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Delaware rejects captive status change

Steve Kinion, Delaware's captive and financial insurance products director, has condemned a memorandum from Rhode Island insurance superintendent Joseph Torti that attempts to change the definition of a multi-state insurer to include captive insurance companies.

The memorandum requested that the National Association of Insurance Commissioners (NAIC) consider changing the definition of 'multi-state insurer' in its accreditation programme so that it includes captives.

The memorandum was issued prematurely, in Kinion's opinion, because the NAIC is only beginning to gather data about life-insurer owned captives.

Its investigation into these entities is still underway, and the final report prepared by Rector & Associates on life insurer owned captives is not complete.

Kinion said that if the NAIC intends to develop uniform regulatory standards for life insurer-owned captives, then a "monumental amount of work remains to be done".

In August 2013, Torti presented the same memorandum to the Delaware Department of Insurance, which it opposed.

According to Delaware's 12 December official response to John Huff, chair of the NAIC's financial regulation standards and accreditation committee, written on behalf of the state's insurance commissioner, its position has not changed.

In the response, Kinion stated: "The application of the accreditation standards to these captives would directly conflict with not only Delaware law, but very likely the laws of the 30-plus states that are now captive insurance domiciles. Chapter 69 of the Delaware Insurance Code specifically exempts captive insurers from all other provisions of the insurance code unless otherwise stated. For purposes of Superintendent Torti's request this means captive insurers are exempt from Parts A through D of the accreditation standards."

read**more p2**

Hong Kong lowers captive tariffs

The government of Hong Kong is aiming to slash the tax on captive profits by half, with help from the Inland Revenue.

The Inland Revenue (Amendment) (No. 3) Bill 2013 will also raise the deduction ceiling for contributions by employees or self-employed persons to recognised retirement schemes.

One of the bill's objectives is to reduce the profits tax on offshore risks insurance business of captive insurers which are set up to underwrite risks of companies within the same group to which the captive insurers belong.

The proposed measure, an initiative announced by the financial secretary in the 2013-14 budget, is to attract more enterprises to establish their captive insurers in Hong Kong. The bill will be presented to the legislative council for first reading today.

read**more p2**

Four new jurisdictions save on collateral

Reinsurers in the UK, Germany, Switzerland and Bermuda are now eligible to be certified for reduced reinsurance collateral requirements under a new NAIC law.

The four countries have been granted conditional qualified jurisdiction status by the National Association of Insurance Commissioners (NAIC), effective from 1 January.

The NAIC developed the process to evaluate the regulatory frameworks of non-US jurisdictions for reinsurance collateral reduction purposes.

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Delaware rejects captive status change

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"When states are required to adopt laws in order to satisfy accreditation requirements, it typically means adding new laws. In order to implement superintendent Torti's request it would mean changing existing laws, which in states like Delaware have been in place for many years. In Delaware's case it would mean asking the Delaware General Assembly to change a public policy it enacted years ago and for which no in-state constituency desires a change. Seeking such change will be a formidable challenge, especially because the facts do not support doing so."

The response suggested that the NAIC needs to further assess the solvency implications of life insurer-owned captive insurers and other alternative mechanisms in the context of principle-based reserves.

In 2013, the New York State Department of Financial Services published critical commentary on 'shadow insurance' transactions in the state and the oversight provided by the NAIC.

The department concluded that the reserve transfers related to the shadow insurance transactions have 'artificially' inflated capital. It also asserted that certain other states may be 'racing to the bottom' in governing such transactions, while concurrently making information on their captive unavailable to other state regulators.

Hong Kong lowers captive tariffs

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Professor Chan, the secretary for financial services, said: "With a sound regulatory regime and a broad talent pool, Hong Kong is well positioned to establish itself as a centre for captive insurance. Forming a cluster of captive insurers here will help the development of other related businesses, including reinsurance, legal and actuarial services."

To promote Hong Kong as a domicile for captive insurers, the financial services department and the treasury bureau will hold a workshop on captive insurance on 14 January. The event aims to provide a forum to discuss the operation of captive insurance and its contribution to risk management, as well as Hong Kong's regulatory framework for captive insurers.

Four new jurisdictions save on collateral

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Approval under the NAIC process means that reinsurers licensed and domiciled in Bermuda will be eligible to be certified for reduced reinsurance collateral requirements under the NAIC's Credit for Reinsurance Model Law.

