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PRP Performa opens new offices in Vermont and South Carolina

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PRP Performa will expand its presence and team beyond the shores of Bermuda into the US captive marketplace.

From 1 July, Performa US opened local offices in the US States of Vermont and South Carolina.

The independent investment firm, which has more than $2 billion in assets worldwide, is "excited about guiding US based captive insurers through the complexities of the financial markets and bringing a holistic understanding of their unique needs across all stages of the life cycle", it said in a statement.

Hugh Barit, chairman and CEO of Performa, said that establishing a presence onshore fulfills a long-term goal of the company to help domestic US captives grow.

David Kilborn, who is the chief investment officer for Performa and its affiliates as well as president of Performa US, will lead the US offices.

Kilborn, who is based in the firm's South Carolina office, has more than 23 years of experience in the investment management and financial industries.

He spent 13 years of his career building and managing the institutional fixed income business at Dwight Asset Management in Burlington, Vermont.

He said: "I am delighted that our group effort at Performa over the past year has brought us to a successful launch of company's US initiative."

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CITINBRIEF

Captive Resources hits $1 billion

The consultant to member-owned group captives, Captive Resources, has seen its affiliated captives reach combined premium exceeding $1 billion.

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Chartis approves of SunGard for risk

Chartis Research has named SunGard Financial Systems a category leader in its RiskTech Quadrant for Basel III technology solutions.

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PRP Performa opens new offices in Vermont and South Carolina

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To facilitate the new US presence, Derek Martisus, previously of Marsh Management Services and Dwight Asset Management, has been hired as the new head of US insurance solutions. Martisus will be responsible for business development and client relationship management for Performa's US client base.

Performa has also expanded its investment team with the addition of two new fixed income sector portfolio managers, who will join this month. The hires enhance the company's coverage of the investment grade corporate bond and structured products sectors.

Kilborn said: "Our two new additions will fit seamlessly into our firm culture and their expertise in the fixed income markets will serve our clients extremely well. As the captive marketplace continues to develop and grow in the states, we believe Performa can bring a lot to the equation with our tremendous firepower and reach within the fixed income markets based on our prior experiences and strong relationships in the industry."

The growth in new US captive domiciles has been rapid in recent years, with more than 30 states now boasting captive insurance legislation.

Florida, Connecticut and Oklahoma recently amended their captive insurance laws as they bid to attract new captive formations.

Vermont remains the top captive insurance domicile in the US, with approximately 1000 licensed captive companies.

Captive Resources hits $1 billion

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Captive Resources creates and oversees 27 member-owned group captives, which collectively have more than 2500 member companies.

More than $220 million of new premium has also been added to its captives in the last 24 months.

George Rusu, the co-founder, chairman and CEO of Captive Resources, said: "In the very challenging economic climate of the past several years, Captive Resources' group captive model has become increasingly popular as companies sought to tightly control expenses—a trend we see continuing."

"The growth in our core business has enabled our continued expansion into new areas to meet the varied needs of our clients, including 831(b) captives and healthcare stop loss insurance, and will support additional strategic initiatives in the future."

Rusu added that Captive Resource's growth is partially attributable to an improving economy, which is enabling its members to begin to hire staff and expand their operations, and favourable credit markets, but most of the growth has come from the addition of new captive members.

Chartis approves of SunGard for risk

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The advisory firm analysed a range of Basel III solutions for their completeness and market potential. SunGard's Adaptiv and Ambit solutions for on-and-off-balance sheet risk management scored highly in both.

Peyman Mestchian, managing partner at Chartis Research, said: "To adapt to the pressure on resources and the impact of new regulations, financial institutions will need to improve capital management; integrate functions, especially risk and finance, and front and back offices; and implement enterprise-wide risk management."

Harold Finders, the CEO of SunGard Financial Systems, added: "Our recognition as a category leader in Basel III solutions reflects our focus and investment to help financial services firms respond to regulatory change, which is one of their biggest challenges."

Eni Insurance holds strong

Italian oil and gas company Eni's captive has been assigned a financial strength rating of "A (Excellent)" and an issuer credit rating of "a".

Eni Insurance, which is domiciled in Ireland, is the sole captive of Eni. The captive was formed in June 2006 to write Eni's industrial risks. Fire/property damage is its main line (77 percent of gross written premiums in 2011), while 66 percent of gross written premiums are written outside of Italy, according to A.M. Best.

The company's main programme has a maximum retention for Eni Insurance of $50 million.

In January 2007, industrial risks written by Eni's ceased captive, Padana Assicurazioni, were transferred to Eni Insurance, and the portfolio is expected to continue to run off for another few years.

A.M. Best's ratings of Eni Insurance reflect its "strong risk-adjusted capitalisation, comprehensive reinsurance programme and overall strong financial performance."

"Also, the ratings incorporate a strong integration within the parent's risk management structure. An offsetting factor is [Eni Insurance's] current material fixed income exposure to peripheral European sovereigns."

A.M. Best added: "Upward rating movements are unlikely in the next two years. Negative rating actions could occur if a significant deterioration in [Eni Insurance's] risk-adjusted capitalisation would be linked to no evidence of support from [Eni] to boost the latter or any material deterioration in its peripheral European fixed income exposure."

"We understand that in addition to high-quality software, our customers look to us to provide

expert advice, professional services and hosting capabilities that help them to meet their Basel III obligations in the most optimal manner."

