Vermont Department of Financial Regulation.

She holds an associate in captive insurance designation from the International Centre for Captive Insurance Education and a bachelor's degree in accounting and business management from Saint Michael's College.

Hamilton Global Specialty names O'Brien as Chief Actuary

Hamilton Global Specialty, an underwriting platform of Hamilton Insurance Group, has appointed Niamh O'Brien as chief actuary.

O'Brien reports to Wilfred Chin, who was recently promoted to group chief actuary at Hamilton.

She has worked with the company since 2021, leading key actuarial reserving activities and providing advisory support as an actuarial consultant.

O'Brien brings broad industry experience and knowledge, having spent over 20 years in senior actuarial roles, including with Catlin, Hiscox, W. R. Berkley, and Tokio Marine Kiln.

Alex Baker, group chief risk officer at Hamilton, says: "[Niamh's] exceptional skills and extensive experience with our company will significantly enhance our actuarial capabilities and support our strategic objectives."

LMA appoints four new board members

The Lloyd's Market Association (LMA) board, which is in charge of setting the association's overall strategy, direction and priorities, sees four new appointments.

The new additions are: Richard Milner, group CEO at Chaucer; Clare Constable, chief claims officer at MS Amlin; John Fowle, CEO at Atrium; and Adam Beatty, CEO at Nephila Syndicate.

They will substitute the members who stepped down from the board, including Rob Callan, chief financial officer at Chaucer Syndicates; Mark Graham, CEO at Antares Managing Agency; and Martyn Rodden, director of strategy and transformation at MS Amlin Underwriting.

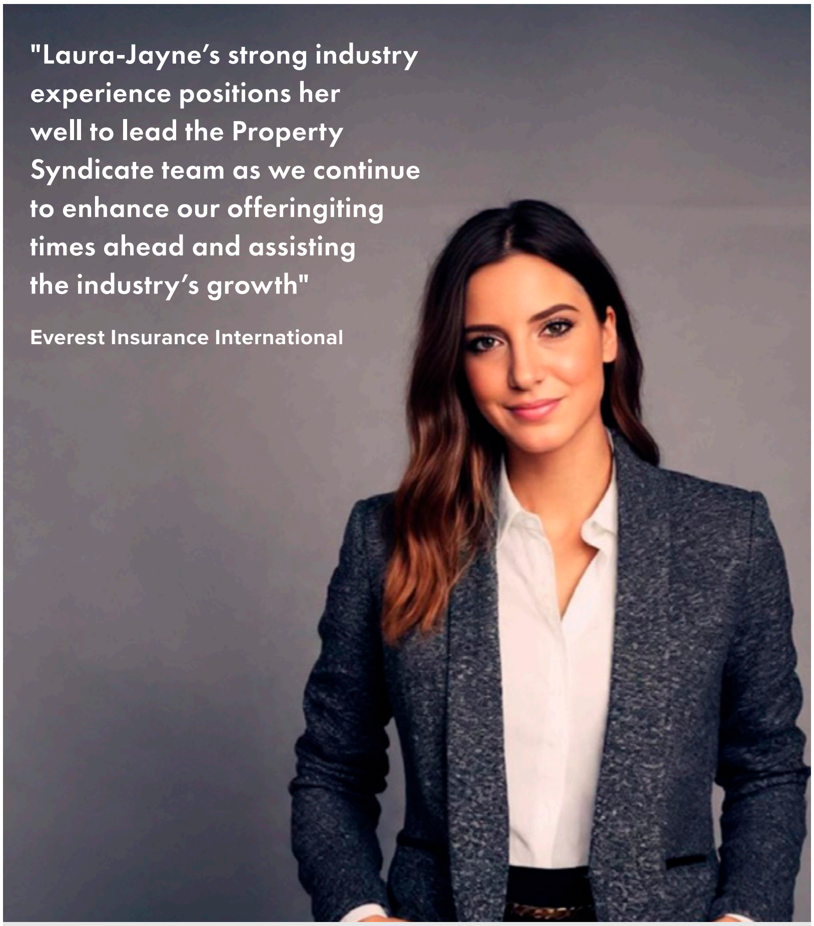
Sheila Cameron, CEO of the LMA, comments: "I am delighted to welcome Richard, Clare, John and Adam to the LMA Board. The new members bring a wealth of experience and commitment, enhancing the Board's ability to navigate the complexities of the Lloyd's market and to execute on our purpose of making the market a better place."

