captive insurance times

The primary source of global captive insurance news and analysis

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ASSET STRATEGIES UNDER SOLVENCY II

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Innovation and agility make them a perfect fit for captives

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ILS and collateralised reinsurance in Cayman Islands

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Bermuda Captive Conference celebrates 20th anniversary

The Bermuda Captive Network (BCN) has announced the 20th anniversary of the Bermuda Captive Conference, which will take place between 9–10 September at the Pier 6 complex in Hamilton. The 2024 conference, themed 'Navigating Captive Horizons', offers a packed agenda with keynote presentations, panel discussions, and interactive sessions focused on the latest trends, challenges, and innovations in captive insurance. According to the organisers, the event aims to host more than 400 attendees, bringing together industry leaders and professionals from around the globe for thought leadership, education, and networking opportunities.

The conference will kick off with a welcome from BCN chair Thomas McMahon, joined by The Honourable Jason Hayward, Bermuda's Minister of Economy and Labour, who will discuss the economic development and future outlook in the jurisdiction.

At the opening of the event, the BCN will announce this year's Lifetime Achievement Award, presented to honour an outstanding leader whose career has greatly advanced the industry and its global reputation.

In addition, the BCN will honour the 2024 Captive Hall of Fame inductees, celebrating Bermuda-based captives that have been operational for 25 years.

The agenda also includes sessions about the Bermuda regulatory landscape, investment management strategies for sustainable growth, the benefits of risk-pooling and MGAs, parametric innovations, the latest trends in the (re)insurance market, the effect of corporate income tax, and Latam market expansion. ■

MAXIS GBN partners with Abi Global Health

MAXIS Global Benefits Network (MAXIS GBN) has teamed up with Abi Global Health to provide on-demand access to professional healthcare.

Abi, a virtual care platform that connects patients to a local healthcare professional in 40 seconds or less, offers a range of options for employees to access both physical and mental healthcare using text, phone, or video consultations.

According to the firm, Abi's AI-powered allocation algorithm quickly matches patients with top healthcare professionals 24/7, providing cost-effective, quality care for multinational companies across 40 countries in 24 languages.

Abi has become the latest supplier to join MAXIS GBN's wellness technology marketplace, which connects companies with third-party suppliers offering comprehensive wellness solutions tailored to their global workforce. ■

WTW partners with Canopius and Verita in new facility

WTW has introduced a new property facility in partnership with Canopius and Verita, with a limit of up to US$25 million. Canopius is set to lead the Client Edge Facility, underwritten on its US excess and surplus lines paper and offering coverage for large and complex risks in the middle market across WTW's US property portfolio.

In addition, Verita Capital Solutions will enable WTW to continue to expand the facility with additional property capacity, aligned with expansion into other lines of business.

Lisa Davis, CEO, US and Bermuda, Canopius, comments: "Listening to the needs of clients was the driving force behind the development of the Client Edge Facility, an innovative property solution. Leading this new property facility is the latest example of our rapidly expanding suite of capabilities in the US, serving as another proof point aligned with our ambitions for strategic growth."

Jackie Bolig, head of P&C, Corporate Risk and Broking in North America at WTW, adds: "The development of the Client Edge Facility was the result of extensive collaboration and commitment of WTW, Verita and Canopius to develop a new solution aimed at providing needed property capacity for clients, in an efficient manner."

Meanwhile, Edward Chiang, president and CEO of Verita, highlights: "Managing this new facility represents a key milestone for the Verita Capital Solutions division, highlighting our team's expertise and the ability to pivot and execute on a large portfolio solution like the Client Edge Facility." ■

SiriusPoint teams up with travel insurtech Gigasure

Specialty (re)insurer SiriusPoint has partnered with insurtech startup Gigasure to offer personalised travel insurance, with SiriusPoint underwriting the policies and its subsidiary, International Medical Group (IMG), handling claims and assistance services.

According to the firms, Gigasure offers an alternative to standard 'off the shelf' policies, allowing customers to tailor insurance coverage to their needs and budget, with the option to add travel delay benefits via the Gigasure app, developed in partnership with Blink Parametric for real-time claim support.

Commenting on the move, Chris Price, head of travel in the Accident and Health team at SiriusPoint, says: "With the ability for policyholders to customise their cover on the go and to obtain real-time flight and baggage delay support through the use of parametric products, we believe that Gigasure has a truly unique offering."

Meanwhile, Ernesto Suarez, CEO of Gigasure, states: "In an uncertain world where people are looking for security and reassurance, our personalised insurance offers exactly that.

"To do this, we needed to find an underwriting partner that understands our vision to be the most customer-centric insurance provider in the world. Together with the SiriusPoint team, we can achieve this goal." ■

AM Best upgrades credit ratings of Saipem's captive

AM Best has upgraded the financial strength rating to 'A-' (Excellent) from 'B++' (Good) and the long-term issuer credit rating to 'a-' (Excellent) from 'bbb+' (Good) of Saipem's captive reinsurer, Sigurd Rück AG. The outlook of these ratings is 'stable'.

The ratings agency says these upgrades reflect the stabilisation of Saipem's credit fundamentals, a result of a successful strategic turnaround plan launched in 2022. The plan, initiated after a significant post-tax loss, included a €2 billion capital injection from shareholders, leading to an improvement in the company's financial standing. ■

Redline Underwriting unveils new property reinsurance offering

Redline Underwriting has introduced a new property facultative reinsurance solution, targeting commercial and industrial property risks across Mexico, Central and South America, and the Caribbean.

The firm says the new offering, led by Adriana Cisneros, head of underwriting at Redline Underwriting, aims to enhance the company's portfolio alongside its existing terrorism and general liability offerings — all backed by A+ rated Lloyd's capacity.

The initial line size, up to US$5 million, can be deployed on a primary, excess of loss, or proportional basis. ■

SCCIA partners with Darla Moore school on endowment fund

The South Carolina Captive Insurance Association (SCCIA) has partnered with the Darla Moore School of Business on a US$100,000 endowment fund for students interested in captive insurance. The initiative aims to support the captive industry in South Carolina for decades to come, sustaining a vast pool of professionals for the industry, and attracting more captives to domicile in the state.

By engaging students while they are enrolled, the SCCIA hopes to inspire and prepare the next generation of professionals and ensure those who are interested, qualified, and passionate do not face a roadblock to entering the industry. ■

Agile launches New Zealand operation to support Lloyd's syndicate

Agile Underwriting Services has launched its operation in New Zealand. According to the company, this is the first of its kind for a Lloyd's syndicate. With the establishment of Agile Insurance Group NZ, the firm aims to enhance its capability to service New Zealand business in its general aviation, accident and health, casualty and professional lines.

Earlier this year, Agile launched its own Lloyd's syndicate, Agile Underwriting Services Syndicate AUS 2427, which is established under the 'syndicate-in-a-box' framework and managed by Asta, the leading third-party managing agent at Lloyd's.

Robin Barham, CEO of Agile, comments: "The establishment of our presence in New Zealand is a significant advance in the development of Agile's capability and market offering.

"The strength of our Pacific presence combined with our innovative IT platforms demonstrate a continuation of our drive to expand our offerings and support our New Zealand customers."

Mark Hunt, head of underwriting at Agile Underwriting Services, adds: "We see the New Zealand market as a critical element in our development, and this ground-breaking initiative offers brokers new capacity options and access to Agile's adaptive solutions that reflect the region's unique demands." ■

Labuan IBFC announces details of Asian Captive Conference 2024

Labuan IBFC and the Labuan International Insurance Association (LIIA) have announced further details of the Asian Captive Conference (ACC) 2024.

The conference, themed 'Asian Anchors: Leading the Way in Captive Innovation', will be held on 19 September at the Sime Darby Convention Centre in Kuala Lumpur.

Following a welcome address from executive chairman and CEO of Labuan IBFC, Mohd Nulilt, the conference promises to provide a platform for global stakeholders to engage with latest developments and challenges in the captive industry.

ACC 2024 will also host a panel discussion regarding the role of captive insurance within the evolving OECD BEPS 2.0 framework. This will include topics related to risk management, leveraging captives to manage employee benefits, and the use of technology to advance captive company products.

The conference will close with Annie Undikai, chairwoman of the LIIA, who will deliver the final remarks for the event. ■

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RiverStone to acquire DARAG's North American and Bermuda businesses

RiverStone Group has entered into an agreement to acquire North American and Bermuda business entities from DARAG Group.

The sale is expected to close by year-end. According to the companies, both parties are committed to ensuring there is no disruption to the business entities and their healthy transaction pipeline as they transition over to the RiverStone Group.

DARAG says the transaction will simplify the firm's operations, allowing the company to focus on its core European business and bring additional capital to execute its strong pipeline of European transactions, several of which are in advanced stages of negotiation.

Bob Sampson, president of RiverStone, states: "We are thrilled to integrate DARAG's North American team into our dynamic fold. It will bring additional talent to RiverStone's highly experienced teams, support our unparalleled reputation, and continue to build on the success we have each created in the legacy and captive insurance markets." ■

AM Best upgrades Lloyd's credit ratings to 'A+'

AM Best has upgraded the financial strength rating to 'A+' (Superior) from 'A' (Excellent) of Lloyd's, its platforms in China and Europe and Society of Lloyd's. According to AM Best, the result reflects Lloyd's market's excellent position in the global general (re)insurance market as a leading writer of specialty property and casualty risks, together with its strengthened balance sheet fundamentals and proven risk management capabilities.

The agency also upgraded Lloyd's long-term issuer credit ratings to "aa-" (Superior) from "a+" (Excellent). The outlooks of these ratings have been revised to 'stable' from 'positive'.

The ratings reflect Lloyd's balance sheet strength, which AM Best assesses as 'very strong', as well as its strong operating performance, very favourable business profile, and appropriate enterprise risk management.

AM Best notes that the growing size of the market demonstrates its ability to attract and retain investors due to its unique business proposition that offers a capital-efficient structure and the ability to write business globally.

The agency expects Lloyd's market to produce strong underwriting performance over the underwriting cycle and Lloyd's will continue to attract capital, as reflected in the operating performance assessment.

The Lloyd's market's expense ratio continues to be higher than that of its peers. Actions are being taken through the 'Future at Lloyd's' initiative to reduce the cost of placing business at Lloyd's, although any benefits will likely take time to materialise. ■

Pool Re selects Aon and Howden as ILS advisors

Pool Re has selected Aon Securities and Howden Capital Markets and Advisory as insurance linked securities (ILS) advisors.