Guernsey's Jupiter nips ahead

The Standard & Poor's (S&P) rating of Guernsey-based Jupiter Insurance has been upgraded from stable to positive, based on its affiliation with parent BP.

Jupiter "qualifies as a captive insurer under Standard & Poor's methodology and as such is rated at a level commensurate with its parent, BP," said S&P.

"We are therefore revising our outlook on Jupiter to positive from stable and affirming our 'A' long-term ratings on Jupiter following the same rating actions on BP."

Jupiter Insurance is BP's wholly owned subsidiary, and is 95 percent fronted through AIRCO, a unit of American International Group. According to A.M. Best, Jupiter made a profit of $740 million in 2009.

IAIS: ART poses systematic risk

Non-reinsurance activities such as alternative risk transfer (ART) could cause or amplify systemic risk, according to the International Association of Insurance Supervisors (IAIS).

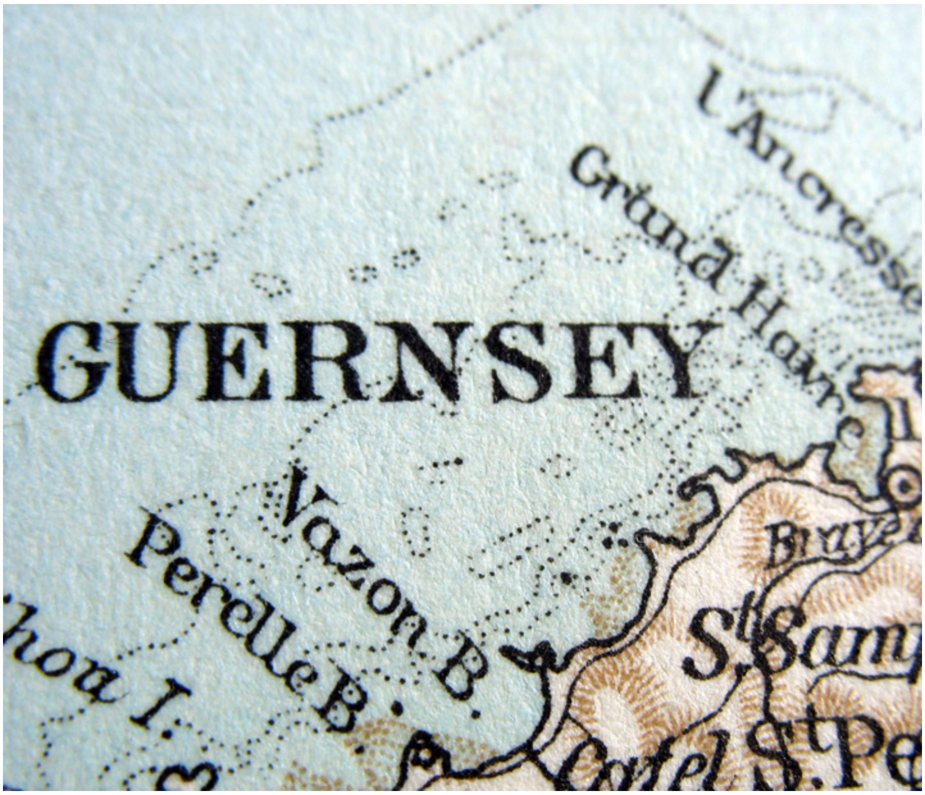
IAIS has released a policy paper on reinsurance and financial stability. The policy paper is follow up to an earlier paper on insurance.

It examines the relationship between reinsurance and financial stability, and whether traditional reinsurance-related activities pose systemic risk.

The paper said: "Non-reinsurance activities, such as banking activities (e.g. providing credit), credit default swaps (CDS), collateralised debt obligations (CDO), and some forms of [ART] entail considerable systemic potential. The financial crisis has shown that, for example, CDS and CDO underwriting without appropriate provisioning carries a considerable potential for systemic risk."

"Supervisors must be mindful that in recent years non-insurance entities, and in particular entities set up by investment banks, have started to offer longevity and pension services with risk transformation and risk transfer features similar to products offered by non-life and life insurers. The IAIS is currently developing a methodology to determine whether an entity engaged in non-(re)insurance activities could be a systematically important institution."

In conclusion, the paper said: "[T]raditional reinsurance is unlikely to cause, or amplify, systemic risk, but that the case may prove to be different for non-reinsurance activities. It also finds that while reinsurance establishes intra-sector connectivity, the mainly hierarchical structure of the (re)insurance market dampens any propagation of shocks."



"Similar to primary insurance, traditional reinsurance is unlikely to cause, or amplify, systemic risk," said Peter Braumüller, the chair of the IAIS executive committee. "Systemic risk may exist, however, in non-reinsurance activities undertaken by certain entities, and the evolving nature of alternative risk transfer products—as well as their affinity to the financial markets in particular—make it prudent to call for continued monitoring of the reinsurance sector and strengthened macroprudential surveillance on national and global levels."

A.M. Best turns around on Commonwealth self-insurance

A.M. Best has downgraded the outlook to negative from stable, and affirmed the financial strength rating of "A- (Excellent)" and issuer credit rating of "a-" of Commonwealth Contractors Group Self-Insurance Association (CCGSIA) in Richmond, Virginia.

"The ratings reflect CCGSIA's strong capitalisation, generally profitable pre-dividend underwriting results over the past 10 years and its niche market expertise. Partially offsetting these positive rating factors are CCGSIA's increasing net underwriting losses over the past three years as well as its increasing enterprise wide losses."