Jeremy Cox, CEO of the Bermudan Monetary Authority, said: "We are very pleased with the outcome of this initial step in the NAIC's process. Having this status is highly relevant to the Bermuda market, in terms of potentially facilitating efficiencies in the cross-border operations of Bermuda reinsurance with the US insurance market."

In September 2013, the authority was the first insurance supervisor to agree to participate in an expedited review under the NAIC process. The full review of the four approved jurisdictions will take place during 2014.

Uniformity vital for reinsurance captives

States should develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives, according to a report by Nelson Levine de Luca & Hamilton.

The law firm was commenting on the Federal Insurance Office's (FIO) long-awaited report, How to Modernize and Improve the System of Insurance Regulation in the United States.

In its report, the FIO acknowledged the work of state regulators, both historically and on current regulatory reform efforts, but repeatedly noted the lack of uniformity and perceived limitations inherent in a state-based system.

The report made 18 short-term recommendations to states to modernise and improve the US system of insurance regulation. They fall into three categories: capital adequacy and safety/soundness; reform of insurer resolution practices; and marketplace regulation.

For the first category, capital adequacy and safety/soundness, the FIO had recommendations pertaining to captives.

For marital solvency oversight decisions of a discretionary nature, states should develop and implement a process that obligates the appropriate state regulator to first obtain the consent of regulators from other states in which the subject insurer operates. The report stated that this would reduce the variations that result from discretionary regulatory practices and decisions.

To improve consistency of solvency oversight, states should establish an independent, third-party review mechanism for the NAIC Financial Regulation Standards Accreditation Programme. The report noted that state regulators often consult with the NAIC's legal staff about adoption of model laws, the same staff that determines whether states have complied with requirements to adopt model laws.

To improve the reliability and bolster the credibility of the accreditation programme, the report suggested an independent review and audit that would provide a perspective on whether there is uniform adoption and implementation of capital rules and other accreditation standards.

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According to the report, this should include transparency of the liabilities transferred to reinsurance captives and the nature of the assets that support a reinsurance captive's financial status. Subject to limitations on the disclosure of legitimately proprietary information, these transactions should be disclosed in the financial statements of the ceding insurer.

A.M. Best rates oil transporter captive

A.M. Best has assigned a financial strength rating of "B+ (Good)" and an issuer credit rating of "bbb-" to Transneft Insurance Company, JSC.

The ratings reflect Transneft's supportive level of risk-adjusted capitalisation and the strong operating performance of business derived from its former parent, OAO AK Transneft, the largest oil transporter in Russia.

The ratings also consider Transneft's acquisition by SOGAZ Insurance Company OJSC (Sogaz) during Q4 2013. In December 2013, Sogaz completed its purchase of a 98.91 percent share in Transneft.

The remaining shares are held by OAO AK Transneft. Under the ownership of Sogaz, Transneft will operate as a separate subsidiary until at least 2016.

Transneft's operations are expected to be fully consolidated into the Sogaz group. Although uncertainty remains regarding the legal entity in which Transneft's outstanding liabilities will remain after 2016, Sogaz is expected to support Transneft's policyholders' obligations.

Transneft maintains a limited business profile as the former captive insurer of OAO AK Transneft, with this business expected to account for approximately 65 percent of gross written premium in 2013.

Over the next two years, Transneft will continue to underwrite captive risks derived from its former parent and develop its open-market portfolio, comprising a range of retail and commercial product offerings targeted at the employees and business associates of OAO AK Transneft.

Transneft's risk-adjusted capitalisation is maintained at a strong level, reflective of its low net underwriting leverage. The company's balance sheet strength is enhanced by the high credit quality of its reinsurance panel and a conservative investment portfolio of cash and cash equivalents.

It has exposure to a small number of domestic banks, with the top four holding 70 percent of the company's investments. But this risk is partly alleviated by the secure credit profile of these institutions.

Transneft has a proven track record of generating strong operating results, as demonstrated by a five-year average return on net earned premiums of 26 percent.

Overall earnings are reliant on the performance of captive business, which contributed the majority of the RUR 1.7 billion ($51 million) pre-tax profits reported in 2012, based on international financial reporting standards.

Basic capital consultation begins for G-SIIs

The International Association of Insurance Supervisors (IAIS) has released proposed options for the development of basic capital requirements for global systemically important insurers (G-SIIs).

