CIT
CAPTIVE**INSURANCE**TIMES

ISSUE033
16.10.2013 WEDNESDAY
captiveinsurancetimes.com

Solvency II to be delayed until 2016

European Commissioner Michael Barnier has put forward a draft directive to postpone the implementation of Solvency II until 1 January 2016.

Barnier explained that the Solvency II Directive creates a modern and risk-based prudential regime for insurance and reinsurance undertakings.

"National regulatory regimes for insurance, which vary greatly, are no longer able to guarantee an efficient internal market and prevent possible future crises," added Barnier.

A regulatory proposal known as Omnibus II, which is currently being discussed, makes significant modifications to Solvency II, particularly insurance products with long-term guarantees.

But Barnier explained that despite the latest discussions on Omnibus II progressing well, the directive would not be in the official journal before 1 January 2014—the date when Solvency II is currently scheduled to begin.

Barnier stressed that he has always wanted a "rapid implementation" of Solvency II, but the current planned date is no longer viable.

"We have therefore proposed this postponement in order to avoid any legal uncertainty, especially for undertakings and supervisory authorities; we have done this only after obtaining assurance from the council and the parliament that they would not further change this new application date of Solvency II."

Commenting on the delay, Paul Clarke, partner and global insurance regulatory leader at PricewaterhouseCoopers, said: "It was widely known that a 'Quick Fix 2' was required to move the date from 2014, and there was concern in the market that a safe date that avoids the need for a 'Quick Fix 3' would have been in the distant future."

"The fact that Barnier has chosen January 2016 as the start date in this new directive is encouraging and reflects confidence among the policymakers that a solution to the outstanding long term guarantee issue will be found this year ahead of parliamentary elections in 2014."

Alterra Risk Management opens for business

A new captive insurance risk management company has launched in South Carolina.

Alterra Risk Management launched on 8 October and aims to help small to middle market companies to optimise insurance coverage needs, control risks, reduce insurance costs and retain underwriting profits and investment income.

It will serve property and casualty insurance needs in the architectural and engineering, construction, defence, healthcare, marine and transportation industries.

readmore p3

American Safety RRG in ratings drop

A.M. Best Co. has downgraded the financial strength rating to "B++ (Good)" from "A (Excellent)" and the issuer credit rating to "bbb+" from "a" of American Safety Risk Retention Group (RRG), based in Burlington, Vermont.

Both ratings have been removed from under review with negative implications and assigned a stable outlook.

The rating actions are based on American Safety RRG operating as a stand-alone entity as a result of the completion of the acquisition of its former publicly traded ultimate parent, American Safety Insurance (ASI) Holdings of Hamilton, Bermuda, by Fairfax Financial Holdings.

American Safety RRG was not a part of the acquisition and so will not be an affiliate of either one of the publicly traded entities going forward, according to A.M. Best.

readmore p3

The
British Virgin Islands

The British Virgin Islands' (BVI) legislation provides for the formation and regulation of captive insurers. The application process is seamless; once the established criteria for the issue of a licence has been met a licence to carry on insurance business from within the BVI is issued. Local Insurance Managers provide the necessary expertise.

one of the world's premier domiciles for... *captive insurance* since 1990s

BVI Advantages

- Captive insurers and segregated portfolio company formations
- Reinsurance company formations
- Modern robust legislative framework
- Cost effective
- No premium taxes and no corporate income taxes
- Offers a seamless approach to forming captive insurers and reinsurance structures
- Internationally compliant regulatory regime

"...the grande dame of captive centres"

BRITISH VIRGIN ISLANDS
International Finance Centre
Government of the British Virgin Islands
Tortola, BVI VG1110
T:+1 (284) 468-4335 | F:+1 (284) 468-1002
www.bviifc.gov.vg | *info@bviifc.gov.vg*

Alterra Risk Management opens for business

Continued from page 1

Eric Fauerbach, Alterra co-founder and CEO, said: "Through innovative new structures like those provided by Alterra, the captive insurance industry is evolving to offer smaller businesses the same captive insurance cost savings, profit potential and control over risk management enjoyed for years by the vast majority of the Fortune 500."

"At Alterra, we are committed to offering our clients a streamlined captive solution," said Scott Gorman, co-founder and executive vice president of business development at Alterra.

"Our programmes simplify the entire captive process. We make the transition from commercial insurance to a captive solution seamless for our clients. Our customers can stay focused on their businesses, while we handle their captive risk management platforms and deliver profitable results back to them."

Before launching Alterra, Fauerbach co-founded and served as CFO of Bluestone Surety, a Cayman Islands-domiciled, captive reinsurance company specialising in commercial and contract surety insurance.

He developed and managed all financial strategy, reinsurance, risk management, and investment functions for the captive. Fauerbach and his partners sold Bluestone to American Safety Insurance Corp in 2012.

Alterrra co-founder Gorman launched his first successful brokerage while at Ohio State University and has since served as a strategic consultant to multiple insurance brokerages looking to expand their firms.

Gorman helped to position two separate, privately-held insurance carriers for acquisition by Cigna and UnitedHealth Group, and most recently served as regional director at UnitedHealth Group.

American Safety RRG in ratings drop

Continued from page 1

The ratings reflect the benefits to American Safety RRG's executed loss portfolio transfer and casualty excess of loss reinsurance contracts.

They are also based on A.M. Best's expectation that American Safety RRG's management will run the company in accordance with business plans shared with and evaluated by the rating agency.

Positive rating actions could occur if American Safety RRG succeeds in meeting or exceeding its

CITINBRIEF

Domicile profile
Hawaii is setting its sights on the Asian market
p12

Reinsurance captives
Zurich's Veronique Méautte-Evans puts forward the case for reinsurance captives
p16

Guernsey Discussion
Experts look at competition, ILS and Solvency II in the offshore domicile
p18

operating plan of providing insurance solutions to protect specialty niche businesses against liabilities associated with environmental hazards, resulting in organic capital growth, balance sheet fortification and an enhanced business profile, explained A.M. Best.