Allianz UK welcomes Kam and Howes to leadership team

Allianz UK has hired Hanna Kam as chief risk officer and promoted Jason Howes to chief transformation officer. Both roles will report to Colm Holmes, Allianz Holdings CEO.

Kam will take over from John Berry, who has stepped down after 10 years at the company. She joins Allianz from Hiscox, where she was also positioned as chief risk officer and was responsible for enterprise risk management and compliance.

Prior to Hiscox, Kam had held senior roles with EY and Zurich Australia. She brings more



Everest Insurance hires Hamblin as Head of D&F Property

Everest Insurance International has appointed Laura-Jayne Hamblin as head of D&F Property. Based in London, Hamblin joins the firm with more than 20 years of industry expertise in property insurance, excess, commercial insurance, property damage, and reinsurance.

Previously, she served as a senior underwriter in global property at AXIS Capital and as a class underwriter in international property at Chubb.

Prior to that, Hamblin was a property underwriter at Apollo Syndicate 1969 from 2009 to 2020 and worked as a global service consultant, claims handler, and underwriter at Zurich from 2004 to 2009.

In a statement on LinkedIn, Everest says: "Laura-Jayne's strong industry experience positions her well to lead the Property Syndicate team as we continue to enhance our offering." ■

Anderson named Director of Policy and Regulation at ABIR

The Association of Bermuda Insurers and Reinsurers (ABIR) has appointed Collin Anderson as director of policy and regulation, effective from 1 July. In his new position, Anderson will lead ABIR's public outreach agenda, research international public policy and insurance regulation developments.

He will report to ABIR CEO John Huff, manage the company's Hamilton office, and serve as corporate secretary.

Anderson brings 23 years of experience in the public and private sectors, including regulatory and supervisory work at the Bermuda Monetary Authority, leadership roles with the Government of Bermuda, and insurance industry roles.

Commenting on the appointment, Huff says: "Collin's broad experience, encompassing public policy, regulation, legislation, executive management, property and casualty insurance, and international affairs, makes him a perfect fit for this role.

"I am confident he will be a great asset to ABIR as we continue to represent the public policy interests of Bermuda's international insurers and reinsurers."

Pina Albo, chair of ABIR and CEO of Hamilton, states: "Collin's high level of technical and leadership skills and his experience in the public and private sectors equip him well to serve our members. It speaks to the depth of talent we have in Bermuda that we were able to recruit such an ideal candidate locally." ■

than 25 years of global experience in the insurance industry.

In the newly created role of chief transformation officer, Howes will oversee large-scale projects and initiatives in the Allianz UK business. He has spent more than two decades with Allianz, having served as director of business transformation in his previous role.

Commenting on the appointments, Holmes says: "These two senior leaders take up vitally important roles and will help drive our strategic momentum for growth.

"[Hanna] brings a wealth of global insurance industry experience and a compelling blend of board, risk, and regulatory exposure. Her insights will be invaluable in supporting the overall growth strategy for the business."

He continues: "As we move our business forward, it is imperative that we continue to manage major change projects effectively, so we have created a new role of chief transformation officer, which I am delighted to welcome Jason into."

Arch Insurance names Tous as European Director of Strategy and Distribution

In his new role, Tous will be responsible for leading Arch's European underwriting teams to develop strategic broker relationships and strengthen the company's distribution strategy.

Based in Spain, he will report to Søren Scheuer, CEO at Arch Insurance EU, and will work closely with Simon Williams, chief strategy and distribution officer at Arch Insurance International.