The IAIS is seeking feedback from the public on these options in order to inform an upcoming field testing phase and to further support the design and development of the basic capital requirements.

A second public consultation is planned in 2014 after it is further developed and defined. The IAIS released its assessment methodology and policy measures for G-SIIs in July 2013.

The development of the basic capital requirements is the first step of a long-term project to develop risk-based, group-wide global capital standards. The second step is the development of higher loss absorption requirements to apply to G-SIIs, due to be completed by the end of 2015.

It will build on the basic capital requirements and address additional capital requirements for G-SIIs reflecting their systemic importance in the international financial system.

The final step is the development of a risk-based group-wide global insurance capital standard, due to be completed by the end of 2016.

The consultation will be open for submissions until February 2014.

Oil and gas company captive receives affirmations

A.M. Best has affirmed the financial strength rating of "A+ (Superior)" and issuer credit rating of "aa-" to Noble Assurance Company, which is based in Burlington, Vermont.

The ratings and outlook reflect Noble's demonstrated strong capital adequacy, stable earnings and consistent surplus growth as evidenced by continued surplus levels through 2013 and projections beyond.

The company benefits from intensive risk management processes as a captive insurance company for Royal Dutch Shell and its subsidiaries.

A.M. Best believes that Noble is managed by a strong captive manager and benefits from highly integrated management involvement within the Royal Dutch Shell risk management framework.

One hundred percent of the risk taken by Noble is ceded to Solen Versicherungen AG, a subsidiary of Royal Dutch Shell.

Solen is well capitalised and has demonstrated consistently growing metrics within the past few years. As such, A.M. Best has assessed the risk-adjusted capital strength on a combined Noble/Solen basis and found capital adequacy to be strong.

Positive underwriting returns and a conservative investment strategy have contributed to strong risk-adjusted capitalisation.

Noble could experience rating changes, both positive and negative, if there is a material change in its risk-adjusted capitalisation, and/or that of Solen or Royal Dutch Shell.

Fitch upgrades Black Gold Re

Fitch Ratings has upgraded Black Gold Re's insurer financial strength rating to "BBB+" from "BBB", and revised its outlook to stable from positive.

The rating action follows the upgrade of Ecopetrol's local currency issuer default rating to "BBB+" with a stable outlook. Black Gold's rating is equalised to the rating of its shareholder, Ecopetrol.

Black Gold's ratings also reflect its good operating performance, strong capitalisation and liquidity levels, and adequate reinsurance protection.

Its status as a core subsidiary of Ecopetrol owes much to its strategic importance in managing the risks and structuring the insurance coverage of Grupo Empresarial Ecopetrol.

The support of the shareholder is evidenced by the formal support in managing the investment portfolio of the captive, the provision of resources for the optimal operation of the reinsurance company, the explicit commitment of support through open notes, and the transference of strong corporate governance practices.

The rating outlook is stable. Fitch may consider an upgrade if Ecopetrol's rating is upgraded and the company continues to demonstrate a strong operating and financial performance.

Negative changes to Ecopetrol's ratings or to its ability and willingness to provide support could result in a downgrade for the reinsurance firm.

PRA expects Solvency II compliance

The Prudential Regulation Authority (PRA) expects Solvency II to be demanding for all insurance firms, particularly as they had to comply with the European Insurance and Occupational Pensions Authority (EIOPA) preparatory guidelines that came into effect on 1 January.

The regulator held a Solvency II conference in London last month ahead of implementation of EIOPA's preparatory guidelines.

Charles Garnsworthy, PricewaterhouseCoopers's UK Solvency II leader, said: "The PRA

indicated it expects Pillar 3 to present the greatest challenge to most firms. PwC's recent industry survey revealed that 75 percent of insurers expect to invest in new systems to meet the Solvency II Pillar 3 requirements. The majority of firms should plan to report to their supervisors from mid 2015. Currently we expect this may apply to all priority 1, 2 and 3 firms plus the subsidiaries of large groups."

"Regarding the Pillar 1 capital requirements, firms that plan to use an internal model must hit their approval slot. If not they will go to the back of the queue. Firms must have a contingency plan in place in case they don't get their internal models approved in time. Even firms taking the 'standard formula' route need to be communicating now with their supervisor, especially if they intend to make use of unique selling points or partial internal models.

He added: "Resourcing is likely to be a major challenge in all of this, not least for the PRA itself. Firms therefore need to take the initiative and ensure they get their submissions right first time, to get the right capital assessment in place for the go live date of 1 January 2016."