The execution risk involved with American Safety RRG adding to its current book of business profitably is one of the key factors that could trigger negative rating actions, specifically if underwriting or operating results fall materially short of its plan.

Similarly, a failure to maintain adequate risk-adjusted capitalisation would also be a factor that would affect the company's ratings adversely, added A.M. Best.

Hempel and Boyd rebrands in BVI

Law firm Hempel and Boyd, based in the British Virgin Islands (BVI), has rebranded under the Carey Olsen name.

Hempel and Boyd announced its association with the firm in January.

John Kelleher, chairman of Carey Olsen, said that the move was a natural progression. "Hempel and Boyd has presented a strong growth story in the BVI market since its inception in February 2012 when Clinton Hempel and Greg Boyd first launched the firm."

"Hempel and Boyd became the first offshore law firm to open an office in Cape Town. We welcome this next step of embedding the association between our firms and look forward to continuing to provide our clients with the highest standards of legal advice around the world."

A.M. Best upgrades Coastal Medical

A.M. Best has upgraded the financial strength rating to "A (Excellent)" from "A- (Excellent)" and the issuer credit rating to "a" from "a-" of Coastal Medical Insurance. The outlook for both ratings has been revised to stable from positive.

The ratings reflect Coastal's excellent risk-adjusted capitalisation and operating performance, strong liquidity position, expanded and risk management strategy and practices, and conservative investment strategy.

Coastal's ratings are partially offset by its limited market. But the rating firm feels that the concerns are mitigated due to the explicit as well as implicit parental support of Meridian Health System.

Meridian's risk management programme for the hospital system establishes risk control policies and procedures, which include safety education, data collection and evaluation, claims management and risk financing.

The ratings also take into consideration the role Coastal serves in providing a discipline programme of hospital and physician professional and general liability self-insurance to Meridian.

Coastal's ratings are not expected to be upgraded or its outlook revised within the next 12 to 24 months, as the company's operating performance and capital position have already been considered in the rating process.

Guy Carpenter launches new excess and surplus practice

Guy Carpenter & Company has launched its new excess and surplus lines specialty practice, which will focus on the unique needs of these specialised insurance companies.

The new practice will be dedicated towards helping excess and surplus lines clients optimise the use of their capital and grow profitably.

"Excess and surplus lines insurance companies have unique business characteristics and needs that are distinct from the standard market," said Andrew Marcell, managing director and CEO of Guy Carpenter's US operations.

William Allen, chairman of the excess and surplus lines specialty practice, said: "[The new practice] will provide solutions addressing these areas and demonstrates Guy Carpenter's commitment to this specialty market."

"The members of our team provide an unparalleled depth and breadth of knowledge about the excess and surplus lines market. They deliver Guy Carpenter's full suite of state-of-the-art products and solutions to clients who are looking for insight, knowledge, and strategic thinking specifically focused on excess and surplus insurance companies."

Life insurers' modelling misses

Many life insurers need to develop their actuarial models to embrace dynamic policyholder behaviour and management actions, according to Milliman.

The actuarial and consulting firm conducted a survey of major insurance companies across Europe, the US, and Japan, asking them about current practice in the modelling of dynamic policyholder behaviour and management actions for life insurance business.

"Realistic modelling of how management may react to future economic and other circumstances (dynamic management actions) is a key aspect of modern actuarial modelling," says Ed Morgan, principal at Milliman. "This new survey from Milliman shows that many life insurers need to develop their models much further in this area, if projected results are to be fully meaningful."

Dynamic policyholder behaviour and management actions are becoming increasingly important aspects of modelling as more focus is placed on stochastic calculations and the tails of distributions, according to Milliman.

Solvency II in Europe specifies requirements for dynamic policyholder behaviour and management actions, "so we expect significant work being required of companies in these areas, particularly as this should form a key component of a company's risk management," added the firm.

Milliman's survey results show that many companies are failing to model dynamic policyholder behaviour for key options, while modelling of management actions is also underdeveloped in many cases, "with some key actions not being modelled at all, or in an over-simplistic way, which doesn't appropriately reflect reality".

Dynamic policyholder behaviour and management actions predicted by models "should be monitored against actual experience as it emerges, with models being refined over time", concluded the firm.

American Safety RRG in ratings drop

A.M. Best Co. has downgraded the financial strength rating to "B++ (Good)" from "A (Excellent)" and the issuer credit rating to "bbb+" from "a" of American Safety Risk Retention Group (RRG), based in Burlington, Vermont.

Both ratings have been removed from under review with negative implications and assigned a stable outlook.

The rating actions are based on American Safety RRG operating as a stand-alone entity as a result of the completion of the acquisition of its former publicly traded ultimate parent, American Safety Insurance (ASI) Holdings of Hamilton, Bermuda, by Fairfax Financial Holdings.

American Safety RRG was not a part of the acquisition and so will not be an affiliate of either one of the publicly traded entities going forward, according to A.M. Best.

The ratings reflect the benefits to American Safety RRG's executed loss portfolio transfer and casualty excess of loss reinsurance contracts.

They are also based on A.M. Best's expectation that American Safety RRG's management will run the company in accordance with business plans shared with and evaluated by the rating agency.

Positive rating actions could occur if American Safety RRG succeeds in meeting or

exceeding its operating plan of providing insurance solutions to protect specialty niche businesses against liabilities associated with environmental hazards, resulting in organic capital growth, balance sheet fortification and an enhanced business profile, explained A.M. Best.

The execution risk involved with American Safety RRG adding to its current book of business profitably is one of the key factors that could trigger negative rating actions, specifically if underwriting or operating results fall materially short of its plan.

Similarly, a failure to maintain adequate risk-adjusted capitalisation would also be a factor that would affect the company's ratings adversely, added A.M. Best.

IMAC welcomes David Cameron's comments

UK Prime Minister David Cameron's recent comments in parliament highlighting his belief that British overseas territories do not deserve the 'tax haven' label has been gratefully received by the Insurance Managers Association of Cayman (IMAC).