Tous brings more than 16 years of experience gained across the European insurance

market to the position. He joins the firm from Zurich Insurance, where he has held various leadership roles within the organisation, including head of general liability, financial lines, and cyber risk in Benelux and financial lines EMEA business development manager.

Prior to that, Tous worked as a financial lines underwriter at Chubb Insurance Europe.

Commenting on the appointment, Scheuer says: “Roberto’s appointment is another important step in the ongoing development of our European underwriting platform, where we see opportunities to expand both geographically and into new lines of business.

Helio welcomes Gallardo to captive management team

Helio, a captive management and risk consulting services provider, has added Victor Gallardo to its growing team.

Gallardo joins Helio from the Oklahoma Insurance Department, where he was most recently a captive analyst.

Based in Oklahoma, Gallardo will be responsible for providing captive management services to Helio’s expanding captive insurance company portfolio.

He earned a Bachelor’s of Business Administration degree in finance from the University of Central Oklahoma and holds an Associate Professional in Insurance Regulation.

Heather McClure, managing partner at Helio, says: “Helio has grown considerably in recent months, and our pipeline of new captive formations is robust. We are thrilled to add Victor to support our service with an increasing number of clients.”

Jesse Olsen, chief operating officer at Helio, remarks: “Adding Victor with his regulatory experience further bolsters Helio’s client service offering. His addition nicely complements our existing staff’s uncommonly broad and deep expertise.”

Meanwhile, Gallardo says: “I am excited to join Helio as I move into this next phase of my professional career. I’m grateful for my time at the department, especially learning under Steve Kinion and Andy Schallhorn.

“Joining Helio is an incredible opportunity. I was drawn by a number of factors, particularly the firm’s life stage and growth trajectory.” ■

WTW names Graziano as Casualty Strategy and Execution Leader

WTW has appointed Len Graziano as casualty strategy and execution leader in Corporate Risk and Broking, North America.

Based in Florida, Graziano will report to James Sallada, casualty leader in North America, and focus on developing and implementing client-centric initiatives throughout the casualty market in the region.

In his new role, he will enhance WTW’s capabilities, including policy form creation, coverage comparison tools, deep analytical insights, and real-time market perspective, to provide clients with timely and relevant discernments.

Additionally, Graziano will serve as a senior casualty broking representative on some of the most complex risks within WTW’s portfolio, including new clients.

He joins WTW from Aon, where he led the excess casualty practice and managed a team of nearly 50 brokers focused on casualty risk solutions for clients. ■

Labuan IBFC
International Business and Financial Centre, Malaysia

LABUAN IBFC
ASIA'S PREMIER INTERNATIONAL FINANCIAL HUB

Labuan International Business and Financial Centre (Labuan IBFC), located off the North West coast of Borneo, offers global investors and businesses the benefits of being in a well-regulated jurisdiction that provides fiscal, legal and currency neutrality, in addition to being an ideal location for cost-efficient substance creation.

Labuan IBFC is a wholesale financial, risk and wealth management intermediation centre that also boasts a wide range of business structures including solutions for fintech or digital businesses. It is also home to the world's first sukuk and is acknowledged as an Islamic financial hub.

Well-supported by a robust, internationally recognised yet business-friendly legal framework, Labuan IBFC operates within comprehensive legal provisions and guidelines, enforced by a single regulator, Labuan Financial Services Authority - a statutory body under the Ministry of Finance, Malaysia.

Labuan, also known as the 'Pearl of Borneo', offers a myriad of business and leisure opportunities. It is also a hub for financial tourism as its excellent location and compact structure offer easy connectivity between the financial district, and nature offerings.

Labuan IBFC Inc. Sdn. Bhd. (817593-D)
Suite 3A-2, Level 2, Block 3A,
Plaza Sentral, Jalan Stesen Sentral,
KL Sentral, 50470 Kuala Lumpur, Malaysia
Tel: +603 2773 8977
Fax: +603 2780 2077
Email: info@libfc.com
@LabuanIBFC
Labuan IBFC

www.labuanibfc.com