A survey conducted in November 2013 by PA Consulting Group aimed to assess how prepared the industry is for Solvency II.

The survey found that two thirds of insurers did not expect to be ready to meet EIOPA's preparatory guidelines on the System of Governance by January 2014, which appears to contradict the expectations of the PRA.

Hurricane report finds lowest figures since 1982

The Willis Re hurricane report has found that there were fewer hurricanes in 2013 than in any previous year since 1982.

The report found that the hurricane season has been unexpectedly quiet. There were a number of factors inhibiting cyclone genesis in the Atlantic that resulted in the low number of hurricanes observed.

The Atlantic hurricane season began with the formation of Tropical Storm Andrea on 5 June 2013. The season followed with 13 named storms, which is roughly consistent with the long-term median of 12 named storms.

The charts released in the report show that major hurricanes remained over the Atlantic. Unusually, the US has not seen a major hurricane make landfall since Katrina in 2005.

A season without a major hurricane has not occurred since 1994 and the number of hurricanes this year was the lowest since 1982.

For insurance purposes, a hurricane is modelled as a one in 100 year occurrence, one of the lowest risk and highest loss insurable events.

Delaware RRG liquidated

The United Contractors Insurance Company, a risk retention group based in Delaware, has been liquidated.

The RRG provided liability insurance coverage for its members in the state. The Liquidation and Injunction Order was entered in August 2013.

In April 2013, A.M. Best downgraded the financial strength rating of the firm to "C- (Weak)" from "B (Fair)" and its issuer credit rating to "cc" from "bb". It subsequently withdrew the ratings at United Contractors Insurance Company's request.

The rating agency cited the rapid decline in policyholder surplus as the reason for the downgrade.

The fall in surplus was caused by several large losses over a period of two years. Policyholder surplus for the company was $16.2 million in 2009. At the end of 2012, the surplus had fallen to $2.1 million.

North Carolina hosts first captive seminar

Insurance commissioner Wayne Goodwin delivered the keynote presentation, "Why North Carolina?", to the first captive seminar held in North Carolina.

The event in Raleigh was attended by captive insurance managers and service providers, regulators, legislators and other interested parties.

The state signed its Captive Insurance Act into law on 19 June 2013.

Goodwin expressed his appreciation to the North Carolina Captive Insurance Association for its efforts to draw business to North Carolina and his optimism about the future of captive insurance in the state.

Goodwin said: "North Carolina has a law that makes us competitive with the most successful captive domiciles in operation. We will use a consistent and sensible approach to regulation, always remaining responsive to the needs of the captive industry."

Captive 'visionary' indicted for fraud

Frederick Turner, the founding principal of Active Captive Management, has been indicted for fraudulent insurance acts.

According to documents filed in the Franklin Circuit Court in Kentucky, Turner is charged with fraudulent insurance acts over the amount of $500.

The document stated: "On or about the 14th day of June, 2013, in Franklin County, Kentucky, the ... defendants: Frederick Turner and Donald Olson, acting alone or in complicity, committed the offense of fraudulent insurance acts over $500 when they knowingly and with intent to defraud or deceive filed an insurance policy with the insurance commissioner knowing that it contained false, incomplete or misleading information."

He has reportedly resigned from his role as CEO at Active Captive Management.

Turner's career in alternative risk solutions began in 1996. He has been retained by insurance firms including Fidelity Title, Cuna Mutual and American Title.

He has reportedly overseen the formation of more than 600 captive insurance companies.

Speaking during a webinar in September 2013, Turner discussed the ways in which captives are being used by successful small to mid-sized businesses and successful self-employed professionals. The Active Captive Management website describes him as an "industry visionary".

No further information about the charge is available at this time. Active Captive Management did not respond to a request for comment.

Willis to launch cyber security toolkit

Willis Group, the global risk adviser and insurance broker, is launching Cyber ATLAS, a complete security solution to help British companies combat the threat of cyber crime.

Designed to build resilience across an entire company, from the shop floor to the board of directors, Cyber ATLAS aims to provide e-learning for all levels of staff, an online self-audit allowing organisations to test their current levels of security and a 24/7 incident response service providing support and advice in the event of a cyber-breach.

Cyber ATLAS responds to a warning from the UK government that the cyber crime threat facing UK companies is increasing. The Department for Business Innovation and Skills said in November 2013 that it would be working with businesses to encourage them to make cyber security a board-level responsibility.