After the G20 Summit in St. Petersberg, Cameron said: "I do not think it is fair any longer to refer to any of the overseas territories or crown dependencies as tax havens. They have taken action to make sure that they have fair and open tax systems."

In a statement, IMAC described the declaration as a "welcome validation" of its efforts.

Rob Leadbetter, chairman of IMAC, added: "It is wonderful to see acknowledgement by the UK government that the standards not only met, but set by the Cayman Islands are recognised as being robust and exemplary."

"The Cayman Islands' financial services industry, including captive insurance, has been built upon a philosophy of sound regulation and transparency and hearing this publically stated comes as a welcome validation of our efforts."

PwC comments on EIOPA's regulatory guidelines

The European Insurance and Occupational Pensions Authority (EIOPA) has published its final guidelines for the preparation of Solvency II.

The guidelines are in response to EIOPA's Consultation Paper on the Proposal for Guidelines on the System of Governance that was released in March this year.

According to the cover note issued by EIOPA in association with the consultation paper, EIOPA planned to issue guidelines "addressed to national competent authorities on how they should prepare for the application of Solvency II".

Charles Garnsworthy, partner and PricewaterhouseCoopers UK Solvency II leader, explained that insurers now have a "clearer idea" of what EIOPA expects of them.

"These guidelines are principles based and national supervisors may choose to adopt them in difference ways. This could create some inconsistency in interpretation across the EU and consequently may represent a challenge for European insurance groups."

Vermont is 1000 strong

The state's Department of Financial Regulation (DFR) has licensed Vermont's thousandth captive insurance company.

The thousandth captive is Cassatt Insurance Group, a collection of nine independent non-profit hospitals in southeastern Pennsylvania that share risk in providing medical liability coverage for 1200 physicians.

The DFR also announced the licensing of two other new captives, bringing the amount of new captives signed off this year to 16.

"We are proud to celebrate this significant accomplishment, but we will not be resting on our laurels," said Vermont's governor, Peter Shumlin. "My administration is committed to keeping Vermont at the forefront of all domiciles and keeping Vermont's reputation as the 'gold standard' of captive domiciles."

Cassatt president and CEO Eric Dethlefs said Vermont was an easy choice. "We know how important it is to be in an environment that has an established track record with proven experience," he said, "so when we compared experience, governmental support and its long-standing tradition of quality regulation, we knew Vermont was the place to be."

DFR commissioner Susan Donegan agreed and noted that this is a milestone in the state's financial services history. "Vermont's captive insurance law has been called the 'gold standard' by trade press for its consistency in keeping pace with the changing needs of the industry over the past 32 years, and it has been used by other domiciles as a model of regulation," she said.

Dan Towle, director of financial services, said that hospital groups setting up captives in Vermont is not a new trend. "Hospitals setting up captives as a way to better manage their professional medical liability have been a strong growth sector for Vermont. It is fitting that our thousandth captive is in the healthcare sector."

Vermont's captive insurance companies wrote more than $26 billion in gross premium in 2012.

Carey Olsen advises on Guernsey feeder fund conversion

Carey Olsen has helped Baring Vostok Investments, a Guernsey-domiciled unregulated listed feeder fund, on its conversion into a protected cell company (PCC)—now known as Baring Vostok Investments PCC.

Following the reorganisation, the firm has expanded its shareholder base by raising more than $30 million from new and existing investors.

It has also broadened its investment objective by acquiring interests in additional existing Baring Vostok private equity funds and co-investment opportunities with future Baring Vostok funds.

Corporate partner Andrew Boyce led the team together with senior associate Tony Lane in advising on the transaction.

The fund has maintained its listing on the Channel Islands Stock Exchange and is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme.

Boyce said: "While the Guernsey innovation has been in existence for some considerable time the use of the PCC structure, which provides operational efficiencies and is designed to segregate assets for the protection of existing shareholders, in more mainstream fund structures, such as listed funds, is testament to the integrity of the concept and the underlying legislation."

"Although this is new structuring territory for Baring Vostok, the success of the offer points towards investor confidence in their concept as well."

J.P. Morgan captive knocks it out of the park

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and issuer credit rating of "a" of Park Assurance Company.

Park Assurance Company is a single parent captive of J.P. Morgan Chase & Co, based in Burlington, Vermont.

The ratings reflect Park's "excellent" risk-adjusted capitalisation, operating performance, liquidity position, sophisticated risk management strategy and practices, and its conservative investment strategy.

"Partially offsetting these positive rating factors are Park's large gross underwriting exposures as it offers very high insurance limits and insurance limits and insures some properties with substantial insured values. Park is very dependent on reinsurance in order to offer its various property programmes and high limits," said A.M. Best.

Park provides J.P. Morgan with global property coverage, including against terrorism losses, and effective as of 8 July 2011, deductible reimbursement policies covering workers' compensation, auto liability and general liability.

A penchant for the Orient

After a quarter of a century in the business, one of the oldest captive jurisdictions in the US is setting its sights on the Asian market. CIT investigates

JENNA JONES REPORTS

It certainly hasn't been plain sailing for Hawaii with this year alone seeing the domicile witness its fair share of highs and lows.

In August, George Sumner resigned as Hawaii's captive insurance administrator and deputy insurance commissioner, after more than three years in the role, which came as quite a shock to the state and the industry.

But with a temporary replacement found in Sanford Saito—an examiner with the captive unit in Hawaii—the domicile is starting to get back on track.

Less than a month after the news, the Hawaiian insurance division reported that Hawaii-domiciled captive insurance companies ended 2012 with just over $14 billion in assets.

Speaking at the time, Fay Okamoto, chair and director of the Hawaii Captive Insurance Council (HCIC), said: "What's great about this business segment is that we've built an internationally competitive industry here in Hawaii that has grown organically, leverages local professional expertise and infrastructure, and attracts long-term business into the state."

Chris Mertes, president and captive owner executive of the HCIC, added: "Hawaii is now facing meaningful competition from multiple domestic domiciles, and as a result, now more than ever, regulatory and legislative innovation and drive from the state are key elements that will assist the captive industry in maintaining its competitive position and grow."