The firm previously secured £175 million in ILS capacity to source reinsurance protection through the issuance of catastrophe bonds Baltic PCC Limited in 2019 and 2022.

Tom Clementi, CEO of Pool Re, says: “Pool Re considers all forms of risk transfer capacity in its reinsurance programme and has appointed the advisors to assist in the evaluation of potential ILS and similar solutions for the ultimate benefit of protecting UK taxpayers."

Pool Re, established in 1993 in partnership with the UK Government, provides reinsurance for terrorism-related losses, covering risks and supporting the financial security of more than £2 trillion in assets across businesses. ■

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Fitch reports favourable earnings for global reinsurance companies

Fitch Ratings' latest report reveals strong underwriting profits in the first half of 2024, with an aggregate reinsurance ratio of 84.2 per cent.

This comes from the 19 non-life reinsurers that Fitch monitors, and suggests that underwriting results should remain favourable into 2025 as pricing is generally adequate.

The report further unveils that non-life reinsurance net premiums increased by six per cent in H1, with premium growth expected to continue, albeit at a reduced rate as a result of increased market competition. This is similarly reflected among shareholders, where underwriting and investment gains grew shareholders’ equity by six per cent from the end of 2023.

On the other hand, Fitch states that life and health reinsurers profitability varied. Despite strong revenue growth, results differed based on mortality and morbidity experience, especially with US mortality currently above pre-pandemic levels.

Lastly, catastrophe bonds have performed better than other ILS during recent periods of high catastrophe losses. According to Fitch, strong supply growth will continue into 2025, barring any substantial ILS catastrophe losses in H2. ■

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Cayman registers 10 new captives in Q2 2024

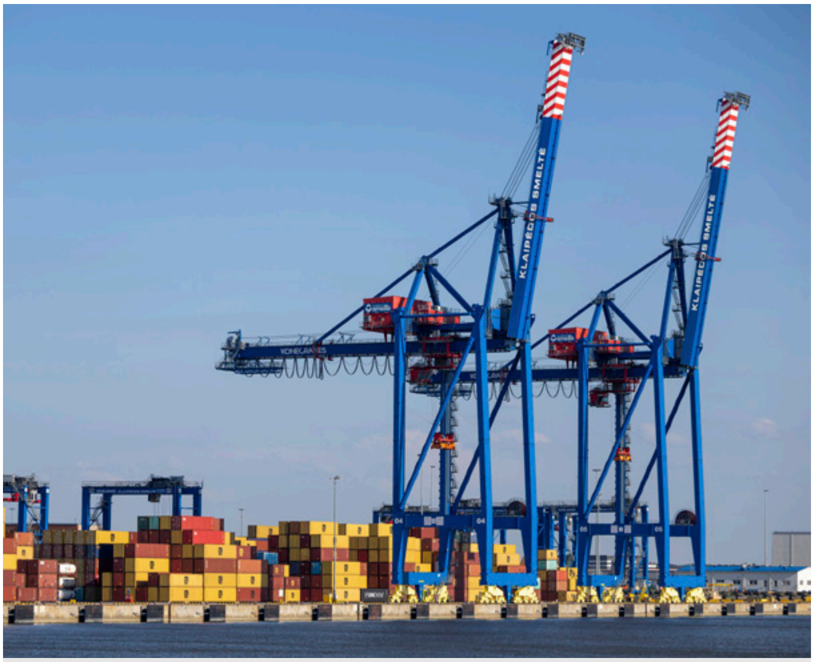
The Cayman Islands Monetary Authority (CIMA) issued 10 captive licences in the second quarter of 2024, including three B(i)s, one B(ii), and six B(iii)s. The regulator also licensed a class D insurer and a class C reinsurer.

With 12 new licensees in Q1 2024, CIMA authorises a total of 24 international insurance companies so far in 2024, which represents a 50 per cent increase over the same period in 2023.

There are now 700 Class B, C and D insurance companies licensed in Cayman, with approximately US$40 billion in premiums written and US$151 billion in total assets. These figures do not include individual cells.

Kieran Mehigan, chair of the Insurance Managers Association of Cayman, remarks: "The international commercial (re)insurance and captive industry in Cayman continues to thrive. We are seeing growth across all types of captives as insureds face a challenging market for certain lines of coverage, encounter capacity shortages, and deal with coverage restrictions.

“The life and annuity reinsurance sector is also growing, driven by annuity providers seeking enhanced capital efficiency. This growth was especially evident in Q2, given the variety of licensees and licence classes." ■



Marsh launches US$50 million port blockage insurance facility

Marsh has unveiled a US$50 million port blockage insurance facility, covering shipping ports and terminals around the world.

Created by Marsh following the collapse of the Francis Scott Key Bridge and subsequent disruption at the Port of Baltimore, the insurance facility can be purchased independently or used to supplement existing coverage.

The company states that it is specifically designed to provide clients with cover for loss of revenue caused by third-party accidents such as a vessel sinking in a channel, a vessel impact resulting in a waterway closure, or a natural catastrophe.

The facility, backed by a panel of Lloyd's of London and London market A+ rated insurers, also offers capacity with higher limits than US$50 million on a case-by-case basis.

Commenting on the launch, Louise Nevill, CEO of UK Marine at Marsh Specialty, states: "Port blockages around the world are increasing in frequency and severity and are resulting in debilitating consequences for businesses involved in international trade.

"As global trade continues to expand, this new facility offers clients a rapidly available layer of insurance cover to protect operations and recovery in the event of port and terminal disruptions." ■

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Aon unveils D&O risk analyser

Aon has introduced D&O risk analyser, a digital application that assists risk managers in making decisions to mitigate executive risks facing their directors, officers, and businesses.

The new tool provides clients and brokers with real-time analytics to assess and quantify potential D&O losses, including adjustable risk models, exposure and loss evaluations, stock price drop analysis, and total cost of risk visualisations.

The move follows the debut of the firm's property risk and casualty risk analysers this year, which provide exposure visualisations and model potential losses to help businesses make informed decisions about their risk and insurance options.

Timothy Fletcher, CEO of Aon Financial Services Group, states: "Rising litigation and defence costs, equity market volatility and shifting regulatory frameworks have added complexity for corporate officer risks.

"It is more important than ever for risk managers to assess D&O liability and insurance's role in protecting public officers and board directors. Our D&O risk analyser, together with Aon's brokers, provides a holistic analysis of the D&O risk landscape, helping clients make better decisions." ■

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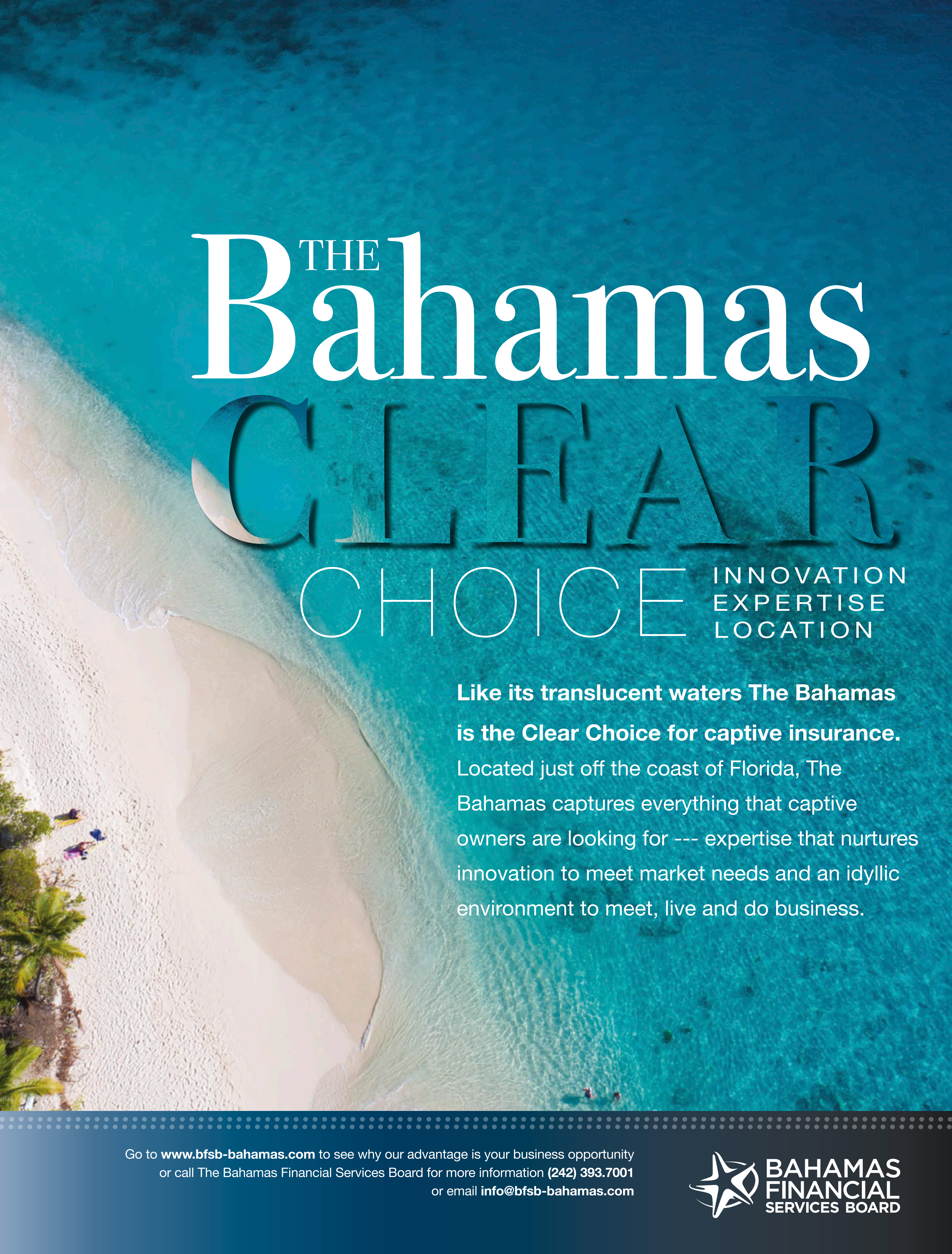
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Reshaping asset strategies under Solvency II

Diana Bui sits down with industry experts to assess how Solvency II modifications and other regulatory changes affect asset management strategies for captive insurers in Europe

Winston Churchill once remarked: "To improve is to change; to be perfect is to change often."