"Overall capitalization still supports the current ratings; although, it has trended lower over the past three years," said a statement from the ratings firm.

CCGSIA was established to provide a stable, profitable workers' compensation market for contractors and other construction-related accounts in Virginia.

A.M. Best added that through the use of sound risk management and loss control programmes, as well as maintaining a low operating overhead, the company has been able to offer its members significant dividends in addition to stable premium rates.

"CCGSIA is very discretionary in admitting new insured members and requires firms to be financially sound and able to demonstrate effective safety programmes with good loss records. Furthermore, insureds must maintain good loss experience to both receive dividends and maintain membership in the program."

However, the firm stated that it is unlikely to upgrade the ratings of CCGSIA in the future due to its limited market profile and business concentration, also warning that negative ratings actions may occur if CCGSIA continues to generate net underwriting losses and/or its surplus continues to decline.

TWFG puts out feelers for captive agents

The Woodlands Financial Group (TWFG) is currently offering a new branch agent programme for potential branch owners.

Gordy Bunch, TWFG's president and CEO, said that he believed that captive agents are not realising the full rewards and benefits for their work as the 'backbones' of the insurance industry. "Captive agents endure lower commissions, lack of product choices, higher quotas, and non-competitive pricing."

The Texas-based financial services firm has 285 branch offices in 16 US states and several thousand agents already onboard with TWFG, selling in 49 states.

Managing general agent and referral programmes are also being offered. The general agent gets a full appointment for personal lines insurance carriers and receives a 70/30 commission split on all business.

Torchmark to buy Family Heritage for $218.5 million

Torchmark Corporation will acquire Family Heritage Life Insurance Company of America, a privately-held supplemental health insurance provider, for approximately $218.5 million.

The transaction will be funded internally with cash from Torchmark's insurance subsidiaries and is expected to close early in Q2 2012.

Founded in 1989 and headquartered in Cleveland, Ohio, Family Heritage is a specialty insurer that is focused primarily on selling individual supplemental health insurance products with a return-of-premium feature. It has approximately 1,200 captive sales agents, 41 sales directors and over 223,000 policies in force.

Statutory admitted assets as of 31 December 2011 were approximately $488 million, GAAP net income for 2011 was approximately $21 million, and direct premiums written in 2011 were $162 million.

"We are excited about the addition of Family Heritage to the Torchmark family," said Torchmark co-CEOs Gary Coleman and Larry Hutchison. "This transaction meets the criteria we established when we began looking at possible acquisitions several years ago."

"Family Heritage offers protection-oriented insurance to middle income families through a captive agency force that we believe we can help grow. The company has a track record of solid premium growth and strong underwriting margins with a business plan that incorporates a variable-cost marketing structure, and we expect a seamless transition."

Thomson Reuters is Connecticut bound

International media and information company Thomson Reuters has relocated its US insurance subsidiary from Delaware to Connecticut.

Governor Dannel Malloy said that the subsidiary Thomson Reuters Risk Management (TRRMI) is the state's first captive insurance company, taking advantage of key changes in the governor's sweeping jobs reform legislation of 2011.

"Insurance is one of the most significant economic drivers of our state and there is no place better to grow the industry than the insurance capital," said Malloy.

"The much-needed changes we made to outdated laws have done exactly what we intended—encourage and attract more business and revenue. I am proud to welcome TRRMI, and I am confident that because of the environment we have established in Connecticut, more captive insurance companies will put down roots here."

The Connecticut Insurance Department licensed TRRMI on 31 July. It will insure Thomson Reuters's workers' compensation, general liability, auto liability, property, terrorism, errors and omission, and personal accident/travel risks in the US.

"The governor has made it clear from the start that Connecticut is serious about growing the industry," said Thomas Leonardi, who is the insurance department's commissioner.

In October 2011, the governor convened a special legislative jobs session that was aimed at

creating jobs and strengthening the state's competitiveness. The result was a jobs bill that included revisions to the state's 2008 captive insurance law. The revisions expanded the types of insurance captives that can transact in the state and established a special regulatory unit at the insurance department to focus on captives.

Kevan Parekh, treasurer of Thomson Reuters, said that Connecticut is a logical place for the captive, as the firm has a significant corporate presence in Stamford.

Marsh Captive Solutions is Thomson Reuters's captive manager and advised the firm on its relocation.

"The governor's vision for restoring our state's economy through greater opportunities for Connecticut's hard working businesses is now a reality, one that will be repeated time and again as more captive insurance companies call Connecticut home," said Thomas Hodson, president of the Connecticut Captive Insurance Association.

Atlanta accounting firm GH&I heads to the Cayman Islands

Atlanta accounting and advisory firm Gifford, Hillegass & Ingwersen LLP has opened an office in the Cayman Islands to serve hedge fund and alternative investment fund clients.

GH&I said its new office will also assist captive insurance companies and other offshore entities.

"The establishment of a GH&I office in the Cayman Islands is an important strategic move to efficiently serve our alternative investment clients and established niche practice," said Andrew Siegel, a GH&I tax partner and the leader of the firm's alternative investment group.

"We have a strong domestic practice and have been studying the idea of opening an office in the Cayman Islands for some time. The Cayman Islands continue to be one of the preferred domiciles for hedge funds and thus, an attractive environment for financial and professional service providers."