Saito attributes the growth in captive assets "to [Hawaii's] business friendly environment and continued efforts in being accessible and listening to and working with owners, brokers and insurance managers to help solve their insurance needs".

According to Gary Osborne, president of USA Risk Group, it all began for Hawaii in 1987 when the state passed its captive law. The state saw a surge in growth in the 1990s, which Osborne attributes to Hawaii being the only viable domestic alternative to Vermont. Hawaii was also "especially attractive" to west coast business.

"The arrival of South Carolina and then Arizona and Nevada saw the growth of Hawaii diminish somewhat in the 2000s and the domicile turned an eye towards Japan and Asian markets for growth," says Osborne.

"However, many of the newer domiciles have had stability issues and the constant approach found in Hawaii has seen it reemerge in the last two or three years as a leading choice for formations. There are currently around 180 active captives in Hawaii."

Osborne highlights Hawaii's staying power as one of its main attractions, as a solid history of consistency is very important to clients setting up new business.

The state's potentially favourable tax structure and increased flexibility on state meetings—due

to a somewhat inconvenient time zone—also helps to promote the domicile.

"USA Risk Group [currently] has two active captives and an application in for a third. One is a single parent captive, one a risk retention group, and the application is for a cell company."

"Due to its tax structure, Hawaii attracts fronted programmes as it does not impose a tax on premiums that are taxed elsewhere. It remains a strong choice for the Asian marketplace and has again risen as a strong choice for west coast-based companies."

According to Saito, Hawaii's consistent legal and regulatory approach to ongoing licensing, surveillance and development of the captive insurance industry creates a "predictable and efficient environment" for potential clients.

He adds: "We continually review our captive laws and regulations to foster a friendly business environment for captives while maintaining prudent regulatory practices."

Saito touches upon regulation again, stressing that Hawaii takes pride in offering a stable and prudent domicile for captive insurance companies, paying particular attention to the staffing of the operation.

"We have had continuing and steady support from the governor and legislature for ensuring that we have expertise on staff in the captive branch to properly regulate and work with captive owners, and also keeping our laws and regulations up to date in this rapidly changing area."

The Hawaiian Department of Commerce and Consumer Affairs has also recently established four new captive positions, to respond to the needs of captive owners, brokers, and managers. This puts the state on a par with Vermont in terms of captive division staff members.

After a quarter of a century in the business, Hawaii has proven itself to be a resilient domicile that has managed to overcome its potential pitfalls. But the state's time zone is one particular hurdle that has threatened its success.

Osborne explains that "the Hawaii department of insurance has done much to combat this by being flexible on the definition of meetings in the domicile and in remaining competitive with its premium taxes but the emerging 'home state' phenomenon will not help Hawaii, just as it will not help Vermont or South Carolina."

But despite some drawbacks, Osborne explains that USA Risk Group will continue to do business in Hawaii because of its consistent approach and longevity coupled with its improved flexibility, which make the state a considerable candidate for a domestic leaning captive.

"Their approach to the Asian market is also bearing fruit but that is a long road but one they are clearly willing to follow," he adds.

On new markets, Saito explains that Hawaii has successfully implemented captives owned by non-US taxpayers from the Asian market.

He says: "Understanding their specific needs and insurance markets has enabled several prominent Japanese companies to domicile their captive in Hawaii."

"The emerging economic power of the Asia Pacific market continues to be an area that Hawaii will be involved with. By establishing a captive in Hawaii, foreign owners will have indirect access to the US investment and capital markets."

While the relatively untapped Asian market may not be booming, Saito is confident that Hawaii is the answer as it is ideally situated and has a long cultural history and social relationships with owners around the Pacific Rim.

"Owners find it is easier to do business and communicate with us in order to achieve their goals. We have always seen significant growth in the number of Japanese companies coming to the state of Hawaii." CIT

Got your back

Zurich's Veronique Méautte-Evans puts forward the case for reinsurance captives to CIT

JENNA JONES REPORTS

What are the differences between a direct insurance captive and a reinsurance captive?

It's usually a question of licensing. The risk management strategy of a customer will define what type of captive it chooses to use. Quite often, we see customers using the direct insurance captive structure in EU domiciles such as Ireland, Luxembourg, Gibraltar, Malta, etc. The reason why a company might decide on a direct insurance captive as opposed to a reinsurance captive is because they may wish to issue direct insurance paper to their company, and/or their company's subsidiaries. On non-compulsory classes of business—if the licence permits it—a direct captive can issue insurance policies in the EU under freedom of services as their chosen risk management strategy.

A reinsurance captive would require a fronting carrier to issue the direct policies and would reinsure the fronting carrier for a portion of the risk, so this particularly works for compulsive class business where the direct writing captive would not be licensed to issue paper, and also for international programmes. For example, a captive may not be licensed to write a direct policy in numerous territories and the captive would need to use a variety of local insurers. This is where a global programme fronted by an insurance carrier can resolve a lot of issues and provide global compliance.

So ultimately, it's a question of risk management strategy from the company that owns the captive in relation to its insurable locations.

Why types of clients would Zurich recommend the reinsurance captive structure to, and why?

I would recommend a reinsurance structure over a direct insurance captive any day. And the reason why is down to exit strategy. In some cases, customers do not plan for an exit strategy when they establish their captives. Years down the line, if the risk management strategy changes and the captive is no longer needed, it may be a lot easier to close a reinsurance captive down. A reinsurance captive may be the better option as it is a lot trickier to unravel a direct insurance captive than a reinsurance captive.

There are pros and cons. For example, if a direct writing captive is chosen, then the customer would not need to pay fronting fees to a fronting carrier, but when it comes to unraveling the captive at the end of its life, it can become a financial and legal nightmare.

So what appears as a cheaper option at first glance may turn into a costly approach in the long term when the need to close the captive down is there.

At Zurich, we work with around 200 captives worldwide and each programme structure is tailor-made to our customers' needs, so every programme is different to the next.