This philosophy rings true for Europe's captive insurance sector, as it stands on the brink of significant regulatory changes. While these reforms stop short of revolutionising the industry, they offer a lighter regulatory touch that could unlock new avenues for captives to optimise their investment strategies.

As the industry prepares for these regulatory updates, set to roll out in 2026, EU-domiciled captive entities can expect "a more streamlined, proportionate, and risk-based prudential process," according to AM Best in its market segment report on European captives. Under the new regulatory landscape, captive insurers will have the opportunity to reassess and potentially diversify their asset portfolios.

Marine Charbonnier, head of captives and facultative underwriting, APAC and Europe, AXA XL, observes: "Recent modifications to Solvency II, aimed at enhancing the proportionality for captives, could potentially improve their efficiency. These changes may lead to reduced reporting requirements and capital charges. However, the long-term impact might require captives to adopt more sophisticated risk management and investment strategies to fully leverage these regulatory relaxations."

Solvency II modifications

On 22 September 2021, the European Commission proposed a directive to amend the Solvency II framework, the EU's comprehensive regulatory regime for insurance companies. The proposed changes, which reached a provisional agreement in April 2024, are set to significantly impact captive insurance companies operating within the European market. Although the exact implementation date remains uncertain, it is anticipated that these amendments will come into effect by early 2026.

The revisions, developed in collaboration with the European Insurance and Occupational Pensions Authority (EIOPA), aim to refine the regulatory environment. The focus is on enhancing stability across the market while introducing greater flexibility for insurers, particularly those with specialised risk profiles, such as captives. The changes seek to address challenges that have emerged since Solvency II was first implemented, ensuring the framework can adapt to new risks and evolving market conditions.

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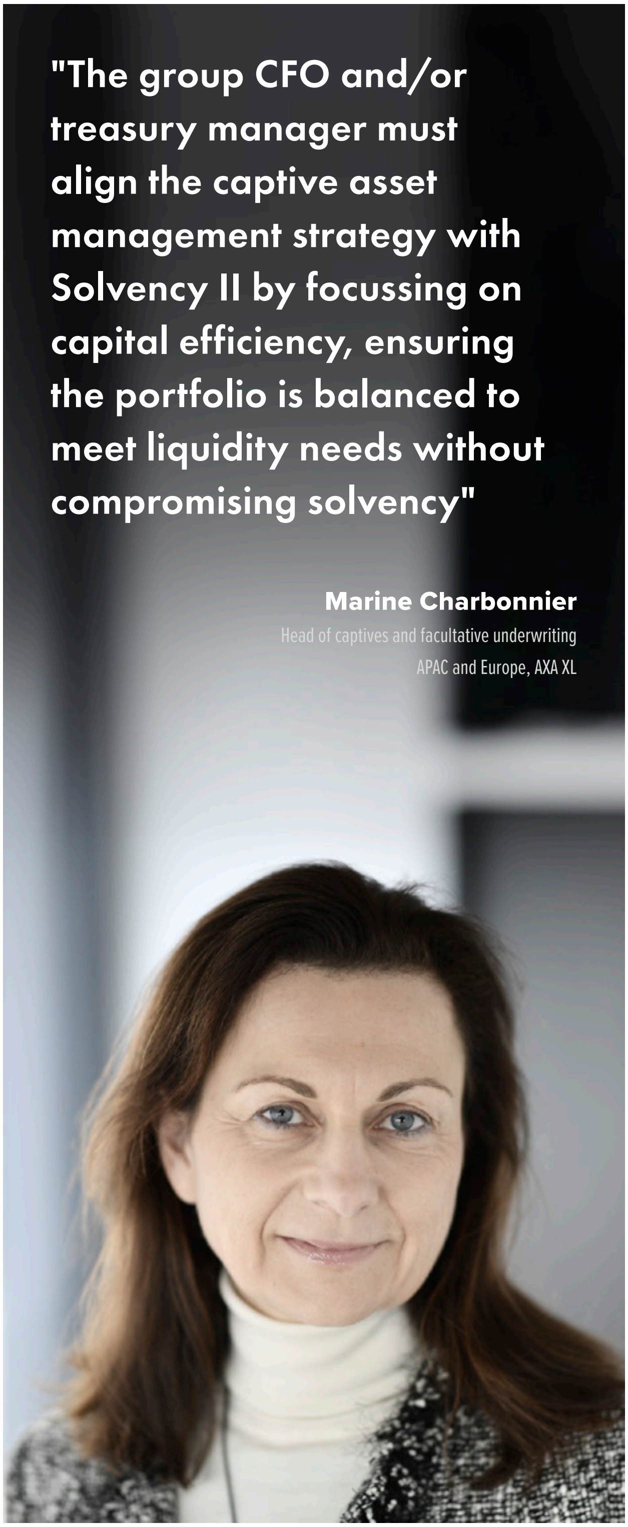

In light of these recent modifications to Solvency II, Simon Grima and Pierpaolo Marano, professors from the University of Malta, highlight several fundamental changes and their specific implications for captive insurers.

Among these is the proposed reduction in the cost-of-capital rate used in risk margin calculations, which is expected to ease the capital reserve requirements for captive insurers with long-term liabilities. By lowering this rate from the current 6 per cent to around 4.75 per cent, the amendments aim to free up significant resources, potentially improving solvency ratios for these specialised insurers.

Additionally, the scope of the matching adjustment is set to expand, allowing captive insurers to invest in a broader range of assets, including infrastructure bonds and high-quality corporate debt.

According to Grima and Marano, this expansion is designed to align investments more closely with long-term liabilities while promoting sustainable, green projects.

They add that another key aspect of the reforms is the simplification of regulations for smaller insurers. The new measures are expected to reduce the reporting and capital calculation burdens for captives classified as ‘small and non-complex’, allowing them to focus more on their core business operations.

The volatility adjustment mechanism is also being overhauled to make it more responsive to real-time market conditions. This change will help captive insurers maintain their solvency during periods of market stress without the need for drastic actions, such as selling off assets at unfavourable prices.

Furthermore, the recalibration of capital requirements based on updated risk assessments may lead captives to adjust their investment portfolios, favouring more stable, lower-cost assets over equities.

Finally, Grima and Marano say that the addition of environmental, social, and governance (ESG) factors to the Solvency II framework will make captive insurers more likely to invest in long-lasting assets.

These investments may benefit from lower capital requirements, aligning with broader sustainability goals, and enhancing the reputational standing of captives within larger corporate groups.

Reassessing investment portfolios

Captive insurance companies in Europe often prioritise underwriting over investment strategies, according to Vittorio Pozzo, director of Europe and Great Britain captive advisory team at WTW. "Captives tend to place little emphasis on investment policy and asset allocation relative to the emphasis placed on underwriting," Pozzo says. He notes that their asset management strategies are usually basic, focusing mainly on cash pooling or short-term investments, driven by the need for flexibility and liquidity. Pozzo explains that structured asset management is often secondary for captives, as their primary role is to challenge the commercial insurance market, retain underwriting profits, and create additional capacity for future claims. "Captives are driven by the liability side of the balance sheet," he adds.

Under Solvency II, Pozzo highlights the importance of diversifying investments across counterparties and focusing on high-rating assets. "With regards to the cash pooling investment, the arbitrage is typically between capital requirements vis-a-vis liquidity," he says.

The recent changes to the regulation, especially concerning the ‘prudent person’ principle, have strengthened the importance of a careful and risk-aligned approach to asset management for captive insurance companies in the European market. According to AXA XL’s Charbonnier, this principle requires captive insurers to invest in assets in a way that ensures the portfolio's security, quality, and liquidity, which directly influences their asset management strategies.

“Captives, smaller and more specialised than traditional insurers, may find it challenging to adhere to these strict requirements while maintaining flexibility in their investment strategies. They need to prioritise low-risk, highly liquid assets, limiting their ability to pursue higher-yield investments,” she remarks.

Meanwhile, William Gibbons, principal in insurance investment at Mercer, explains that the prudent person principle dictates that insurers should invest in a manner that a prudent person would — meaning investments should be sensible, measured, and aligned with the ability to identify, monitor, manage, and control associated risks.

“Insurers must be comfortable with the risks involved in their investment strategies and manage them appropriately. Regulators and supervisors often use this principle as a benchmark. If there's any concern about an insurer's investment strategy, they may reference the prudent person principle to ensure that the strategy aligns with best practices."

EIOPA has provided specific guidance for captive insurers, covering areas such as cash pooling, security, asset quality, availability, and asset-liability management. Gibbons notes that the purpose of these guidelines is to assist insurers in adhering to the prudent person principle by carefully weighing these aspects in their investment decisions.

Looking at the recent modifications in Solvency II from an investment standpoint, Shadrack Kwasa, executive director at London and Capital, remarks that the most significant benefit for captives is this newfound flexibility." With reduced regulatory burdens, captives can now allocate more time and resources towards refining their investment strategies. This shift allows them to maximise market opportunities, making their capital work more efficiently."

Kwasa explains: “For captives dealing with long-tail businesses, such as life insurance or pension-related products, these changes bring material benefits to asset management. The reforms make assets like infrastructure equity, private equity, and private debt more attractive to captives, who are now better positioned to explore these markets. Additionally, changes in the treatment of assets that match liabilities, especially in terms of volatility, enable captives to manage these assets with reduced risk, thereby reducing their susceptibility to interest rate fluctuations."

To help captive insurers balance the liquidity, security, and profitability in their investment portfolios under Solvency II, Charbonnier recommends a multifaceted strategy. She advises captives to invest in high-quality liquid assets (HQLA) to cover short-term obligations, while strategically allocating a reasonable portion of their portfolios to higher-yield investments that maintain a reasonable level of safety. "Additionally, to improve the solvency ratio, captives might explore reinsurance arrangements that provide capital allocation optimisation."

Managing asset allocation

Kwasa says that the capital charges under Solvency II have significantly impacted the asset allocation strategies of captive insurers. These regulations have compelled captives to reevaluate their investment portfolio management strategies, aiming to optimise them not only for economic returns but also from a regulatory standpoint.