A.M.Best webinar explains underwritting losses

In a webinar that previewed A.M.Best's State of the Captive Insurance Market 2012 report, the ratings firm attributed a poor underwriting income to medical professional liability.

The performance of rated US captive insurance companies in 2011 reflected pressure from traditional insurance market competition as well as the impact of global events, said Steven Chirico, assistant vice president at A.M.Best.

He reported that the 209 US-based captives Best rates had \$8.5 billion in net premium in 2011, finishing the year with \$50 billion in net assets and surplus of \$22.7 billion and \$2.0 billion in net income. The A.M.Best rated captives had a combined ratio of 92.9 percent in 2011.

Net income for that group of captives fell 27 percent in 2011 from 2010 and net underwriting income fell 32 percent. Net premiums, however, were up \$691 million or nearly 9 percent in 2011 from 2010.

Chirico attributed the rated group's drop in underwriting income in particular to medical professional liability, though most other lines of business performed better in that statistic than in 2010, he said.

He added that competition in the medical professional liability market has led to flattening of premiums. "The other lines of business written by other types of organizations tended to have good years in 2011, not necessarily compared to 2010 but compared to the five-year average."

There was a positive outlook for ratings of single-parent captives, with Fred Eslami, senior financial analyst in the alternative risk transfer group, commenting: "In our opinion single parents maintain a relatively stable rating due to their parents' commitment to the captives' mission."

Teaching an old domicile new tricks

As one of the original captive destinations, Bermuda's opinion on captive insurance is often sought. Now, the island is standing strong for Solvency II, as CIT finds out

GEORGINA LAVERS REPORTS

In any word association game, its fair to say that 'Bermuda' would roll off of the tongue pretty quickly once the word 'captive' is mentioned. The island is well known for its captive population, with an advantageous tax rate and quality service providers, such as law firms, tax consultants and investment advisors. Throw in its exceedingly good climate, and all in all, it is fair to say that Bermuda is a strong captive destination.

The majority of Bermuda's captives are single parent companies insuring only the risk of their parent or affiliates, and there are also single- and multi-owner captives writing limited amounts of third-party business. Casualty coverage accounts for a majority of all business written, which is followed by property coverage.

The island enjoys the unique position of being able to service all areas of the insurance spectrum: insurance, reinsurance and captives. The captive market in particular remains "vibrant and robust," says Shelby Weldon, director of licensing and authorisation for the Bermuda Monetary Authority (BMA).

"Bermuda is the leading captive domicile globally: there were a total of 862 captives registered in Bermuda at the end of 2011. Latest available figures show that Bermuda's captives also lead in terms of volume of business written—a total of $21.4 billion in gross premiums and total assets of over $86 billion."

Despite its success, Bermuda is not sitting still. The Insurance Development Council (IDC) and the BMA are strengthening the island's appeal to captive owners through Tax Information Exchange Agreements (TIEAs), and regulation concerning special purpose insurers (SPIs).

"The regulatory environment for captives is pragmatic as well as effective," says Weldon. "Proportionate regulations are applied, that recognise the lower risk profile of such companies."

Playing the field

As the concept of a captive becomes more widespread, the island is receiving queries from Central and South America, as well as the Far East. Many of these clients are venturing into new territory with captives, meaning that the decades of experience held by Bermudan staff is more than welcomed.

"The island's professional support services are high-quality and well-established," says Weldon.

"A full range of services are supplied by leading insurance brokers and captive management companies; there are also high-calibre and experienced legal, banking, accounting, actuarial and general financial and management services to support the market, which have helped Bermuda develop its substantial international business industry."

Meanwhile, there is also growth in captive incorporations from mid-size companies in the US. The drawbridge was lowered between Canada and Bermuda with the signing and ratification of the TIEA between the two, and subsequently the island has welcomed re-domiciliations.

"Our registration numbers still show increases in captive registrations overall (862 in 2011 versus 845 in 2010), with the vast majority coming from the US, followed by Europe," says Weldon. "The US has traditionally formed the bulk of Bermuda's captive business, given the proximity of both markets as well as most captives globally being established by US corporations."

However, with the influx of states such as Florida signing up to provide captive insurance, as well as stalwarts such as Vermont continuing to provide high quality services, competition remains tight.

"There is without doubt an increasingly competitive market for captive business, and the Bermuda market continually considers how it can leverage its attributes and experience accordingly to appeal to all potential marketplaces, including the US, Europe and additional markets such as Asia," comments Weldon.

"The Bermuda industry has initiated outreach to such markets on a continuous basis to demonstrate how companies can benefit from the insurance solutions Bermuda has to offer, and the authority supports such efforts by explaining the regulatory environment. From a regulatory standpoint, the authority remains focused on ensuring that Bermuda's captive regime remains practical and proportionate, recognising the limited purpose and much lower risk profile of captives."

"There is also still value in Bermuda's unique ability to provide captives with direct access to commercial reinsurance efficiently and effectively."

Weldon stresses that the island continues to be attractive as a jurisdiction due to two important factors. Regulatory leadership is vital, with a framework that is risk-based and focused on remaining appropriate for the nature of the market here, while striving to be recognised and respected internationally. Also key is an experienced and responsive professional services infrastructure, which fosters business innovation, depth of intellectual capital and expertise, speed to market, and integrity.

Solvency II

A few eyebrows were raised when Bermuda announced that it was pursuing Solvency II equivalence, considering that domiciles such as Guernsey opted against it. With Jeremy Cox, the CEO of the BMA, announcing that there were a few "mischief makers" in the form of competitor jurisdictions hinting that Bermuda's decision to seek equivalency would affect its captive sector, there was little doubt as to whom he was mentioning.