What are the downsides to the reinsurance captive structure?

Customers would probably cite fronting fees and potential collateral requirements from fronting carriers. But having said that, if the structure covers UK exposures only (ie, not an international programme), then the fronting fee should be relatively low. Where it may become costly is when a company decides to cover a large international programme in multiple local jurisdictions, because an insurance carrier would need to get its network of local insurers to issue local policies to the local insureds, particularly where the captive is not licensed to write directly. The local insurers would need to be remunerated for the work done at the local level. This is the price to pay to have a compliant insurance programme.

I firmly believe that a reinsurance captive programme is worth the costs incurred because this is the way to ensure the compliance of an international insurance programme. A customer needs to be reassured that claims can be paid at the local level and be compliant with the local rules. And at the end of the day, insurance is about paying claims.

The other downside is the potential collateral required by the fronting carrier. This is because the insurance company is paying the losses and recovering from the captive within its allocated retention of the risk. The fronting carrier may need to cover its future liabilities to the captive. This applies particularly to a programme on a occurrence basis, where the fronting carrier insures long-tail liabilities. The insurance carrier needs to make sure that the captive will be there financially in the future to reimburse the claims within its retention. Collateral may generally take the form of letters of credit, parental guarantee, trust agreements or cash, among others, and in some cases there may be no collateral requirements at all. When the future credit risk is assessed, decisions can be made on the amount needed as appropriate. CIT

Veronique Méautte-Evans
Head of captive services
Zurich Global Corporate UK

European scenes

How is Guernsey maintaining its position as Europe's top dog? CIT asks two experts on the ground, who discuss competition, ILS and Solvency II

Guernsey is the number one captive domicile in Europe. What has made it such a popular choice?

Gavin Parker: Guernsey has a reputation for quality and having the appropriate regulation in place. It has been seen by many as being ahead of the competition for having had the foresight to introduce insurance regulation many years ago and has managed to stay innovative in its approach to the captive sector. The introduction of protected cell companies (PCCs) and incorporated cell companies (ICCs) is a good example of this—they now represent the majority of new captive structures opened in the island.

Guernsey also has a huge range of insurance-related service providers including banks, advocates, accountants, auditors and actuaries, many of whom are industry-leading in their approach to the sector. When combined with an expert spread of sector-focused captive managers, Guernsey is on a very sure footing. Finally, being only a short flight from London ensures close communication and hands-on relationships with any providers that are based in the city.

Stuart King: In part it is attributable to Guernsey's innovative approach to the financial services industry where its proximity to UK and lifestyle attracts high-calibre individuals. Of particular note is the creation of insurance PCC legislation (a natural progression from financial structures in existence at the time). The Guernsey Financial Services Authority has a strong desire to provide robust regulation yet remain pro-business, working closely with local industry bodies to continually promote Guernsey as a place to do business.

How do you think that Guernsey compares to leading domiciles such as the Cayman Islands and Bermuda?

King: In essence, very little actually differentiates them. It could be argued that some favour Bermuda with the concentration of insurance markets on island and underwriting skills available whereas others favour the proximity of Guernsey to the London market.

Parker: Guernsey is the fourth largest captive domicile in the world, and as such, it compares favourably with the Cayman Islands and Bermuda. The choice of domicile is decided following a feasibility study by the captive manager. There is a familiarity with the islands from a European perspective and the Guernsey footprint on the industry is and will be ever present. Guernsey offers ease of access to the dominant London insurance and reinsurance market, as it is in the same time zone and uses the same currency. Guernsey can easily service the City of London and mainland Europe due to great transport links.

The first half of 2013 saw Guernsey license a total of 46 insurance entities, including insurance linked securities. Why are insurers opting for the ILS structure?

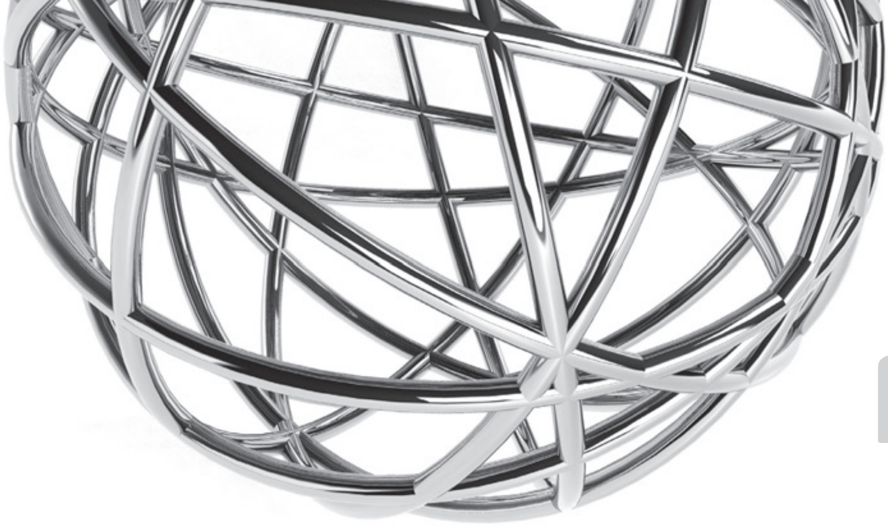
Parker: With the insurance market being soft at the moment, there is limited value being generated from some of the structures being established. As such, reinsurers are less keen to hold these risks on their books. Conversely, there are a lot of external investors at the moment who are seeking returns that traditional markets are simply unable to reach. Looking at these two facts together, you have a great success story for both parties.

Forward thinking reinsurers are currently establishing structures that will offer external investors a chance to participate in some of the risk in these structures. Logistically, an investor will put up collateral into an account, which will either be returned with a premium at the end of the term or be utilised if a claim is issued under the structure. When you change that investor into a group of investors or a hedge fund, you have a very compelling argument to make this work and the returns can be significant.