> "With reduced regulatory burdens, captives can now allocate more time and resources towards refining their investment strategies"

Shadrack Kwasa
Executive director
London and Capital

"The challenge lies in balancing investment-efficient and Solvency II-efficient portfolios, which means captives need to hold the least capital while maximising returns."

Historically, captives have often opted for simpler asset classes like cash or loans, focussing more on supporting their parent companies' insurance programmes rather than chasing high investment returns. With the recent changes, there is now a greater opportunity for captives to rethink their investment strategies.

"They can now consider factors such as risk appetite, market conditions, and available capital more carefully when structuring portfolios to make the most of the opportunities available, ultimately achieving greater efficiency in their investment approach," Kwasa notes.

Grima and Marano reiterate Kwasa's remarks on capital charges, stating that Solvency II assigns capital charges to asset classes according to their risk profiles. Higher-risk assets like equities and real estate attract higher charges, while lower-risk assets like government bonds and high-quality corporate debt are subject to lower charges. These capital charges have a direct impact on how captives allocate their assets, as they seek to optimise capital efficiency while managing risk.

The professors from the University of Malta explain that the recent recalibration of capital charges includes more favourable treatment for certain asset classes, such as infrastructure bonds, as well as a renewed focus on sustainable investments. This provides captives with new opportunities to enhance returns without significantly increasing their capital requirements. As a result, captives may shift their portfolios towards these newly favoured assets, reducing their exposure to higher-charge investments to maintain strong solvency ratios and capital efficiency."

In order to minimise capital charges while ensuring profitability, Charbonnier recommends captives to “optimise the allocation towards low-risk investments by exploring less capital-intensive alternative investments.

“The group CFO and/or treasury manager must align the captive asset management strategy with Solvency II by focussing on capital efficiency, ensuring the portfolio is balanced to meet liquidity needs without compromising solvency."

As the market and the regulatory landscape evolve, so do captives. Pozzo observes a trend among some sizable and well-established captives to try and structure a more sophisticated asset management strategy with their available cash in excess of what they have to commit for insurance and regulatory purposes. "Captives may choose to accept a higher level of investment risk in exchange for higher returns," he says. However, Pozzo advises carefully evaluating the combined impact of all risk factors when assuming greater-than-normal underwriting risk to prevent stressing the captive's financial stability.

When it comes to fund administration, Gibbons notes that when selecting investments, it is crucial for captive insurers to consider the adequacy of reporting — particularly through the Tripartite Template (TPT), which ensures compliance with regulatory reporting requirements. He also emphasises the importance of targeting a specific Solvency Capital Requirement (SCR) level, which directly correlates with the risk profile of the investments.

“The insurer must hold more capital due to the higher capital charge associated with riskier investments. By controlling capital requirements, asset managers help provide stability for captives, allowing them to know precisely how much additional capital they need to hold against investment risks. This approach supports better business management and future planning."

For captives governed by Solvency II, Gibbons warns against investment strategies that incur excessive capital charges. "Simply pursuing high-yield or securitised investments without considering their capital implications can be counterproductive," he says, highlighting that such strategies can lead to increased capital requirements and ultimately lower profitability.

Instead, he advocates for a balanced approach that aligns investment returns with prudent capital use, ensuring compliance with regulations while maintaining financial stability.

Racing to attract captives in Europe

European jurisdictions are increasingly vying for a share of the captive insurance market and are starting to reap the benefits, according to Best’s Review published in August. While Europe hosts a fraction of the world’s 6,000 captives, inconsistent reporting across jurisdictions makes tracking growth challenging. However, more captives were licensed in Europe in 2022 than were dissolved.

"European captive insurance companies may wish to adjust their strategies in response to recent changes in financial markets, particularly the rise in interest rates"

William Gibbons
Principal in insurance investment
Mercer

Guernsey reclaimed the top spot among European captive domiciles, followed by Luxembourg and the Isle of Man, driven by a vigorous market push. Larger European countries like France, Italy, and the UK, which historically overlooked this business, are now seeking ways to attract captives. London, in particular, is exploring a captive insurance framework as part of efforts to enhance the UK's risk transfer environment. Gibbons highlights the competitive landscape among domiciles, noting that some jurisdictions provide distinct regulatory frameworks tailored to the specific needs of captive insurers. "Whether a group is looking to establish a reinsurance captive, a direct writing captive, or an offshore captive, the choice of domicile can be influenced by these unique regulatory offerings," he explains.

To stay competitive in the industry, Gibbons advises: "European captive insurance companies may wish to adjust their strategies in response to recent changes in financial markets, particularly the rise in interest rates. For many years, interest rates remained exceptionally low, from the period following the global financial crisis up until the COVID-19 pandemic. However, with rates now elevated, there are greater opportunities to generate returns from investment strategies. Captive insurers are now re-evaluating their investment strategies, focussing on balancing risk while maximising returns. For instance, rather than keeping funds in low-yield cash accounts, insurers might consider investing in bonds or funds offering higher yields. Failing to adapt could mean missing out on significant income opportunities."

He predicts that the European captive insurance market is poised for growth, driven by regulatory changes that could increase the amount of capital held within captives. "As more assets flow into these structures, there will be a stronger emphasis on investment strategies. Captives will need to refine their approaches to remain competitive, with a focus on generating higher investment returns.

"Strategies may include loaning cash back to the parent company or exploring bond-based investments to maximise income. I think the trend suggests a growing importance of investment strategy within captives as they seek to optimise returns on their increased capital reserves."

Gibbons points out that while Solvency II imposes stringent requirements on captives domiciled within the EU, these captives benefit from the ability to conduct business directly across the EU. "Captives within the EU can write business on a direct basis without the need for fronting relationships or the guarantees typically required by fronting insurers," he says.

Meanwhile, Grima and Marano forecast that the European captive insurance industry would move towards capital efficiency in response to Solvency II and recent regulatory changes. They say that captives would invest more in low-capital charge assets like infrastructure projects and ESG-compliant investments. "This shift will be driven by the adjusted capital requirements and broader eligibility for matching adjustments introduced by the Solvency II modifications."

The professors also highlight a growing emphasis on sustainability as captives integrate ESG factors into their investment and risk management strategies. Digital transformation is expected to accelerate, with captives adopting advanced technologies for risk management and compliance to enhance efficiency and quickly adapt to regulatory changes. Smaller captives may also seek collaborations to scale up and navigate the complex regulatory environment.

"These trends collectively point towards a more innovative, resilient, and strategically focused European captive insurance market," Grima and Marano add, noting the sector's enhanced position to thrive under the evolving Solvency II framework.

On the other hand, Kwasa believes that European captives can turn the regulatory and reporting burdens imposed by Solvency II into a competitive advantage. "Solvency II mandates that European captives be well capitalised, well managed, and rigorously overseen," Kwasa notes. "This robust framework positions them to better withstand market shocks and underwrite riskier lines, such as cyber risks or climate-related risks. European captives, with their deeper awareness of ESG factors, are well-suited to address these emerging challenges." He observes a shift in European captives' approach, in which risk and investment strategies are increasingly considered in the early stages of formation. "The goal is to make the captive as efficient and self-sufficient as possible, supported by a robust investment portfolio. This proactive approach allows European captives to shine relative to their peers, particularly in handling uncertainty and risk," he adds.

As the landscape for European captives evolves, the challenging market is pushing more companies to consider captives as a viable option. For European captives, the key lies in leveraging their strengths, capitalising on their inherent advantages, and solidifying their position in the market. "The captive is returning home, and there's clear momentum in the right direction," Kwasa says. The outlook is promising, but the industry will be watching closely to see how this development unfolds. ■

Insurtech’s well-laid plan

The innovation, creativity and agility of insurtechs make them a perfect fit for captive insurance when the time is right

Mark Dugdale reports


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As global investment in insurtechs reached US$1.27 billion in Q2 2024 — the highest level since Q1 2023 — deals focused on risk origination, pricing, underwriting and portfolio optimisation attracted the lion's share of funding.

According to Gallagher Re, 33 insurtechs focused on these areas raised a collective US$742.45 million in Q2 2024, with the average deal size for this category reaching US$23.95 million, 29.7 per cent higher than the overall insurtech average.

Furthermore, AI-centred insurtechs attracted US$445.81 million in funding across 27 deals, representing a third of the total deals in Q2 2024.

Rising influence of AI

In its Global InsurTech Report for Q2 2024, Gallagher Re highlights the growing role of AI in underwriting and risk functions, driven by evolving trends in the industry. The report emphasises that the effectiveness of AI in underwriting, pricing, and risk management relies heavily on the availability and quality of data.

"Data is crucial for the initial training of algorithms and for powering them to achieve superior outcomes," the report states. Access to the most relevant data sets provides insurers and reinsurers with a significant competitive advantage.

According to the report, insurers are shifting their focus towards leveraging their internal data assets, which have often been underutilised, to improve pricing and underwriting. This trend is particularly pronounced when internal data offers unique insights into customer behaviour or risk profiles, especially when insurers partner with retailers, banks, or other affinity groups.

Additionally, insurers are increasingly turning to third-party providers to enrich their data, such as verifying identities to bolster counter-fraud efforts.

The broader retail market now relies on AI to monitor and analyse customer behaviour through customer-facing systems and real-time market data.

"The recognition of the need for a proactive data strategy is now widespread among insurers, driven by the imperative to keep pace with competitors," the report observes. This data-driven arms race is accelerating across the industry, extending beyond high-volume personal lines business.

Gallagher Re also highlights in the report the staggering level and granularity of data now available to (re)insurers. Motor insurers have used telematics as a tool for two decades, and it has undergone significant evolution.

Insurers today can employ various movement sensors in mobile phones to detect phone usage while driving, enabling them to make more sophisticated pricing and underwriting decisions.

Similarly, AI is helping underwriters, providing them with new, usable insights from previously inaccessible (or nonexistent) data sets. Gallagher Re uses the example of property insurers, which may now be able to derive fresh insights gleaned from AI-driven analyses of large data sets of properties' roof conditions or flood plain location.

"In doing so, insurers can gain a greater understanding of a new market they are looking to write business in. They may also be able to improve their existing models' ability to gauge the multiplying risks from climate change," Gallagher Re explains in the report.

These are the data that insurers themselves are able to collect and analyse. Insureds, particularly those in industries that produce, manufacture, store, and transport, have access to much more data than ever before, such as the machinery that powers production, the refrigerators that stop goods from spoiling, or the trucks that travel countries with full loads.