The platform was developed by Willis in conjunction with Nick Gibbons, cyber, information technology and intellectual property law specialist at BLM, and Gordon Walker, lead investigator on IT claims at Charles Taylor and E-Security Exchange.

Jonathan Brooks, practice leader for FINEX National at Willis, said: "Cyber criminals know that larger multinationals have the infrastructure to fight cyber crime so they often target the IT network and vulnerabilities of a small company to get into the network of the multinational."

Gibbons said: "Many of our large UK clients routinely ask their suppliers to provide written confirmation that their IT networks have good security protocols in place to protect data. It may seem obvious but any organisation that has a supply-chain is only as strong as the weakest link in that supply chain. The cyber age that we all now enjoy has also brought with it some very significant new risks."

A.M. Best downgrades National Contractors Insurance

A.M. Best has downgraded the financial strength rating of the National Contractors Insurance Company (NCIC) following the erosion in policyholders' surplus and risk-adjusted capitalisation through Q3 2013.

The surplus decline is attributable to a single claim, which fell outside of NCIC's reinsurance programme.

The financial strength of the company had been downgraded to "B- (Fair)" from "B (Fair)" and issuer credit rating to "bb-" from "bb".

The outlook for both ratings is negative. Concurrently, A.M. Best has withdrawn the ratings as the company has requested to no longer participate in the interactive rating process.

Although the company expects the claim to be resolved in its favour, the effect of a single large claim on NCIC's capitalisation reflects the vulnerability of its overall financial position.

Aon acquires Stratford 360 assets

Aon has acquired the assets of Minneapolis-based Stratford 360, a provider of customised executive and physician supplemental benefit and deferred compensation plan design, consulting and administrative services.

Financial terms of the deal were not disclosed.

The Stratford 360 team, which caters exclusively to hospitals, clinics and other healthcare organisations, will join the executive benefits group within health and benefits at Aon. The acquisition increases the US executive benefits presence to more than 100 specialists.

John Zern, Americas health and benefits practice director at Aon, said: "Hospitals and health systems are competing for physician and executive talent like never before. The combination of Stratford's extensive experience in the health care industry and Aon's superb executive benefits technical, administrative and insurance resources offers clients unparalleled support to achieve greater results with regard to their physician and executive benefit programmes."

Tom Fitzgerald, CEO of Aon Risk Solutions's US retail operations, said: "We strive to bring clients the best, most thoughtful solutions that help them achieve their goals. Stratford 360 is the undisputed leader when it comes to physician and executive disability, life insurance and non-qualified retirement plans. Adding these capabilities to Aon's unmatched expertise in benefits design and consulting adds another dimension to how we are able to empower results for clients."

The current Stratford 360 leadership team will remain in their current positions.

The consolidated team will be led by Todd Chambley, senior vice president and executive benefits practice leader at Aon.

CICA announces 2014 conference programme

The Captive Insurance Companies Association (CICA) has announced the conference line-up for the CICA 2014 International Conference in March, held in Scottsdale, Arizona.

This year's theme, 'Captives: Global Opportunities and Solutions', reflects the rapidly changing nature of the captive industry.

The CICA conference programme opens on 10 March, with a keynote address by Tim and Kris O'Shea.

The O'Shea session on handling the ups and downs of the fast-paced constantly changing world will entertain and set the stage for conference participants to focus on global strategies.

Sessions in the programme will cover the economic and insurance market outlook for 2014 and beyond, the best captive practices for 831(b)s, employee benefits for an international business, and captive governance from cradle to grave.

A financial rock

Gibraltar is, in more ways than one, the exception to the rule

DANIEL JACKSON REPORTS

The diplomatic impasse surrounding the British Overseas Territory of Gibraltar has been making headlines in recent years. There is a connection between the increasing political tensions and the burgeoning financial services industry in Gibraltar. While the Spanish economy has receded for the last nine consecutive quarters, Gibraltar has fared comparatively well. As it becomes more prosperous, the struggling economy on the other side of the border becomes more obvious.

There is a gulf across the frontier, in wages, tax levels and the price of goods and services. This has further entrenched opinion on both sides of the divide.

As a British Overseas Territory, Gibraltar effectively has one foot in and one foot out of the EU. The island joined as a dependent territory of the UK in 1973 under the Treaty of Rome, which had a provision for member state territories. At the time it was granted exemption from some areas of the fledgling union, such as the Common Agricultural Policy.