King: You often have to look through the statistics to differentiate between wholly owned captives and cells within PCCs. This is important as cell structures are often used for very specific risks, which can often be short term in nature, whereas wholly owned captive formation typically has a longer lifecycle providing continued benefit to local economics. It is a challenge to strike the right balance of captive structure promotion as often Guernsey's benefits (less capital required and ease of doing business) in comparison to other onshore domiciles is often insignificant, leading captive owners to establish in onshore domiciles, such as Vermont, Dublin and Luxembourg.

In terms of insurance linked securities (ILS) structures (many of which follow the principles of the funds industry), Guernsey is well positioned to benefit given its experience and skill sets available on Island.

> "Guernsey has been seen by many as being ahead of the competition for having had the foresight to introduce insurance regulation many years ago and has managed to stay innovative in its approach to the captive sector"
>
> *Gavin Parker, head of offshore and local markets, Barclays Guernsey*



> "The vast majority of Guernsey captive owners are UK corporates. Many are expanding their geographic footprints to emerging economies, which raises risk funding challenges, particularly as global insurance programmes become ever more complex"
>
> *Stuart King, managing director, FR Global Advisors*

From a capital management perspective, insurers favour ILS structures as underwriting risk is transformed to investment risk, which often has a positive impact to an insurers' solvency positions. However, the increased activity in ILS arrangements is attributable to continuing low investment yields in traditional markets where fund managers are looking to new asset classes to offer clients improved returns (obviously with increased risk). Insurers are satisfied as they have the ability to transfer catastrophe risks off their balance sheets yet continue to offer their clients a full suite of underwriting cover—a "win-win" situation.

There is a move to attract more business from Asia and Latin America. What can Guernsey offer captives from these regions that other jurisdictions cannot?

King: The vast majority of Guernsey captive owners are UK corporates. Many are expanding their geographic footprints to emerging economies, which raises risk funding challenges, particularly as global insurance programmes become ever more complex. Guernsey is well positioned to assist captive owners in meeting these challenges.

Many countries are continuing their foreign direct investments in to Europe and beyond and are looking to well established and regulated jurisdictions to do business. While Guernsey (as a captive domicile) is perhaps limited in its ability to issue admitted paper directly to EU territories it nonetheless fares well, considering its continued drive to increase tax information exchange agreements, which aids the efficient flow of capital across international borders.

Again, the Guernsey financial services industry's commitment to promoting Guernsey has seen its success in achieving OECD "white list" status.

Parker: Guernsey is a very mature captive domicile. The regulations are well established and proven and it has a very active promotional agency for the financial sector (Guernsey Finance) that exists to promote the captive and other Guernsey finance industries. Asian and Latin American clients will find an ease of process with regards to establishing captives in Guernsey and sophisticated teams throughout the islands in all service providers. Guernsey has a breadth of experience that many other locations do not have, and coupled with a forward thinking regulator and active insurance association (Guernsey International Insurance Association), the industry in Guernsey remains innovative and market-leading.

What is the most troubling issue facing the captive insurance industry at the moment?

Parker: The greatest challenge seen by many at the moment is the uncertainty around Solvency II. A lot of time has been spent by all parties trying to understand its implications. With Solvency II not being applicable to Guernsey, as it is not within the EU, the island has also sought not to seek equivalence at this time.

The other big issue for Guernsey is the soft nature of the market, which is pushing insurance premiums down, and with no claims, the costs reduce and so the need for a captive becomes more closely scrutinised by a parent company's group treasurer.

This comes at a time when returns on cash held with banks are very low, influenced by the low reference rates, for example, the Bank of England base rate. Combining these two factors, some captive owners are questioning whether their captive is still viable or whether it is worth opting for direct insurance once again.

King: Guernsey, like many global captive domiciles, faces new captive formation challenges attributable in part to the continued availability of capital in the insurance markets and insurers' willingness to accommodate more flexible policy terms and conditions. There is re-domiciling of captives, but overall the captive market is flat to moderately up.

That said, many existing captive owners (particularly those risk managers who suffered through hard markets for cover) are increasingly looking to their captive to enhance risk management efforts versus beating the market premium price. Increasingly, corporates are looking to their captives to capture profit by participating in consumer facing insurance as a means to build customer loyalty for their products.

In summary, while it can be considered a mature market, there is a significant amount of activity in captive owners analysing and seeking novel ways to utilise their captives (cyber, reputational risk, trade credit, etc). I believe the outlook for the captive management industry remains positive.

We are aware that Guernsey will not be seeking Solvency II equivalency, but how do you feel EU members will handle the change?

King: I think we have to stand back and consider the founding principle of Solvency II's risk-based capital model approach, which makes complete sense. While reinsuring to non-equivalent undertakings currently has an effect on capital levels, I remain hopeful that commercial sense prevails, meaning that counterparty default risk will be judged on the financial strength of the captive and regulatory regime of the jurisdiction. Many non-Solvency II regimes adopt, or are in the process of adopting, IAIS principles and standards (a global move to a risk based capital adequacy). In effect, it's an attempt to bring global harmonisation and clarity to the industry.

I believe Guernsey, having due care and attention, has taken the correct approach of committing to a position on Solvency II and communicating this to the international community. Unlike others who would be wise to do the same, as many captive owners just seek to know their position so as to plan accordingly. This is particularly relevant for captive owners in EU jurisdictions where the uncertainty has often caused capital funding challenges, particularly for firms seeking to release surplus equity from their captives but cannot due to previous Solvency II uncertainty.

Parker: As with any large change in any industry, there will be those who agree and embrace the decision, and those that do not. From a banking perspective, my outlook on this decision remains positive. For such a complex industry with so many jurisdictions participating, consumers need to be able to make choices made on differentials.

I feel the decision that Guernsey has taken is positive, as our position is clear, which enables clients existing and new to plan their insurance arrangements with a level of certainty.

In addition, Guernsey's proactive approach to dealing with Solvency II again demonstrates its ability as a jurisdiction to understand, interpret and react to changes in the international regulatory environment for the benefit of our clients and the development of the captive sector on the island. **CIT**

SIIA 33rd Annual Conference

Date: 21-23 October 2013
Location: Illinois
www.siia.org

The SIIA National Conference & Expo is the world's largest event focused exclusively on the self-insurance/alternative risk transfer marketplace, typically attracting more than 1,700 attendees from throughout the US and from a growing number of countries around the world.