Because of this, insurtechs that focus on these customers, and want to become general underwriters as part of their strategy, can create new products that are centred around the customer, like parametric insurance that pays out based on very accurate assumptions. The opportunity exists, but their development may require alternative risk financing structures.

Mikhail Raybshteyn, Americas Financial Services tax partner and Americas Captive Insurance Services co-leader at EY, remarks: "Businesses have an opportunity here with better management and even potential retention of certain risks. They know the data better than insurers, so why not?

"It seems logical and prudent that such companies use their telematics data and partner with insurtechs focused on better ways of underwriting risk to co-create alternative risk financing structures. This could enable them to collaborate with the commercial insurance market and help (re)insurers feel better by spreading the risk."

He continues: “They, insureds and commercial insurers, have long realised that data is truly an asset, but not all data is yet what or where it needs to be.

"This could be about data protection and insureds worrying about giving away their trade secrets, but companies can focus on improving such data protection, focus on improved risk management and claims mitigation, and coordinate such an approach with various market players to ease the residual struggle of pairing insurtechs with data holders and carriers."

As it stands currently, insurtechs are not turning to captive insurance ownership in droves, but there is movement in that direction, according to Raybshteyn.

Those that do tend to develop agency or group captives. "There is lots of innovative thinking from insurtechs but very few decide to go for pure captives immediately and own them.

“They consider their business plan, usually well into the future, and elect to walk before they can run. Setting up a captive is a significant investment of resources and time. It is also dependent on the kind of insurtech we are talking about.

"Those insurtechs that focus more on technology than insurance, such as those that provide a tool or platform instead of underwriting, may not utilise captives as much as those insurtechs that are primarily focused on insurance. Insurtechs with captives are not a pervasive trend, but the conditions can be there, and the key is innovative thinking and understanding where a captive may play its vital role."

Opportunities for captives

One insurtech with its own captive is San Francisco-based Coalition, a cyber insurer and security provider. It announced plans to launch a new captive to begin taking risks on its cyber insurance programmes back in 2021.

Speaking at the time, Shawn Ram, head of insurance at Coalition, said: “Today’s announcement demonstrates our unwavering commitment to protecting businesses from cyber risk and our confidence in Coalition’s approach to underwriting and risk management. Coalition provides businesses with the most comprehensive insurance available, backed by the financial strength of multiple A+ rated insurers.

"Captives, due to their size, have historically faced the challenge of lacking software, as incumbent systems are not designed to cater to their specific needs"

Cameron MacArthur
Founder and CEO
AI Insurance

"The captive has [also] allowed Coalition to build surplus on its balance sheet, which can be utilised as capacity to fuel additional growth"

Shawn Ram
Head of insurance
Coalition

With our new captive, we add another layer of security and stability and more closely align our financial incentives with our customers."

A number of milestones in 2021 supported the announcement, indicating that the time was right for Coalition to transition into captive insurance.

For example, its technology-driven approach was powering a new, more successful model of risk management, resulting in its policyholders experiencing 70 per cent fewer cyber claims when compared to other carriers in the market, as well as validation of its underwriting model through long-term capacity agreements from multiple 'A+' rated carriers.

Coalition also delivered superior claims results amid significant growth, crossing US$400 million in run rate premium, an 800 per cent increase over the previous year.

The Coalition's captive has now been up and running for more than two years. The captive, named Palekana and incorporated in Hawaii, participates in all Coalition's US and Canadian cyber programmes as a reinsurer for the company's carrier partners.

"In the coming years, we plan to use the captive as a risk-taker in Coalition programmes in additional markets," Ram says.

For the commercial insurtech provider, captives represented “a flexible vehicle” that Coalition “could use to capture additional profitability on the insurance programmes” that it underwrites. And, as Ram said in 2021, the company aimed to “more closely align our financial incentives with our customers”.

Ram confirms that Coalition has achieved this objective, noting that the captive structure has enabled the company to share in the profitability of its US and Canadian cyber programmes while aligning its financial outcomes with carrier partners.

“The captive has [also] allowed Coalition to build surplus on its balance sheet, which can be utilised as capacity to fuel additional growth.

"In addition, our captive has demonstrated to our carrier partners our belief in the underwriting profitability of our programmes and that our incentives are aligned with those partners to ensure a sustainable level of profitability on our portfolio."

Raybshteyn comments: “Insurtechs are learning from the insurance industry. Over the last 10 years, some of the large insurance companies have spun out units because they want to focus on their core competencies. They want to focus their resources on where their growth is and what their core business is.

"It has to do with an insurtech's business case. Such companies are no longer jumping into opportunities, including captives, just because they think it can make some money. They ask if this is essential and if wanted. A lot of my conversations with clients, especially successful ones, consider first if it fits into their business plan and what is the potential ROI."

For insurtechs such as Coalition, a captive clearly does fit into its business plan. However, it took the company four years after its launch to reach a point where captive insurance made sense.

Until more insurtechs reach this point in their journey, it is unlikely to see large numbers move towards captive insurance, particularly when the majority may have no interest in underwriting and retaining risk.

For many insurtechs, their platform or tool is their primary business. Take the example of AI Insurance. Founded in 2018 by founder and CEO Cameron MacArthur, AI Insurance digitises and automates the policy, insured and claims management processes in support of captives, captive managers, and risk retention groups (RRGs).

MacArthur explains: "Captives, due to their size, have historically faced the challenge of lacking software, as incumbent systems are not designed to cater to their specific needs. For example, operating a small deductible reimbursement captive does not justify spending US$500,000 on a system when the premium is only US$2 million. The maths just doesn't make sense, so captives are often priced out of using software and have to run on spreadsheets."

The second major problem, according to MacArthur, is fragmentation. "Even if you could afford a system, captives typically operate through a network of vendors, such as a captive manager, an underwriter, an actuary, a TPA, an investment manager, a broker, and so on, all of whom are employed by different companies.

“These companies don't want to pay to let other vendors that serve their clients have access to their systems, so instead everyone just sends each other spreadsheets. That fragmentation issue is difficult to overcome when most systems charge by logins." AI Insurance solves this fragmentation issue by not charging for logins or premiums and "is purpose built for captives".

“So, in the example of our deductible reimbursement captive above, the entire system would be US$1,089 per year, and users from every vendor would get logins for free,” MacArthur explains." This means renewal, actuarial studies, board meetings, etc. can all share the same data set and work together."

With this fragmentation seemingly reduced, captives can also benefit from increased visibility of the many vendors they traditionally have to work with. MacArthur says: “Visibility is a huge factor. If you can see what all of your vendors are doing, you get significantly more ownership and accountability in the running of the captive.

"There's also significant cost savings: AI Insurance programmes have two-times faster audits. Because everyone is working together, email sending and report generation are reduced. For instance, a captive manager no longer needs to conduct a check run because payments are processed through the system; they also don't need to compile and distribute a bordereau since everyone who needs it can generate what they need out of AI. The same goes for TPAs — they no longer need to generate and send out loss runs."

How receptive have captives been to the platform, and have they truly embraced the innovation, creativity, and agility that insurtechs such as AI Insurance can deliver?

MacArthur says: “Like anything in business, there are early adopters, the majority, and then the stragglers. AI is running in some capacity in close to 100 different captives and RRGs today, so certainly the change has happened.

“When young businesses are setting up captives, they now often come to me first and say, ‘Hey, we know we need software, but how do I actually set up a captive now?’, and I'll send them over to a captive manager, which is definitely a different order of operations than it used to be.

“Similarly, I think the forward-thinking captive managers know that technology is going to be how they separate from their competition and are starting to make big bets on it. It's exciting!” ■

Enhancing wealth and risk management with captives

Dana Munnings-Gray, acting superintendent of insurance at the Insurance Commission of The Bahamas, outlines how to harness captive insurance to enhance wealth management and risk mitigation

Captive insurance is a powerful but underutilised tool for wealth and risk management, offering businesses and high-net-worth individuals (HNWI) the ability to retain risks aligned with their strategic goals. Initially favoured by larger corporations to cover risks that traditional insurers could not or would not insure, captives have evolved to address a broad spectrum of financial, investment, and liquidity needs. When established in The Bahamas, captive insurance offers a unique and strategic approach to wealth management and risk mitigation, delivering customised coverage, significant cost savings, and versatile solutions for complex financial and operational risks.

It is a versatile and customisable tool capable of providing bespoke solutions that align with a client's unique risk profile. It allows for greater flexibility, efficiency, and cost-effectiveness in insurance management. For businesses and affluent individuals, wealth management is not just about growing assets but also about protecting them from unforeseen risks. Captive offers several benefits that enhance traditional wealth management strategies, particularly when integrated within an international financial centre.

A customised approach

Captive insurance bypasses traditional insurance markets, offering substantial cost savings and greater control over risk management. Unlike conventional insurers, which base premiums on market averages, captives set premiums tailored to the insured's actual risk profile and claims history, often resulting in lower costs and more favourable coverage terms. By retaining a portion of the risk, captives significantly reduce premiums, and if claims are lower than anticipated, the financial benefits flow directly to the insured. This approach also allows businesses to manage key practices, such as loss prevention and claim handling, enhancing the overall value of the captive.

Additionally, the captive can invest the premiums it collects, generating an additional revenue stream and enhancing the financial efficiency of the captive model. Captive insurance can be critical in estate planning because it provides liquidity for estate taxes or other liabilities. For example, a HNWI with a successful business might set up a captive to manage business risks. Over time, the captive accumulates money from premium payments and investments. This setup not only protects the individual's wealth from claims of creditors, but also allows the captive funds to cover estate taxes upon the individual's death. This prevents the need to sell assets at a loss or incur additional debt.

Captives in The Bahamas

The Bahamas' regulatory framework supports two main types of captives: single-parent captives and protected cell companies (PCC). Single-parent captives, owned by one entity or a HNWI, insure only their own risks. PCCs offer a cost-effective solution by allowing multiple clients to create segregated cells within a single entity, ensuring independent operation and protection of each cell's risks and assets. Unlike standard insurance, captive policies are customised to comprehensively address specific risks.