Yet, the island is moving ahead with its plan. Weldon says: "As the authority pursues Solvency II equivalence in relation to its commercial framework, Bermuda's captive sector will continue to benefit from appropriate and pragmatic regulation."

"Following high-level talks with officials in Brussels in June, the authority remains confident that Bermuda will be successful in its bid to win equivalence with Europe's Solvency II Directive. The authority is also optimistic that European Commission undertakings exempting captive insurance companies in Bermuda from the Solvency II provisions will be honoured."

"The meetings, which were arranged in collaboration with the Bermuda Government and the Association of Bermuda Insurers and Reinsurers, provided a further indication that the strong relationships which have been developed over recent years with the Commission, the regulatory body, EIOPA, and with members of the European Parliament, have helped pave the way for the current dialogue to take place."

A March report from departing Bermuda Insurance Management Association president Thomas McMahon, who is also president of Cedar Management, stated that Bermuda took a bold leadership position in seeking Solvency II equivalence, affording other captive domiciles the luxury of sitting on the fence to wait for the outcome.

McMahon said: "There is no doubt we are in a changing environment, where change is inevitable. The best way to embrace change is to be in a position to define what that change should be. To do that, one has to be engaged."

Weldon agrees: "The authority's focus for gaining equivalency has been on Bermuda's commercial market. This is due to the significant business Bermuda's commercial insurers conduct with Europe, and the tangible benefits that can result to them from equivalency, such as less duplicative regulation."

"Indications that the European Commission has the ability to grant bifurcated or 'segmented' equivalencey correctly recognises the distinction between Bermuda's diverse market sectors—commercial and captives—and their vastly different risk profiles. This means that captives in Bermuda can continue to benefit from a practical regulatory framework and supportive market environment—with a level of supervision that remains appropriate for their lower risk profile—even as the authority pursues Solvency II equivalence."

Notwithstanding the European Parliament's voting on the final Solvency II text being delayed, EIOPA continues to indicate that Solvency II will come into force in January 2014.

However, Weldon indicates that Bermuda's framework enhancements remain on track for completion by January 2013, and that the authority is continuing its work with the market towards full implementation.

"Also, it's important to put Bermuda's position regarding Solvency II into a wider context," he says. Weldon asserts that the BMA has, for some time, been on a path to enhance its risk-based regime for Bermuda's insurance market.

"We have endeavoured to make regulatory enhancements consistent with international standards and best practices for insurance supervision, ie, IAIS standards and, most recently, Solvency II. Therefore, changes the authority is making today stem from a long-standing strategic decision we took some time ago."

"Our goal overall as we keep moving forward is effective execution and, importantly, doing what is right for Bermuda," he asserts.

While regulatory equivalency will hush any naysayers that the island is not up to scratch when it comes to regulatory matters, Weldon emphasises a proportionate approach that ensures the island's continued attractiveness.

"We see the goal as being to achieve desired regulatory outcomes that are common to the authority and our fellow supervisors internationally—commonality rather than duplication."

"The authority's use of a risk-based, proportionate approach to regulation while achieving those outcomes is part of this aim. Our approach recognises the diversity of markets and the differing risk profiles of firms operating within them, so that Bermuda's captive and commercial insurance companies remain appropriately supervised. In this way regulation in Bermuda will remain workable for the firms and characteristics of our market." **CIT**

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Guernsey can go its own way

The island is differentiating itself from other offshore domiciles, but how much is too much? CIT opens the floor to two industry experts to find out more

MARK DUGDALE REPORTS

While the island of Guernsey sits closer to the coast of Normandy than the coast of the England, it is politically deemed to be a British Crown dependency. This means that the island governs itself, but should it ever be threatened, the UK would have to defend its shores.

This is where its dependency ends. Guernsey is capable of making its own decisions, particularly business ones, and the island has made its own journey into captive insurance. As a domicile, Guernsey decided against seeking Solvency II equivalence, which is something that old-captive hand Bermuda, as well as Japan and Switzerland, did not do, and it pioneered the use of protected cell companies (PCCs) as alternative risk transfer models in the late 20th century. Guernsey decides what is best for its captive insurance industry, and the results of this approach have been impressive.

CIT talks to two industry experts to get their views on the state of the captive insurance market in Guernsey. Fiona Le Poidevin, who is the chief executive of Guernsey Finance, provides her take on the island, alongside Richard Paris-Smith, director at Willis Management Guernsey.

How has Guernsey developed as a captive insurance domicile?

Fiona Le Poidevin: The first captive in Guernsey was set up in 1922, which goes some way to explaining why the island has built up a vast amount of experience in this sector over the years. In the present day, independent data shows that the island is the largest captive insurance domicile in Europe and the fourth biggest globally, with 739 international insurance entities (as of 31 May 2012). Additionally, of the top 100 companies on the London Stock Exchange with captives, around 40 percent of those captives are domiciled in Guernsey, along with 95 of the captives belonging to the Global 1500.

The island's captive insurance sector has traditionally dealt with larger companies from the UK, but we are now seeing new business come from much further afield with firms from across Europe, the US, South Africa, Australia, Asia, the Middle East and the Caribbean having established captives on the island. Guernsey has also become a more accessible and favoured destination of SMEs, which can participate in third-party captive offers and receive all of the traditional advantages of a captive but share the costs.