Gibraltar's status in the EU is far from clearcut to this day. Since 2004, Gibraltarians have participated in elections for the European Parliament as an extension of the constituency covering the South West of England. In effect Gibraltar is able to enjoy the advantages of membership without being bound to all of its rules and regulations.

Although the authorities in Gibraltar reject any accusation of being a tax haven, a position backed up by the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund, there is undoubtedly a strong case for doing business in Gibraltar.

The government's website cites the ability to trade goods and services to the EU market free of VAT as one of these cases. Its currency is stable as it is tied on a like for like basis to the British pound. It describes itself as a "low-tax jurisdiction with a profit oriented capital base at low levels of corporate tax".

Passporting

Following the general election in 1997, the British Government approved the Financial Services Commission in Gibraltar to grant EU licences to transact insurance business.

This opened up a raft of new possibilities for Gibraltar's financial services, including the banking and insurance sector, and it has been growing steadily since that time.

On this basis Gibraltar is able to compete with insurance domiciles such as Guernsey and Dublin, with a low tax, low cost base that other regions are unable to rival. This ability to directly write insurance contracts in 30 EU countries has been an important factor in the success of the domicile.

One of the results of the inclusions and exceptions enjoyed by Gibraltar is access to the single European passport for insurance, which it has had since 1998. This allows the island's domiciled insurers entitlement to directly insure risks in the EU. To secure passporting rights in Europe, Gibraltar is obliged to write European Commission compliant legislation, including the Life and Non-Life Insurance Directives.

Having notified the state where the risk is held, firms in Gibraltar can insure risks in other EU states. The firm must first present the commissioner with a business plan for the risk, and prove compliance with insurance laws in the state.

Fronting

The EU has tests which it uses to determine whether or not an insurer in another region of the EU should be considered a front branch. This is a popular option for companies operating out of Gibraltar.

The tests determine if the intermediary is able to bind the insurer contractually, if the intermediary in the host state has a permanent contract with the insurer and if the insurer has control of the intermediary.

Fronting is more expensive from the point of view of the insurer, and may obligate the insurer to retain an element of the risk. This would in effect mean that the fronting company would have to pay claims in much the same way as a reinsurance firm, which could lead to a reduced profit margin for the captive.

Rating obstacles remain in this approach as the fronter is bound by the captive's overall financial position. It also involves in increased requirement for documentation to ensure that the policies issued by the fronter is fully covered by reinsurance at the captive side.

The other complication is ensuring that there are no legal differences in terms of contract wording between the two EU regions where the business is taking place.

Despite these difficulties, many captives domiciled in Gibraltar use fronting arrangements. There are distinct advantages in having local representation, particularly in terms of client services. Third party claims administrators can simplify the process further, at a higher financial cost to the captive.

Gibraltar's long pedigree in financial services, combined with its broad market access makes it a very attractive insurance domicile. Industry figures expect the sector to grow further in the years ahead.

A new airport opened on the rock in 2012 with direct daily flights to London, and an increasing number of other European financial centres. With these developments, and the authorities' commitment to an open for business attitude, Gibraltar's future as a captive domiciles looks as bright as its climate. CIT

Worry lines

US life insurers are fretting over the NAIC's review of their captives

MARK DUGDALE REPORTS

The National Association of Insurance Commissioners's (NAIC) review of the insurance industry's use of affiliated captive reinsurers to satisfy certain reserve requirements is making waves among top US life insurers.

It has emerged that in late 2013 filings to the US Securities and Exchange Commission (SEC), Genworth Financial and Reinsurance Group of America (RGA) moved to defend their captive strategies.

A small number of life insurers have recently entered the captive market, according to the NAIC. They have formed captive reinsurance subsidiaries and used insurance securitisations to transfer risk and side-step conservative reserve requirements.

As a result, the NAIC produced seven recommendations to address the issue, which it has worked on since 2011. They cover: accounting considerations; confidentiality; access to alternative markets; International Association of Insurance Supervisors principles, standards and guidance; enhancements to the credit for reinsurance models; disclosure and transparency; and Financial Analysis Handbook guidance.

Although the recommendations are still being studied, Genworth and RGA are worried about their consequences, specifically how they could affect capital costs and efficiencies.