Captives operating in The Bahamas benefit from a robust regulatory framework that promotes stability and sound governance. They must meet strict fiduciary requirements, including maintaining adequate capital reserves and undergoing regular audits. This fiduciary responsibility is crucial for risk mitigation, ensuring that captives can meet their obligations in the event of large or unexpected claims. The Insurance Commission of The Bahamas, as the supervisory authority for the insurance industry, provides rigorous oversight to ensure that captive insurance operations are financially sound and well managed. Its regulatory approach is proactive and adaptable, meeting the evolving needs of the market while ensuring high levels of protection for policyholders.

Given the country's geographic location, disaster preparedness is a critical component of risk management. Captive insurance structures can be customised to cover catastrophic risks, like hurricanes, which are increasingly significant for businesses and property owners in the region due to climate change concerns. The ability to tailor coverage to specific disaster risks makes captive a resilient and reliable part of any comprehensive risk management strategy.

Risk management solution

Captive insurance plays a vital role in business risk management, especially for companies with global operations or significant assets. It offers a strategic solution that supports business continuity, resilience, and financial stability by covering risks often excluded by traditional insurers, such as supply chain disruptions, cyber threats, and operational failures. Businesses and HNWIs can create tailored insurance policies that effectively address their unique exposures by establishing captives.

Employers can also use captives to fund employee benefits programmes like health and life insurances, and retirement plans.

This enables businesses to tailor to their workforce's specific needs, while potentially reducing costs through more efficient risk pooling and management.

For businesses or HNWIs operating across multiple jurisdictions, a Bahamian captive offers a centralised risk management solution that simplifies the insurance process and ensures consistent coverage across all locations. This is especially beneficial for managing risks like regulatory compliance or political instability that vary between jurisdictions. Additionally, captives can also cover reputational risks, including public relations, legal fees, and crisis management costs, helping to protect their brand and maintain stakeholder trust.

Cornerstone of wealth management

Captive insurance has evolved into a cornerstone of wealth management, offering a powerful tool for risk mitigation, cost savings, and financial stability. By providing customised coverage, captives allow businesses and HNWIs to manage unique risks that traditional insurers often overlook. In addition to risk management, captives contribute to wealth accumulation through investment income, enhance control over claims and loss prevention, and offer strategic advantages in estate planning and asset protection. Captives are a versatile and resilient component of a comprehensive financial strategy that empowers businesses and individuals to safeguard their assets while achieving their broader financial goals.

The Bahamas, as a jurisdiction with a reputable financial services sector, provides an ideal environment for businesses and HNWIs to establish and operate captive insurance structures. Captive insurance fits well within The Bahamas' stable regulatory environment, where transparency, compliance, and flexibility align with its unique requirements. The country's robust financial services sector, supported by experienced professionals committed to high standards, enhances its appeal to businesses and HNWIs seeking to optimise their risk and wealth management strategies.

Additionally, The Bahamas boasts expertise in the unique challenges faced by captives. This local knowledge assists businesses and families in navigating the complexities of insurance and risk management, ensuring the optimal structure and management of their captives. The country's adaptability and growing reputation as a financial services innovator make it an attractive location for those seeking security, flexibility, and freedom in wealth creation and risk management. ■

> "When established in The Bahamas, captive insurance offers a unique and strategic approach to wealth management and risk mitigation, delivering customised coverage"

Dana Munnings-Gray
Acting superintendent of insurance
Insurance Commission of The Bahamas

Evaluating, establishing, and optimising a captive insurance programme

Michelle Bradley and Enoch Starnes from SIGMA Actuarial Consulting Group share with John Savage how to successfully set up and manage a captive programme

What are the essential components that make up a comprehensive feasibility analysis when an organisation is considering establishing a captive insurance programme? How do these different elements collectively inform the decision of whether to move forward?

Michelle Bradley: The key components of a feasibility analysis is the domicile selection analysis, the initial programme structure assumptions, the loss projection analysis, and the pro forma statement analysis.

The supporting narrative explanation then allows the prospective captive owner to document and understand how these components relate to one another. Considering these items as a whole is crucial to ensuring their ultimate decision is based on a genuine understanding of all the options available to them.

Selecting the optimal domicile is a critical aspect of captive feasibility. What are the primary strategic, financial, and operational factors that captive owners should carefully evaluate when assessing onshore versus offshore domicile options?

Enoch Starnes: Several items are at play when considering a captive domicile, many of which vary depending on whether the parent is seeking onshore or offshore options. Capitalisation and surplus requirements, as well as solvency ratios, often stand out as key determining factors from a financial standpoint.

From a strategic perspective, one can also consider the regulatory environment's receptiveness and the overall stability of the regulatory framework. For example, prospective captive owners may desire a clear, consistent dialogue or positioning regarding a domicile's long-term direction.

Regulatory flexibility may also be an important consideration, especially with regard to accepted parameters around investment portfolios.

Operational factors can range from more obvious items, such as the quality of local infrastructure and efficiency of business operations, to those that are potentially less clear but nevertheless important, like language and currency compatibility or the domicile's travel accessibility.

No matter what these comparisons look like on paper, something we often recommend to prospective captive owners is to take the time for face-to-face conversations with their potential regulators.

Once they have narrowed down their domicile options, scheduling calls or visits with specific domiciles to discuss the prospective captive and gauge their receptiveness can be extremely helpful.

Such discussions often reveal much more useful information than reviewing a relatively static grid of factors.

The programme structure analysis examines important elements like fronting, reinsurance, and market submissions. How do these interconnected components shape the overall captive design, and what are best practices for captive owners to navigate this complex process?

Starnes: Designing a suitable structure is obviously key to a successful captive formation because it serves as the transition from theoretical to practical. In other words, figuring out whether a captive is still financially viable after determining the ‘external’ pieces, like fronting and reinsurance, is how a captive moves from a good idea to a true, strategic tool.

In our experience, best practices often revolve around proactive communication. On the front end, deciding on key aspects of a captive structure and ensuring all parties are on the same page throughout the feasibility process can have a dramatic effect on the time and resources needed for captive formation.

The actuarial analysis is widely considered one of the most crucial components of a feasibility study. What advanced modelling techniques and data inputs do leading actuaries leverage to provide captive owners with robust projections of the programme's future performance?

Bradley: It is important to consider that some risks have large data sets with years of history and credibility, while others, such as emerging risks or non-traditional risks, may have very little data.

For risks with large data sets, it is common for the analytics to take on standard actuarial approaches. Risks with limited data, on the other hand, may use simulation techniques based on statistical assumptions about potential claim frequency and severity. In the absence of unique company data, these assumptions may include industry databases, risk research, market quotes, and input from company management.

Loss projections generated at both the expected level and varying confidence levels are the key outputs for all risks in the feasibility process, no matter the underlying methodology. Once created, they often flow through the remainder of the feasibility report for pro forma statement modelling.

Feasibility often involves deciding between single-parent, group, or cell captive structures. What are the key strategic and operational distinctions between these captive types, and how should owners evaluate the pros and cons for their specific risk profile and objectives?

Starnes: There is plenty of nuance in the decision around captive types, but often, these disparate factors can be condensed into three primary considerations: scale, control, and flexibility.

Prospective captive owners with relatively large exposures and a desire to control all aspects of their captive programme may opt for a pure captive, whereas smaller parent companies who want to take a few transitional steps into the captive realm might seek opportunities through cell captives.

Of course, any of these options are perfectly viable, so long as the prospective owner has a true understanding of both the short-term and long-term implications of their decision. Group captives are a frequent example of this.

The method and parameters around exiting a group captive are topics we often hear about, and unfortunately, these items may not have been as clear (or at least, well understood) when the group captive was first joined.

As previously discussed, early in the feasibility process, clear and proactive communication can alleviate many of these issues.

Legal, regulatory, and tax factors must be meticulously considered during the feasibility stage. What are the most critical compliance requirements and potential pitfalls that captive owners need to navigate, especially when evaluating domiciles with differing regulatory environments?

Starnes: At the risk of sounding like a broken record, I would say communication and transparency are vital to navigating regulatory complexities. Early and frequent discussions with potential regulators about the aspects of a prospective captive yield significant benefits.

Doing so allows all parties to have a clear understanding of compliance issues, overall receptiveness, and any nuances that might otherwise cause confusion or distress down the road.

Establishing the appropriate capital requirements is a core component of the feasibility analysis. How do leading captive consultants model different loss and growth scenarios to determine the optimal capitalisation, and what are the key trade-offs owners must weigh?

Bradley: Consideration of different assumptions is a significant facet of the pro forma statement analysis within a feasibility study. Key financial metrics should always accompany these discussions.

One can review pro forma analyses under various scenarios, typically presenting them on both an expected and an adverse basis. These pro formas can model several key input assumptions, such as growth rates, initial capitalisation, captive expenses, and reinsurance structure.

Ongoing scenario testing from an analytical perspective facilitates an emerging captive strategy.

"Advanced analytics frequently serve as the core piece of longer-term strategies that incorporate both traditional and emerging risks"

Michelle Bradley
Consulting actuary
SIGMA Actuarial Consulting Group

What are the essential roles and responsibilities of key stakeholders like the board, underwriters, claims team, finance, and risk management, and how can owners foster effective coordination between these groups?

Bradley: The cross-collaboration process is an inherent part of any enterprise risk management (ERM) process. ERM has had a significant impact on the captive space by constantly developing strategies for both overall risk portfolios and new and emerging risks. As a result, established ERM processes can facilitate collaboration and coordination among key stakeholders. Captive owners should have a clear leadership structure for the captive, and as part of this structure, board education and board presentations are key to ensuring the coordination of all parties.

Once a captive has been established, what are the hallmarks of a robust annual governance cycle, including the key focus areas and deliverables for the financial review, strategic planning, and renewal/reserving meetings?

Bradley: From an analytical perspective, it is important to remember that claims experience, exposure shifts, social changes, and legislative effects constantly change the underlying risk profiles. Therefore, captive owners should review loss projections at least annually, incorporating input from all parties. They should also monitor retention and programme structures based on updated loss projections. Finally, it is prudent to monitor the required reserves for historical liabilities annually, and in some cases, consider quarterly or semi-annual reviews. These reserves have a direct impact on the balance sheet and overall surplus positions.

Beyond the initial feasibility and launch, how can captive owners leverage advanced analytics and optimisation techniques to continuously enhance the performance and strategic value of their captive programme over time?