Richard Paris-Smith: From the early 1980s, Guernsey has been a recognised leader in captive business. The 1986 Insurance Act provided the foundation for Guernsey's offering, which is complemented by sympathetic regulation, accessible regulators and experienced practitioners. In addition, a solid and vibrant captive infrastructure has been created through investment by both the public and private sector, while continual enhancement and development of innovative new products such as PCCs has enabled Guernsey to remain at the cutting edge of captive development and to be recognised as a market leader in Europe. One major contributor to its success has been the adoption of risk based solvency from the outset of captive development; it is ironic that 25 years later the EU is still struggling to implement its own risk based regime—Solvency II.

What is the island doing to stay innovative and ahead of its competition for captive business?

Le Poidevin: Guernsey has a history of innovation in the finance sector. Indeed, the island pioneered the use of cell companies back in 1997 when it introduced the PCC for use in our captive insurance sector. The concept is now used across the financial services world as an alternative application for the structuring of many different types of products.

More recently, the island has used its experience and expertise in establishing some cell captive firsts, such as Guernsey-based Heritage Insurance Management amalgamating two PCCs—with 17 cells between them—into one. The island was also a key part in the launch of the UK Government-backed mortgage indemnity scheme, which was introduced by the UK's Home Builders Federation (HBF) and the Council of Mortgage Lenders and sees mortgage risk for lenders on new build homes underwritten by house builders and the government. By insuring the risk of default losses, the NewBuy scheme allows lenders to offer 95 percent loan-to-value mortgages on new homes. JLT Insurance Management Guernsey is running the unique captive insurance company that was established for HBF and already has more than 40 cell structures in place, with more submitted and waiting to come on board shortly.

Our captive insurance sector is also playing an important role in the island's growing position as a cleantech hub. Not only does Guernsey specialise in assisting with finance structuring via investment funds, but it also offers its full suite of banking services, private wealth services, intellectual property services, and of course, its world-leading expertise in captive insurance.

Paris-Smith: Guernsey's keen awareness of the changing needs of captive owners and the influence of industry trends, plus a commitment to high quality service and the encouragement of innovative thinking, have all helped to create the right environment for staying ahead in the captive industry. The local captive industry retains its entrepreneurial spirit but applies it to international best practice. The open partnership that exists between regulator, politicians and the captive practitioners ensures that the island is constantly refining its offering within the boundaries of international regulatory standards. Multi-stakeholder working groups—comprised of representatives across the industry—ensure Guernsey responds to the new global regulatory environment while ensuring the highest level of customer care and attention.

The proof of this recipe is in the statistics. Guernsey has had strong growth at a time when many other major domiciles are seeing retrenchment. New incorporations and captives migrating from other jurisdictions have fuelled this growth.

What are the effects of Guernsey's geographical proximity to Europe?

Le Poidevin: Our close proximity to the UK and Europe means that both have historically been key markets for the island, while our relative size means that it is possible for clients to hold meetings with all of their service providers in one day. Travelling to the island is also quick and easy as there are frequent air and sea links to both mainland Europe and the UK, with a flight time from London of less than an hour.

For those looking to do business in Europe, Guernsey offers the advantages of being situated in Europe geographically without all the implications of operating in a jurisdiction that is a full member of the EU. European directives such as those on fiscal harmonisation, financial services and company law do not have effect in Guernsey. The island's commitment to continuing to meet the standards of the International Association of Insurance Supervisors and its proportionality principles, rather than seeking Solvency II equivalence, means that we have provided current and potential clients with certainty going forward and a more attractive environment for captive owners and other niche insurers in Europe.

Paris-Smith: Guernsey has the benefits of being located within the European region, but without the constraints of EU regulation. Being close to all major European markets, and with similar time zones and a legal system that is based on UK law, makes Guernsey a good proposition for European captive owners. For many, using a local insurer to front business to the Guernsey captive is the optimal solution, as local regulatory issues can be outsourced and the captive allowed to concentrate on the underwriting business. Being just a 40-minute flight to London, the major source of market capacity, makes Guernsey a highly attractive and convenient location.

What is the service provider situation like in Guernsey?

Le Poidevin: Because of the reputation that Guernsey has built up over many years as a captive insurance domicile, the island plays host to a range of insurance management companies, from subsidiaries of global names including Aon, Marsh, JLT and Willis, through to independent boutique operators such as Heritage and Alternative Risk Management, providing an holistic environment for insurance solutions. The island's insurance industry infrastructure is further complemented by the banking, investment and fiduciary sectors, and it is supported by a network of professional services, including legal, tax, accounting and actuarial advisers.

Paris-Smith: Guernsey has a full service offering across all aspects of support to the captive industry, and plays host to some of the most qualified, experienced and innovative captive managers in Europe.

Where are you seeing new line growth and why is this the case?

Paris-Smith: Captives offer a highly efficient risk-financing vehicle that can deliver lower risk transfer costs, better MI and enhanced risk management practices. We see captives being used to house and finance risks that the market is currently reluctant to support, including financial lines, cyber risks and financial contingency.

We are seeing increasing levels of interest in using the captive as a central platform for aggregating insurance programmes across territories and driving more informed reinsurance purchasing. Employee benefits are also attracting a lot of attention in the captive space due to the standardisation of cover globally and the opportunity to gain meaningful cost savings by adopting a retention strategy.

Why has Guernsey decided against seeking Solvency II equivalence?