In its 14 November 2013 filing to the SEC, Genworth indicated that US- and Bermuda-based affiliates assumed about $8.3 billion of reserves from its main businesses at the end of 2012.

"Uncertainties associated with our continued use of US and Bermuda-based captive life reinsurance subsidiaries are primarily related to potential regulatory changes," it explained.

"Although we do not believe it to be likely, a potential outcome of the NAIC review is that we will be prohibited from continuing our use of captive life reinsurance subsidiaries. The expected effect of such prohibition would depend on the specific changes to state regulations that are adopted as a result of the NAIC review, including whether current captive life reinsurance structures would be allowed to continue in existence or, if not, the method and timing of their dissolution, as well as the cost and availability of alternative financing."

"At this time, given the uncertainty around these matters, we are unable to estimate the expected effects on our consolidated operations and financial position of the discontinuance of the use of captive life reinsurance subsidiaries to finance statutory reserves subject to Regulations XXX and AXXX and Actuarial Guideline XXXVIII in the future."

If Genworth discontinued using captive life reinsurance subsidiaries to finance statutory reserves, "the reasonably likely impact would be increased costs related to alternative financing, such as third-party reinsurance, and potential reductions in or discontinuance of new term or universal life insurance sales".

"All of which," said Genworth, "would adversely impact our consolidated results of operations and financial condition", adding: "We cannot be certain that affordable alternative financing would be available."

RGA was equally worried about the outcome of the NAIC's review, saying in its 24 October 2013 filing: "If a state insurance regulator that regulates any of the Company's domestic insurance companies restricts the use of captive reinsurers, the Company's ability to reinsure certain products, maintain risk based capital ratios and deploy excess capital could be adversely affected."

"As a result, the company may need to alter the type and volume of business it reinsures, increase prices on those products, raise additional capital to support higher regulatory reserves or implement higher cost strategies, all of which could adversely impact the company's competitive position and its results of operations."

RGA acknowledged that no changes in the use or regulation of captives have been proposed and it is too early to predict the extent of any changes that may be made. "Accordingly, the company expects to continue its strategy of using captives to enhance its capital efficiency and competitive position while it monitors the regulations related to captives and any proposed changes in such regulations."

But it warned: "[RGA] cannot estimate the impact of discontinuing or altering its captive strategy in response to potential regulatory changes due to many unknown variables such as the cost and availability of alternative capital, potential changes in regulatory reserving requirements under a principle-based reserving approach which would likely reduce required collateral, changes in acceptable collateral for statutory reserves, the potential introduction of the concept of a 'certified reinsurer' in the laws and regulations in certain jurisdictions where the company operates, the potential for increased pricing of products offered by the company and the potential change in mix of products sold and/or offered by the company and/or its clients."

New York effect

The controversy surrounding life insurer-owned captives came to a head in 2013 when the New York State Department of Financial Services published critical commentary on 'shadow insurance' transactions in the state and the oversight provided by the NAIC.

The department concluded that the reserve transfers related to the 'shadow insurance' transactions have artificially inflated capital. It also asserted that certain other states may be racing to the bottom in governing such transactions, while concurrently making information on their captive unavailable to other state regulators.

New York-based MetLife, the largest US life insurer, indicated last year that it was planning to combine an offshore reinsurer with three US life insurance businesses, partly because of the New York enquiry.

But captive industry commentators have blasted the New York State Department of Financial Services enquiry, calling it premature and unfounded. They point out that the NAIC was already looking at the situation with life insurer-owned captives.

Various NAIC task forces are working on the association's seven recommendations, while one is assessing the solvency implications of life insurer-owned captives and alternative mechanisms. The NAIC has also asked consulting firm Rector & Associates to report on life insurer-owned captives, so much remains to be done before this debate reaches a conclusion. CIT

23rd Annual World Captive Forum

Location: Florida
Date: 29-31 January 2014
www.worldcaptiveforum.com

The World Captive Forum is one of the longest running international captive insurance conferences in the world and will celebrate its 23rd year in 2014. This event's longevity is a testament to the quality of its educational content, superior industry expertise and distinctive networking and marketing opportunities available to attendees.

Texas Captive Insurance Association's 1st Annual Captive Conference

Location: Austin
Date: 18-19 February 2014
www.texascaptives.org/events

With its abundance of Fortune 500 companies, a booming economy fueled by oil and gas, and a friendly business climate, Texas promises vibrant growth potential for the captive insurance market.