ASHRM Annual Conference

Date: 27-30 October 2013
Location: Texas
www.ashrm.org

Being prepared for what lies ahead in the health-care industry is essential for risk managers. At the 2013 annual ASHRM conference there will be over 70 exceptional educational sessions designed to help you prepare for managing risk in the changing healthcare environment.

DCIA 2013 Fall Forum

Date: 6-7 November 2013
Location: Delaware
www.delawarecaptive.org

Delaware is one the leading captive domiciles in the world and has experienced steady growth over the last several years. DCIA's Fall Forum is the premier educational and networking event for those doing business in this domicile.

FiscalReps

OUTSOURCING | TECHNOLOGY | CONSULTING | TRAINING

A complete solution to Global Premium Tax Compliance

Global Compliance | Global Programs | Global Taxes

Outsourcing	Technology	Consulting	Training
Easing your compliance burden	**Automating your tax compliance**	**Solving your tax compliance problems**	**Making your employees tax specialists**
full premium tax compliance service through one point of contact	tools to allow you to manage your own tax compliance	bespoke advice	comprehensive tax training

Save the Date

FiscalReps' 8th Annual Indirect Tax Academy: Setting the Pace

Date: Wednesday 27 November 2013
Venue: Trinity House, Tower Hill, London EC3N 4DH, UK
Time: 08:45 – 16:00

This year marks FiscalReps' 10 year anniversary and the hosting of its 8th Annual Indirect Tax Academy.

Recently named 'Tax Advisory Firm of the Year' at the UK Captive Services Awards 2013, FiscalReps is the leading European supplier of premium tax compliance services.

Hosted by Mike Stalley FCA, Chief Executive, and supported by industry expert guest speakers, this year's Annual Indirect Tax Academy covers a wide range of topics including an Insurance Premium Tax Update, IUA discussions with the European Commission on Premium Taxes and a European Tax Compliance Case Study.

There will also be opportunity to attend breakout sessions on: -

- The Changing Landscape of Spanish IPT
- Fiscal Federalism in Italy
- VAT Issue for Captive Managers
- Non-EU Captives with EU Tax Exposures
- Rise of Eastern European IPT
- Settling Legacy Taxes
- Federal Excise Tax & FATCA
- Asia-Pacific Tax Review
- Managing Global Tax Information
- Global Programs = Global Taxes

Capacity is limited so please reserve your FREE place now for the definitive update on Indirect Tax by emailing Ruth Thompson at ruth.thompson@fiscalreps.com

UK CAPTIVE SERVICES AWARDS 2013 WINNER
Tax advisory firm of the year

@fiscalreps
FiscalReps

t: +44 (0)20 7036 8070 | www.fiscalreps.com

London office: 10 Fenchurch Avenue | London | EC3M 5BN | UK
Head office: 200 Fowler Avenue | Farnborough Business Park | Farnborough | Hampshire | GU14 7JP | UK
FiscalReps is a trading name of Fiscal Reps Limited | Registered in England and Wales (company number 4994134)

Industry appointments

Willis Capital Markets & Advisory (WCMA) has appointed **Brad Livingston** as vice president of insurance linked securities (ILS), effective 14 October.

Livingston will be based in New York and will help to drive WCMA's continued expansion in the ILS space.

Prior to joining Willis, Livingston worked as a broker for Guy Carpenter.

Commenting on Livingston's appointment, Tony Ursano, CEO of WCMA, said: "Through hiring Livingston, WCMA is demonstrating its commitment to capitalising on the growing opportunities in the ILS market."

"Livingston brings a tremendous combination of reinsurance broking and capital markets experience. I am thrilled that he has decided to join our team and look forward to his contribution in driving our ILS brand forward."

Bill Dubinsky, head of ILS at WCMA, added: "Livingston's hands-on experience of working on a wide range of deals will benefit our clients as we help them take advantage of the broad spectrum of available capital markets capacity."

Marsh has appointed **Scott Wallace** as head of its office in Columbus, Ohio. He will be responsible for delivering Marsh's advisory and transactional services to its clients in central Ohio.

Wallace most recently served as Marsh's southeast partnership sales leader in Atlanta. Prior to joining Marsh, Wallace was an insurance coverage attorney with Kerns Pitrof Frost & Pearlman in Chicago.

He will succeed Matt Wey, Marsh's Cleveland office head, who has been providing interim oversight of the Columbus office since 2012.

Dan Deighton, Marsh's east central partnership leader, to whom Wallace will report, said: "Wallace's extensive background in client service, leadership experience, and strong record of operational excellence make him an ideal candidate to lead our Columbus office."

Julia Graham has been named as the new president of the Federation of European Risk Management Associations (FERMA).

Graham was elected to the role by the board of FERMA at its meeting prior to the FERMA Risk Management Forum.

She is currently director of risk management and insurance for the law firm, DLA Piper.

Graham said: "I am passionate about FERMA. My aim as president will be to take advantage of FERMA's unique position at the centre of risk management in Europe. We have some projects already under development, such as European certification for risk managers and our 2014 Benchmarking Survey. Others will be new. I believe our role is to inspire, educate and influence, just as we have said for the forum, and that philosophy will inform my two years as president."

Following her election, Julia thanked current president Jorge Luzzi for his contribution to FERMA over the last two years. "We have had a president who has brought his great enthusiasm for risk management to all our activities. I am delighted he is remaining on the board and will be able to share his experience with me."

The FERMA board also elected a new vice president, Jo Willaert of the Belgian association, BELRIM, and also re-elected Michel Dennery of the French association, AMRAE.

David Rix will rejoin Marsh on 7 October as head of its Portland office. He will report to Mike Kelly, Marsh's pacific north partnership leader.

Rix rejoins Marsh from Willis where he spent the last eight years serving as head of its Portland office.