Le Poidevin: There has been much uncertainty surrounding Solvency II's final form and we believe that as it is currently constructed it would burden insurers in Guernsey with additional costs and render currently effective captive business plans uneconomic. The announcement in January 2011 by the island's government and the Guernsey Financial Services Commission that there were no plans to seek Solvency II equivalence gave current and potential clients certainty on the understanding that, unless there were significant amendments to the terms and conditions, then seeking equivalency was not in the best interests of the island's insurance industry.

Solvency II has been designed to address systemic and group risks within the commercial insurance markets, yet, these are risks that are not generally faced within Guernsey's insurance industry, which is predominately comprised of captive insurance companies. A captive is usually formed for a specific purpose, primarily self-insurance, and it is called a 'captive' because, in its purest form, it is set up by its owners to only insure the risks of its parent and/or fellow subsidiaries. The concept is reliant on the ability to be flexible and adaptable in order to ensure that risks are managed in the most cost-effective and capital efficient way for the parental group. Therefore, it is not suited to the Solvency II regime. It requires a more proportional regime such as the one that is available in Guernsey.

Paris-Smith: Seeking equivalency is not in the best interests of the island's insurance industry. There is still uncertainty surrounding the impact of Solvency II, more than a year and a half since the island's authorities stated their position. Guernsey's statement provided certainty to existing and potential business and is another example of how Guernsey was and is at the forefront of the industry. Guernsey remains committed to meeting internationally accepted regulatory standards while ensuring, through a robust process of consultation, that any changes take account of the nature of the island's industry, which is predominantly captive insurance. CIT

Richard Paris-Smith
Director
Willis Management Guernsey

Fiona Le Poidevin
Chief executive
Guernsey Finance


Welcome to our
CAPTIVE
MARKET
50
200
190
180

Frightful weather but delightful RRGs

AST takes a look at RRG growth trends in 2011 and 2012 with the help of financial analysis firm Demotech

GEORGINA LAVERS REPORTS

Risk Retention Groups (RRGs), while not a new idea, have grown in importance to those seeking an alternative risk transfer model. Christmas 2011 was particularly festive for the RRG marketplace in the US, with the number of operating RRGs reaching 254. This figure means that the number of RRGs in the US returned to the 2007 levels. In the aftermath—or perhaps in the midst—of a financial crisis, a return of any kind is welcome, and indeed celebrated.

However, the figure of 254 RRGs was still short of the 262 groups that was reached at the end of 2008. Yet Douglas Powell, senior financial analyst at Demotech, asserts that according to Q1 2012 reported financial information, RRGs continue to exhibit financial stability.

"Since first quarter 2008, short-term assets have increased 36.8 percent and total admitted assets have increased 29.5 percent. More importantly, policyholders surplus has increased 64.3 percent during this time, while total liabilities have only increased 13.5 percent. The financial ratios calculated based on the first quarter results of the various lines of business of RRGs appear to be reasonable."

"Moreover, the reported underwriting losses are not indicative of a continuing trend. The first quarter results of RRGs indicate that these specialty insurers continue to exhibit financial stability."

Demotech, the Ohio-based financial analysis firm that provides services to property and casualty insurance companies, title underwriters and specialty insurance markets, said in a statement that captive insurers, specialty insurers and RRGs are created to respond to the insurance industry's failure to address the needs of segments of the market.

"Captives, specialty insurers and RRGs are contrarians by their nature," said Demotech. "If the insurance industry provided effective solutions, alternative markets wouldn't even exist. In our opinion, a review and analysis process based upon the procedures and practices utilised for traditional insurers must be adapted to specialty carriers."

"Today, more than at any time in recent history, insureds, agents and constituents need to have independent verification of financial stability. Since Demotech's rating methodology is based upon a review and analysis of insurance fundamentals, focused specialists, such as captives, are not penalised for operating under restrictions or constraints that limit product line diversification. In fact, they are recognised for the specialists that they are."

Not so healthy

The healthcare sector has weathered a few storms during the first few months of 2012, with industry consolidation reducing the number of healthcare RRGs, but increasing the number of participants.

In Q1 2012, it was reported that the RRG industry added two but lost eight RRGs.

As a result of the US healthcare reforms, the industry is seeing more rent-a-captives, protected cell companies and RRGs.

However, there has been a clear upsurge in the numbers of insureds and premium that has been written into existing healthcare RRGs.

As a result of the US healthcare reforms, the industry is seeing more rent-a-captives, protected cell companies and RRGs. With some US states still offering prohibitively expensive medical malpractice coverage, doctors are willing to group together to control costs.

The National Association of Insurance Commissioners found that the percentage of medical professional liability premium that has been written by RRGs has increased, even as the industry's total premium paid for the coverage has decresed.

Healthcare RRGs account for more than 60 percent of the RRG marketplace, and with several RRGs in the waiting list to be licensed by the end of this year, many of which are healthcare-related, numbers are expected to even out by the end of 2012.

The changes in the medical professional liability market are seemingly down to industry consolidation and a prolonged soft market, as well as the Patient Protection and Affordable Care Act of 2010 (ObamaCare). Captives and RRGs are being touted as an enticing alternative to traditional insurance, due to a section of ObamaCare offering incentives for healthcare providers to become part of accountable care organisations.

After holding comparatively firm through the stormy economic downturn, the market for RRGs in 2012 is looking fruitful.