Bradley: Advanced analytics frequently serve as the core piece of longer-term strategies that incorporate both traditional and emerging risks. These analytics can facilitate an adaptive programme structure that considers overall optimal retention. Advanced analytics help answer three key questions: what are the best retentions, what is the volatility of the entire portfolio of risks, and how do adverse scenarios affect short and long-term financial metrics? ■

"Early and frequent discussions with potential regulators about the aspects of a prospective captive yield significant benefits"

Enoch Starnes
Captive and Complex Risk Consultant
SIGMA Actuarial Consulting Group

ILS and collateralised reinsurance in the Cayman Islands

The Cayman Islands is emerging as a leading hub for insurance-linked securities and collateralised reinsurance, attracting diverse industry players with innovative licensing and rapid regulatory processes

Philippa Gilkes, Counsel, Conyers, on behalf of IMAC

The Cayman Islands is renowned for being an innovative and business-friendly jurisdiction and welcomes the challenge of competing in the ever-evolving insurance-linked securities (ILS) industry, in which it remains a significant player. The Cayman Islands Monetary Authority (CIMA) has issued around 70 per cent of recent insurance licences to commercial or affiliate reinsurers, attracting a mix of private equity groups, traditional reinsurers, and insurtech startups, alongside the captive insurers that founded the industry. These developments underline the strategic benefits of the jurisdiction, which are well known to sponsors, and place the Cayman Islands in a strong position to facilitate a broad scope of possible transactions that comprise the ILS industry.

At the first dedicated reinsurance conference in the Cayman Islands held in April 2024, Deputy Premier André Ebanks highlighted the synergy between the reinsurance and investment fund sectors, describing it as a ‘perfect marriage’. He emphasised the Cayman Islands' suitability for hybrid products like catastrophe bonds, as well as its readiness to capitalise on the expanding ILS and collateralised reinsurance markets. This spirit of innovation is expected to continue driving the Cayman Islands reputation as a leading hub for ILS and collateralised reinsurance.

Flexible licences and proportionate regulation

The Cayman Islands' history with the ILS market began in the mid-1990s, marking its early beginnings with the issuance of the first catastrophe bonds. With a solid reputation as a leading international finance centre, the Cayman Islands was a natural fit for these pioneering financial products at a time when other financial hubs were unsure of ILS place in the overall insurance and capital markets industries. While Bermuda has emerged as the frontrunner in the catastrophe bonds sector, the Cayman Islands continue to innovate within the broader ILS market and is actively expanding its scope beyond traditional property catastrophe bonds to include casualty ILS, which presents a different risk profile and unique opportunities. This strategic expansion showcases the Cayman Islands' commitment to evolving its financial services to meet diverse market needs.

Over a decade ago, the Cayman Government developed the Class C as a special category of insurance licence, adapted for entities providing reinsurance through the issuance of ILS such as catastrophe bonds, sidecars, collateralised reinsurance, life insurance securitisation, longevity, or similar instruments. The benefits of the Class C licence for fully collateralised and limited recourse transactions include peppercorn capitalisation, audit exemptions, and comparatively light regulatory oversight. More recently, CIMA announced a further streamlining of the licensing process for catastrophe bond transactions, enabling applications to be approved in five business days, a highly attractive proposition for sponsors looking for regulatory certainty to facilitate these deals in a speedy fashion.

The flexibility of the Class B(iii) licence also attracts many sponsors, who choose to establish their collateralised reinsurer as a segregated portfolio company in this licence class. This structure allows the company to write fully collateralised, limited recourse transactions in dedicated cells, while also maintaining the flexibility to write other third-party business.

One such recent entrant to the Cayman market is Ledger Re SPC, a reinsurer established by Ledger Investing, a technology company disrupting the insurance industry's financing. Led by Samir Shah, former chief risk officer and head of insurance capital markets at AIG, Ledger has pioneered the expansion of the ILS market to non-catastrophe insurance risks, with a focus on private passenger auto, commercial auto, workers' compensation, and general liability.

Prior to establishing in Cayman, Ledger’s transactions were largely in the form of quota share reinsurance from US fronting insurance carriers to Bermuda-based segregated account companies.

However, Ledger identified the key reasons for the Cayman Islands to be the ideal location to start the casualty ILS market: its unique regulatory framework, the chance to grow the market through capital management, and the large number of institutional investors that already live there.

Before moving to the Cayman Islands, Ledger primarily conducted quota share reinsurance through US fronting carriers to Bermuda-based segregated account companies. However, recognising the Cayman Islands' specialised regulatory framework, opportunities for market growth via capital management, and the strong presence of institutional investors, Ledger chose the jurisdiction as the ideal base for expanding into the casualty ILS market.

When asked about the future of the ILS market, Shah says: "We believe there is a stronger narrative for insurance securitisation than as an extension of the reinsurance market: positioning it as an extension of the multi-trillion dollar securitisation market used by banks for capital management.

"By reframing insurance securitisation as a capital management tool rather than solely a reinsurance solution, the market can realise its potential to grow into a trillion-dollar industry, offering new opportunities for insurers to enhance their capital strategies."

Regarding Cayman's unique position, he notes: "The long-term nature and unique economics of casualty ILS require specialised infrastructure to underwrite risk, monitor performance, and manage capital effectively.

"CIMA's risk-based regulatory approach is particularly well-suited to optimising risk and capital management specifically for casualty ILS, and its licensing framework for segregated portfolio companies and portfolio insurance companies is well suited for growth. Finally, Ledger aims to attract many institutional investors to the casualty ILS market, many of whom, while new to ILS investments, are already well established in the Cayman Islands."

Innovation is key

As the ILS market evolves, the Cayman Islands will continue to respond by developing innovative solutions to new transaction structures. The introduction of the portfolio insurance company product in 2015 and the provision of a legislative footing for capital redemption contracts in 2022 are perfect examples of such innovation.

CIMA continues to offer an efficient, collaborative, and commercial licensing process that provides applicants with a speed to market envied by other jurisdictions. CIMA's insurance division has established specialised teams to handle the growing variety and complexity of insurance transactions entering the market.

The Cayman Islands government has publicly committed to developing legislative changes that will further enhance the insurance regulatory regime. Industry groups are actively participating in initiatives to address and respond effectively to new market requirements.

Kieran Mehigan, chair of the Insurance Managers Association of Cayman, anticipates that with the thriving international commercia reinsurance market, this legacy of innovation, and a commitment to collaboration, the Cayman Islands is poised to solidify its position as a leader in the ILS market. ■

"As the ILS market evolves, the Cayman Islands will continue to respond by developing innovative solutions to new transaction structures"

Philippa Gilkes
Counsel
Conyers, on behalf of IMAC

Starting a career in captive insurance

Grace Topete from Helio speaks to Diana Bui about her aspirations and the benefits of starting her career in captive insurance

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?

I was exposed to internal captive owner operations and the external service provider role from a young age, as my mother directed captive operations for a large hospital system while I was growing up. I have also worked for companies with complex insurance needs for the past decade. Having recently joined Helio Risk, I am now working with our captive management and risk consulting clients, including healthcare, education, and a wide variety of other businesses. Right now, property is a high-growth area for captives, and many clients are seeking to expand the protection a captive affords there. Traditional casualty lines are also increasing captive participation. I recently learnt about how parametric coverage is enabling companies to be strong community members and practise positive corporate social responsibility, which is an area close to my heart. It is an exciting time for the industry.

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

I have spent most of my career in businesses with a startup mindset. I have discovered that the entrepreneurial skills I learnt — thinking big for the future, being willing to raise my hand for new projects, and tracking many small details along the way — have well prepared me to work in such a booming industry. I was also an educator before that, and being able to structure my thoughts, build trusting relationships, and communicate clearly has really prepared me for the client-facing portion of my role.

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

There are not many industries you can jump into and get so much high-quality professional development right away, but captives are one of them. The work done by the International Centre for Captive Insurance Education (ICCIE) is outstanding, and I have been particularly impressed by the emphasis on supporting newcomers at conferences. Everyone I have met so far has been incredibly willing to share their expertise, which makes me excited about how quickly I will be able to grow my skills and expand my network in this field.

Can you name your main influences in the industry?

I would have to start with my mom, Heather McClure. From a young age, I saw the profound impact her work had on people's lives. She used captives to build robust risk management programmes in healthcare systems, where employees felt proud to contribute to better patient outcomes and had a sense of ownership in the process.

Although it took me a while to come around to working in captives myself, the impact I witnessed always stayed with me.

I also learnt a great deal from Kyle Sweet, who has known me since I was a kid. I have had the honour of watching his businesses evolve and his expertise in captives grow, both as a lawyer and now as a captive manager. Additionally, I have to credit Garry Bright from McGill and Partners and others who encouraged my interest early on, showing me just how expansive the captive world truly is.

Personal bio

Grace has dedicated her career to fostering growth and development in both people and organisations. Currently serving at Helio, her journey began in nonprofit consulting, where she played a pivotal role in launching the Nonprofit Impact Institute at SVP Dallas. Grace also led the Dana Juett Residency, a unique capacity-building programme that equips young professionals from various industries with the skills to contribute effectively to social impact organisations. She is also a Standards for Excellence licensed consultant.

Before her shift to the social impact sector, Grace had a diverse career in education, ranging from teaching freshman biology to working at an educational video game startup. Her work has consistently focused on finding innovative ways to foster growth and self-determination, both in individuals and organisations. As an accomplished academic, Grace was a McDermott scholar at the University of Texas at Dallas (UT Dallas) and the inaugural graduate Charles Butt scholar at the Southern Methodist University.

In addition to her professional achievements, Grace serves as president of the McDermott Alumni Association, a charitable giving organisation, and is a member of both the UT Dallas executive board and the City of Richardson Community Inclusion and Engagement Commission. Grace and her husband, both passionate about the arts and social justice, live in Dallas with their family.

"We are thrilled to continue to grow the Helio team around the US as our practice expands. Grace brings not only deep business experience in Texas, but also skills that can be transferred to clients across the country. Her passion for client service is evident, and she has hit the ground running on many accounts."