Prior to joining Willis, Rix spent 18 years in a variety of risk advisory and client service roles for Marsh in St. Louis, Los Angeles, Buenos Aires, Chicago, and Portland.

Rix succeeds Richard Stevens who has led the Portland office for the last six years. Stevens will stay with Marsh to assist in the transition of responsibilities and to serve his extensive clientele.

"Rix is a proven leader with a passion for delivering distinctive value to clients, making him a terrific fit to lead our Portland office and our growth efforts in the state," said Kelly.

"We see Oregon's strong economy, with its diverse mix of traditional, high tech, and emerging industries as a big draw for Marsh and look forward to helping these companies, under Rix's leadership, effectively manage their risks for growth."

Gordon Breslin has been named class underwriter of Randall & Quilter's Syndicate 1991. He will report to active underwriter, Daniel Wright, and will focus on expanding US and Canadian portfolios.

Established by R&Q in January, Syndicate 1991 is a specialist syndicate focusing on the Lloyd's Binding Authority Market.

Breslin joins R&Q form Beaufort Syndicate. He was also active underwriter of Syndicate 1318, the first dedicated MGA syndicate at Lloyd's from 2009 until 2011, when it was merged into Syndicate 318.

Commenting on Breslin's appointment, Wright said: "I have known Breslin for many years and I am delighted to welcome him to the syndicate. His appointment is further confirmation that we are building an expert and high quality underwriting business. His extensive knowledge will be invaluable as we expand our product offerings and cover holder relationships in these territories."

In his role as class underwriter, Breslin will be targeting small- and medium-sized risks. The classes of business to be underwritten include package, general liability and commercial property. **CIT**

CIT CAPTIVEINSURANCETIMES

Editor: Mark Dugdale
markdugdale@captiveinsurancetimes.com
Tel: +44 (0)20 8663 9620

Deputy editor: Georgina Lavers
georginalavers@captiveinsurancetimes.com
Tel: +44 (0)20 8663 9629

Reporter: Jenna Jones
jennajones@captiveinsurancetimes.com
Tel: +44 (0)20 8663 9622

Account manager: Joe Farrell
joefarrell@captiveinsurancetimes.com
Tel: +44 (0)20 8663 9627

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com
Tel: +44 (0)20 863 9628

Designer: John Savage
design@captiveinsurancetimes.com
Tel: +44 (0)20 8663 9622

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row
Beckenham, BR3 1AT, UK

Company reg: 0719464

SIIA
SELF-INSURANCE INSTITUTE OF AMERICA, INC.

33RD ANNUAL NATIONAL EDUCATIONAL CONFERENCE & EXPO

OCTOBER 21-23, 2013

SHERATON CHICAGO HOTEL & TOWERS

Outsmarting Reform

....Giles Dalby

CIT takes five to talk to Giles Dalby, client insurance manager at Vantage, about encouraging the future generation and achieving that ever-elusive single digit handicap

How did you get into the insurance industry?

I joined Norwich Union straight from school after having sat my A Levels. I started as an office junior in Leeds and worked in all the commercial insurance departments before moving to Norwich to work on IT projects. After a couple of years in Norfolk, I moved to Manchester to work in Norwich Union's national broker division, before moving to Jersey in 2001. After 23 years working in different Aviva offices, I joined Vantage to work on developing captive insurance in the Jersey market.

To what extent has working in the industry met your expectations?

After 23 years with one company, I thought I knew the industry inside and out. However, having moved across to the broking world, I have realised that there is a whole side of the business I have never seen. Working for a Jersey-based insurance services company has exposed me to many new and fascinating areas of the industry.

The options to provide alternative solutions to customers' needs has reinvigorated my creative juices. The potential of building up the Jersey captive market is one of the biggest challenges I have ever faced. Working alongside government bodies and regulators has enabled Vantage to shape the future of this very exciting market, both in terms of insurance solutions and also employment potential within Jersey.

What do you see as the biggest challenge facing the industry right now and why?

Keeping up with the changing face of the world economy. Customers are trading across borders and traditional companies struggle to offer truly global programmes. Emerging economies will mean that insurers will need to be able to operate outside of their usual hunting grounds. Policyholders are more open to alternative solutions to risk transfer and the broker market needs to understand what options are available in order to offer clients the most suitable solution. Bespoke solutions will become more and more the norm, which will mean that insurance models will need to ensure their cost bases are tightly controlled in order to remain viable. Captives offer a great solution to this by allowing programmes to be created specifically aimed at the needs of the individual.

Who are your role models in the industry?

I see anybody who is prepared to challenge the norms and push the boundaries as a role model. Martin Belcher of Polygon Group is a true entrepreneur and is always open to new ideas and cross fertilisation within the group. He's challenged Vantage to build the business in Jersey and given managing director Richard Packman, myself, and others within the company scope to be creative in our approach.

If you weren't working in captive insurance what would be your dream job?

Working as a golf coach. Watching people improve their game and gaining the enjoyment of playing better is the best reward in the world. Being outside rather than in an air-conditioned office on a daily basis can't be beaten.

What are your ambitions?

To promote Jersey as a market for captive insurance—there is real scope to promote this as a new industry within Jersey and not only bring alternative insurance models to the island, but also help grow the local economy, promote the digital Jersey vision and build exciting careers for the next generation of insurance professionals.

There are some really talented school leavers in Jersey and they aren't stifled by the traditional concepts of how the insurance industry works. We need to tap into this creative mindset and allow them to mold the industry to reflect the future they will inhabit. Oh, and of course, to get a single digit handicap!

If you could go back in time, what would you change or do differently in your career?

Probably to have worked abroad. I would have loved to work in Canada and Italy. I think working in different cultures expands your mind and allows you to share ideas across boundaries. With the globalisation of the world, we need to embrace trade across boundaries, rather than hide behind them. I never ceased to be amazed at how the Polish community have settled in and speak better English than we do. CIT

> "With the globalisation of the world, we need to embrace trade across boundaries, rather than hide behind them"

Giles Dalby
Client insurance manager
Vantage Limited