Excluding results for small RRGs—less than $4.9 million—premiums for the largest 100 RRGs climbed nearly 3 percent in 2011, reflecting the stability of the sector. RRG premiums dropped 0.3 percent in 2012 to just over $2.5 billion—a marked improvement when compared to a decline of 3.5 percent in 2010, with growth concentrated in large RRGs.

If the mood at the most recent Captive Insurance Companies Association annual meeting, which was attended by major RRG managers and state regulators, was anything to go by, 2012 is gearing up to be a vibrant year for the risk retention marketplace. CIT

Douglas Powell
Senior Financial Analyst
Demotech

2012

08 August

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VCIA's 2012 Annual Conference

Location: Vermont,
Date: 7-9 August 2012
www.vcia.com/annualconference

The conference is a bustling hub of captive activity. VCIA welcomes participants from all over the world to network with key industry players, enhance their captive education, and relax and renew in beautiful Vermont!

SIIA's 32nd Annual Conference

Location: Indianapolis
Date: 1-3 October 2012
www.siia.org

The SIIA National Conference & Expo is the world's largest event focused exclusively on the self-insurance/alternative risk transfer marketplace and typically attracts more than 1,600 attendees from around the US and from a growing number of countries around the world.

HCIC Forum 2012

Location: Waikiki
Date: 22-24 October 2012
www.hawaiicaptives.com

The HCIC 2012 Forum will delve into opportunities to enhance your captive and risk management strategies despite the stagnant economy. This conference will provide a wide range of educational seminars and speakers that will offer tremendous learning and networking opportunities. Sponsorship forms and session submission forms may be found at www.hawaiicaptives.com

Cayman Captive Forum 2012

Location: Grand Cayman
Date: 27-29 November 2012
www.caymancaptive.ky

Plans are underway to provide an informative series of panelists and speakers and quality educational content for the captive owner and those who are seeking information on captive formations in the Cayman Islands. There will be memorable social events that will allow attendees to enjoy a taste of Grand Cayman.

Industry appointments

Robert Childs, the current chief underwriting officer at Hiscox, has been named the new successor of Robert Hiscox as chairman of the board.

Commenting on the appointment, Richard Gillingwater, senior independent director, said: “The board conducted a thorough search and assessed a number of candidates. We concluded that Robert Childs is the outstanding candidate to succeed Robert Hiscox. Mindful of the UK Corporate Governance Code, the board consulted with the company’s major shareholders, holding about 30 percent of the company’s shares, who unanimously supported our view.”

Robert Hiscox defended the choice not to elect an independent chairman, stating: “Since I announced in February my retirement as chairman in February 2013, the nominations committee has conducted a rigorous search for a new chairman. Outside consultants searched from within and outside the company and a shortlist was produced.

“I know that the UK Corporate Governance Code favours an independent chairman. However, I agree with the recommendation of the nominations committee as do the major shareholders who were consulted.

“During consultation, the question was asked whether he can move from reporting to the CEO to having the CEO report to him. I believe that in underwriting matters he has been in effect the ultimate arbiter, and underwriting is our business, and I know (and have witnessed) that he has the strength to insist if need be. Another question was can he move from executive to non-executive (if any chairman can be deemed non-executive). Well, I have seen him go from CEO of Bermuda and executive chairman of Hiscox US to an oversight role, so I am confident that he can and will.

“Finally, if I am to leave my life’s work and my family’s financial health in the hands of others, I feel safe in the knowledge that the chairman at the head of the table has an incisive knowledge of the risks in our business, and is unlikely to allow foolishness to take place. A few more insiders at the helms of some other financial institutions in the city might have stopped some of the idiocy that occurred.”

Jeremy Pinchin has also been appointed chief executive of Hiscox Bermuda and group company secretary as of 14 August, taking over from Charles Dupplin who will be returning to the UK. Pinchin joined in 2005 as group claims director, and will also continue to oversee group claims.

Towers Watson has appointed **Keith Harrison** to head up its insurance and reinsurance brokerage business in the EMEA region, following the appointment of predecessor Ross Howard as the global leader of its brokerage business, effective 1 October.

Keith Harrison, based in London, joined Towers Watson with the 2002 acquisition of Denis M. Clayton & Co., a company he joined in 1989.

Most recently, he has been head of North American reinsurance in London, an area of business he will continue to oversee after taking up his new role.

He will also remain actively involved with broking activities on behalf of North American clients. Harrison currently chairs the EMEA Brokerage management board that oversees all of Towers Watson’s brokerage business in the region and is also a member of the Towers Watson (Re)insurance Brokers Board.

In June, Towers Watson announced the launch of its reinsurance brokerage in Germany. Since the acquisition of EMB in 2011, the company has also expanded the range of reinsurance analytics and optimization services available to clients across the region.

Privately held insurance broker Lockton has made **Jim Mathewson** a senior vice president in its risk management team.

Mathewson will be based in St Louis, Missouri. He will be responsible for working directly with clients to provide strategic direction and advice. He will also be closely involved with plan design and marketing activity.

He originally joined Lockton in 2005 as a risk finance consultant. Since 2009, he worked in Lockton’s Atlanta office as the Southeast region casualty leader and unit manager.

Before joining Lockton, Mathewson held senior positions at Marsh & McLennan, Captive Resources, Swiss Re and Willis.

“He brings a wealth of national account experience to our team. He is well regarded in [risk management] and adds additional depth and experience in a changing market,” said Vincent Gaffigan, senior vice president and director of risk management. CIT

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