Blake Kerr
Partner and chief financial officer
Helio Risk

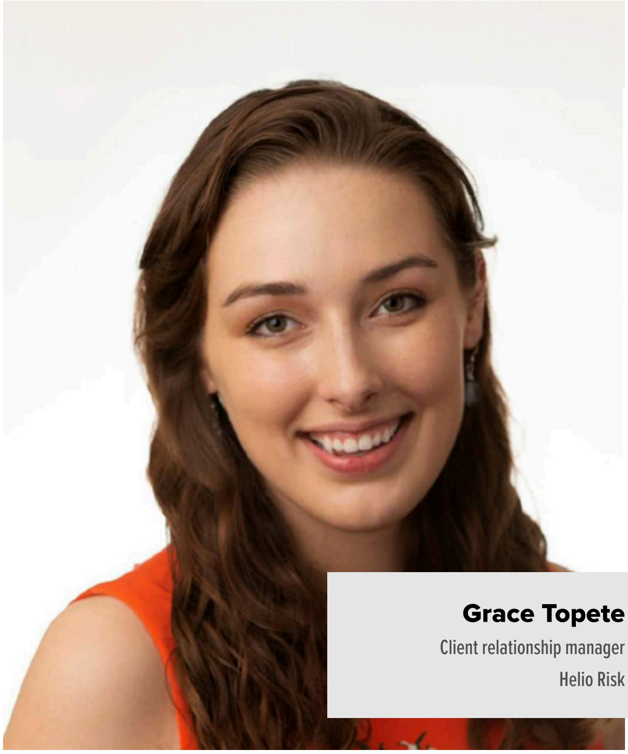
What are your aspirations for your future career in the industry?

I am eager to identify how my unique experiences can drive growth within the captive industry. What excites me most is the creativity involved in tailoring systems that work for various organisations. I believe I can contribute to solving challenges in chronically under-insured areas of business and society.

Ultimately, the organisations we serve play a crucial role in supporting our communities, and I hope to always centre my career on how we help take care of people and the neighbourhoods we live in.

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

Jump with both feet and don't look back! Surround yourself with mentors, take advantage of all the conferences and educational opportunities, and ask lots of questions. ■



Grace Topete
Client relationship manager
Helio Risk

Industry Appointments

HDI Global enlists Geis as Managing Director for Germany

Stephan Geis has been appointed managing director for Germany at HDI Global, reporting to Barbara Klimaszewski-Blettner, executive board member and chief claims officer in the country. Geis brings to the company more than 15 years of experience in the insurance industry and joins from Allianz Commercial, where he most recently served as head of distribution in Germany and Switzerland.

Welcoming the new hire, Klimaszewski-Blettner says: “Stephan is a proven expert in national and international industrial insurance. He has an exceptional grasp for the market and is highly regarded by customers, partners, and colleagues.

“I am confident that he will play a key role in shaping the strategic development of our German business and achieve the best possible results for our customers, partners and HDI Global."

Edgar Puls, chairman of the HDI Global executive board, states: "As our home market, the German market is an important pillar for HDI Global, accounting for over 25 per cent of our overall result.

"Due to his many years of experience and extensive knowledge of the industry, Stephan Geis is well-positioned to maintain and expand our long-standing customer and partner relationships in Germany." ■

VCIA appoints new board of directors

The Vermont Captive Insurance Association (VCIA) has named Gail Newman, vice president (VP) of risk management at Bright Horizons as new chair, along with new board members for the 2024–2025 term.

Joe Carter, VP of business development and marketing at United Educators, is re-elected to a second term and takes on the role of board vice chair.

Additionally, new board members include Julie Bordo, CEO and president of PCH Mutual Insurance; Aaron Ciullo, VP of Marsh Captive Solutions; and Brenda Stewart, VP of AIG Captive Solutions.

The association also appoints Jason Palmer as board treasurer and Melinda Young as board secretary.

VCIA CEO Kevin Mead offers his congratulations, stating: “I can speak for our staff and members and say VCIA is extremely excited to retain two outstanding captive professionals and bring on three more."

On her new appointment, Newman comments: “My fellow board members have put a tremendous amount of trust in me, and it is great inspiration to help lead VCIA to new heights."

Carter adds, “I have a deep appreciation for the essential role captives play in supporting their members. Helping lead VCIA is an opportunity to serve a wide spectrum of self-insurers across the country."

The next VCIA board meeting, scheduled for October, will focus on incorporating stakeholder feedback and building out the association’s strategic plan ahead of its 40th anniversary in 2025. ■

Specialty Captive Group names Stoll as Vice President

Josh Stoll has been appointed as vice president of group captives at Specialty Captive Group, a division of Specialty Program Group.

With a background in product management, underwriting, and business development, Stoll brings over a decade of expertise in the insurance industry, particularly in alternative risk solutions.

Previously, he was assistant vice president of truck transportation at National Interstate Insurance Company.

In a statement, the company says: "Josh's appointment marks an exciting chapter for us as we continue to innovate and lead in the captive insurance space." ■

Helio adds Topete to captive management team

Helio, a captive management and risk consulting services provider, has enlisted Grace Topete to its growing team. In her new role, Topete will primarily be responsible for providing captive management and advisory services to Helio's clients, with a focus on the Texas market.

She comes to Helio with expertise in the nonprofit and education industries, most recently working as director of leadership programmes at Social Venture Partners Dallas.

Topete holds a Master of Education's degree from Southern Methodist University and a Bachelor's degree in Cognitive Science from the University of Texas.

Heather McClure, managing partner at Helio, comments: "The expansion of our presence in the Dallas-Fort Worth Metroplex is a natural

South Carolina Captive Insurance Regulator McDonald joins Captives Insure

Captives Insure has appointed Joe McDonald as executive vice president and director of captive consulting.

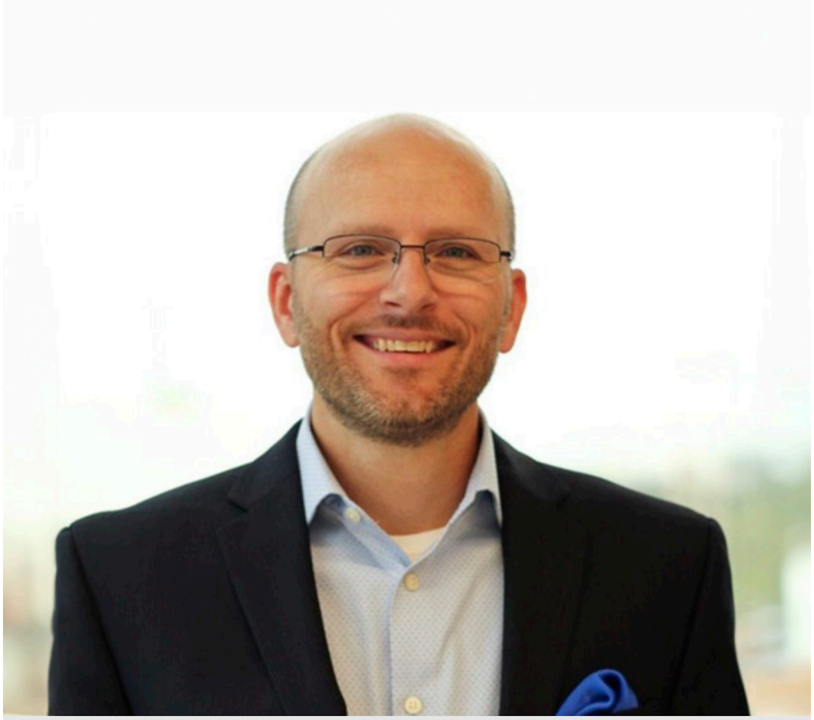
He will be responsible for overseeing the company's consulting platform and advising on strategic initiatives to enhance Captives Insure's offerings.

McDonald, who was director of captives for the South Carolina Department of Insurance (SCDOI), brings to the company a wealth of experience and expertise in the insurance industry, particularly in the realm of captive insurance.

During his tenure at the SCDOI, McDonald was instrumental in overseeing the regulation and growth of captive insurance companies within the state, contributing to South Carolina becoming the fourth largest captive domicile in the US.

Prior to that, he was captive and risk finance product manager at the International Risk Management Institute, and licensing coordinator and consumer liaison at the SCDOI.

Welcoming McDonald to the team, Nate Reznicek, president of Captives Insure, remarks: "Joe's reputation, expertise and deep understanding of the captive insurance landscape will be invaluable as we continue to expand our services and support our clients in navigating the complexities of captive insurance. Joe's addition underscores our company's steadfast commitment to providing top-tier captive insurance services and innovative solutions to our broker and captive manager clients." ■



Alliant onboards Heter as VP within Employee Benefits Group

Alliant Insurance Services has enlisted Brad Heter as vice president (VP) within its Employee Benefits Group, further expanding the company's Midwest team.

Heter has more than 20 years of experience in the employee benefits industry, specialising in the implementation of strategies to manage health plan risks.

Previously, he was a sales executive for employee benefits at Oswald Companies.

Heter holds an associate's degree in accounting and business management from Terra State Community College. He earned his Certified Insurance Counsellor (CIC) designation in 2009 and has been an active participant on the board of St. Joseph's Home since 2022.

Kevin Overbey, president of Alliant Employee Benefits, comments: "Brad's deep experience in benefits strategy will be a tremendous asset to our team as we continue to deliver innovative solutions to our clients.

"His ability to tailor benefits offerings that resonate with employees perfectly aligns with our commitment to helping organisations thrive by attracting and retaining top talent." ■

progression in Helio's growth and a response to client needs and our prospect pipeline. Grace's addition is an important next step to increasing our industry and geographic reach."

Jesse Olsen, chief operating officer at Helio, adds: "Bringing Grace on board will help Helio provide our world-class consulting and services to new clients who can benefit from captive solutions.

"Nonprofits in particular suffer from chronic underinsurance. Her network in and knowledge of that space will add meaningful value with far-reaching positive ripple effects."

Topete says: "I have known about the captive industry for years and am excited about the opportunities that lie ahead, especially in bringing these innovative services to industries and regions I care about so much." ■

Acrisure Re appoints new leadership in international treaty business

Acrisure Re has named David Sowrey as managing director and Nigel Dane as chairman of its international treaty business. Both are based in London and will continue to report directly to Simon Hedley, CEO of Acrisure Re.

Sowrey has been a partner at Acrisure Re since 2013, having been involved in the development and placement of insurance risk, notably Lloyd's consortia and MGAs.

In his new role, Sowrey will continue to lead the reinsurance broking operations, bringing extensive experience in property, casualty, multi-line reinsurance, and retro classes of business.

Dane has been with Acrisure Re since 2002, when he established and led the London office, bringing over 40 years of (re)insurance industry expertise. ■

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.

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