CICA 2014 International Conference - Captives: Global Opportunities & Solutions

Location: Illinois
Date: Arizona, USA
www.cicaworld.com

The captive insurance industry continues to evolve, expand and change. To meet these needs we must understand the issues and opportunities to create solutions in our markets. This year's CICA 2014 International Conference - Captives: Global Opportunities & Solutions highlights the results that come from addressing challenges impacting small domestic captives and large multinational captives equally.

Industry appointments

Willis Group Holdings has appointed **Paul Owens** as CEO of the newly formed Willis global captive management business.

In his new role, Owens will lead the formation of the business, bringing North American, European and International captive operations together to form a single cohesive business.

Owens has held a number of senior positions within Willis Group since joining in 1990, most recently as COO of Willis Limited and Global Businesses and has had a long association with the group's captive operations.

Steve Hearn, deputy CEO of Willis Group, said: "Owens is ideally qualified for this new role, bringing with him a wealth of experience in the areas of insurance, regulation, finance and governance along with his in-depth knowledge and connections throughout Willis. This new appointment will help ensure that Willis Global Captive Management is properly positioned to maintain and further develop our client offerings."

Owens said: "I am excited to be working with an outstanding team who continue to excel in delivering cutting edge client solutions. By bringing all of our captive operations together, we can further strengthen our propositions globally."

Members of the National Association of Insurance Commissioners (NAIC) have elected its officers for 2014.

North Dakota insurance commissioner **Adam Hamm** was elected as president. Hamm was appointed commissioner in October 2007, elected to a four-year term in 2008 and re-elected in November 2012. Prior to becoming commissioner, he served as a prosecutor for the Cass County State Attorney's office.

Montana state auditor and commissioner of securities and insurance **Monica Lindeen** was made president-elect. Lindeen gained her position in Montana in 2008 and was re-elected in November 2012. She is chair of the NAIC exchanges subgroup and serves on a number of health insurance reform task forces.

Pennsylvania insurance commissioner Michael Consedine was elected to the position of vice president. Consedine was appointed Pennsylvania insurance commissioner in April 2011. From 1995 to 1999, he served as department counsel for the Pennsylvania Insurance Department, where he represented the department in litigation proceedings and on transactional filings.

Kentucky insurance commissioner **Sharon Clark** was elected as secretary-treasurer. Clark was appointed commissioner in July 2008 and was reappointed to the post in July 2012.

Clark was the first director of the department's consumer protection and education division, a position she held for five years. She currently serves as a member of the NAIC's executive committee, internal administration sub-committee, and chair of the NAIC's market regulation and consumer affairs committee.

The newly elected officers will assume their duties on 1 January.

Holmes Murphy & Associates's chairman **Jim Swift** will move into a new role as director of development opportunities.

Holmes Murphy is the 26th largest independent risk management and insurance brokerage firm in the US.

As director of development opportunities, Swift will oversee Holmes Murphy's strategic acquisitions and related growth plans.

Swift joined the company as an account executive in 1980. By 1988, he had advanced to the position of senior vice president of sales. He served as Holmes Murphy's president before being named CEO in 2007 and chairman and CEO in 2009.

Daniel Keough, CEO, said: "Jim Swift's leadership has been critical to Holmes Murphy's significant growth in the last decade."

"His dedication to creating business relationships of the highest standards and passion for laying the foundation for lasting partnerships has facilitated our strengthened success."

Den Bishop, president, said: "Swift's focus has been on delivering dynamic growth, being the employer of choice and providing unsurpassed service excellence to our clients and partners while maintaining our proud heritage as a privately-held company."

"He exemplifies our core values of expert know-how, exceptional service and integrity."

Willis, the global risk adviser, insurance and reinsurance broker, has appointed **Sarah Turvill** as a non-executive director to its board.

The appointment takes effect this month and is subject to regulatory approval. Turvill retired as chairman of Willis International at the end of 2013.

Turvill joined Willis in 1978, initially as a lawyer in the group's secretariat department. In 1990 she moved to supporting the company's international development in continental Europe and in 1991 and 1992 she was involved in successfully negotiating acquisitions and start-ups in 13 countries across Europe.

In 1995, Turvill assumed the role of chief executive of continental Europe and while in this position, Willis bought its interest in Gras Savoye, the leading French broker. In 2011, Turvill became chairman of Willis International and Tim Wright was appointed CEO. **CIT**

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