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Catalina tames Sparta Insurance

The Bermudan-based group, Catalina Holdings, is to acquire Sparta Insurance and will place some of its non-core business into run-off.

Following the closing of the transaction, Catalina plans to place some of Sparta's business into run-off and to transfer its alternative market business to Arch Insurance Company under a separate renewal rights agreement. Sparta predominantly focuses on specialty programme and risk transfer alternatives in the US.

On 31 December 2013, Sparta had total assets of $911 million, gross reserves of $495 million, net reserves of $309 million and shareholder equity of $201 million.

Catalina will acquire Sparta from cash at hand and a senior debt facility. The transaction, which is subject to regulatory approval, is expected to close in Q3 2014.

This is Catalina's twelfth transaction since the business was established in 2005. Total assets of Catalina pro forma for this acquisition will be in excess of $2.9 billion.

Chris Fagan, chairman and chief executive of Catalina, said: "The acquisition of Sparta adds significantly to our operations in the North East of the US, and follows quickly after our recent acquisition of Alea North America."

"Catalina will be gaining talented people with this transaction who will be able to help with our operations across the US. I am also pleased that a renewal rights agreement has been struck with Arch Insurance Company, under which some staff will continue writing the alternative markets business."

In an official statement, Sparta said: "We have carefully explored strategic alternatives and have concluded that the Catalina transaction combined with the renewal rights sale is in the best interests of our stakeholders."

"The alternative market customers and programme administrators will be offered an opportunity to transfer, along with some of the senior leadership team from Sparta, to

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Connecticut insurers request change in captive laws

Connecticut's insurance department has put forward Senate Bill 188: An Act Concerning Captive Insurance Companies, in order to adjust the current captive legislation.

The department is asking that the state legislature consider a number of statutory modifications that will enhance the captive insurance industry's capabilities in Connecticut and ease the re-domestication process.

SB 188 contains updates to existing captive statutes, including the clarification of the definition of private passenger motor vehicle insurance provided by a captive, and provisions and processes for the transfer of domicile for captives.

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Builders Insurance to pay 18th dividend

Mutual captive company Builders Insurance will distribute its 18th consecutive annual dividend payment to its qualifying Georgia policyholders in Q2 of 2014. This year's dividend of approximately $500,000 brings the total of dividends paid to more than $47.5 million.

Allen Richardson, chairman of the board of Builders Insurance Group, commented: "On behalf of the board and leadership team, I am pleased to present our most loyal and safe policyholders with this year's dividend payment."

"Our 18th distribution demonstrates the success of our commitment to careful risk selection and the nurturing of long term policyholder relationships."

read**more p2**

Catalina tames Sparta Insurance

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Arch Insurance Company. We are committed to working with Catalina to assure a smooth completion of this transaction for all parties."

Mayer Brown acted as legal advisers to Catalina in this transaction. J.P. Morgan Securities acted as financial advisor and Willkie Farr & Gallagher acted as legal advisors to Sparta in this transaction.

Connecticut insurers request change in captive laws

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Discretionary authority for evaluating the credit of existing reinsurance placements made by redomiciling captives was also raised, while the department has requested updates to the rules regarding the establishment and purpose of a branch captive insurance company, and clarification of the applicability of holding company legislation to captives.

It was not until 2011 that legislation was passed that enabled the formation and operation of captives in the state. The introduction of this legislation resulted in four captive companies domesticating in Connecticut, with a total annual written premium of $54 million and total assets of $118 million.

According to the insurance department, many more captives have been applying for entry and it is hoped that the proposed updates will cause this list to grow.

Further amendments proposed for SB 188 are intended to allow for the alignment of the Connecticut General Statutes with National Association of Insurance Commissioners model acts, relating specifically to risk retention groups (RRGs) domiciling in Connecticut.

The first amendment relates to the application of the risk based capital model act to RRGs, and the second amendment relates to the producer controlled property/casualty insurer model act.

Both of these amendments will provide additional consumer-oriented regulatory requirements and scrutiny to RRGs forming and licensing in Connecticut

Builders Insurance to pay 18th dividend

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President and CEO, Patrick Mitchell, said: "Since 1992, Builders Insurance Group has evolved into a diverse company supported by a solid financial foundation."

"Our adherence to the principles of proactive claims management, work place safety, superior customer service and a conservative fiscal policy are the cornerstones of our success."

'We offer congratulations and our appreciation to our qualified Georgia policyholders who have earned this dividend by providing a safe work place resulting in an excellent claims record."

To be eligible to receive a dividend, a Georgia policyholder must have maintained continuous coverage with Builders Insurance since 31 December 2010 and must have an acceptable loss ratio.

In addition, the policyholder must have maintained membership in a sponsoring association and be without any unresolved receivable balances.

More than 16,000 policyholders in residential and light commercial construction as well as variety of non-construction use Builders Insurance Group to protect their people and property.

Headquartered in Atlanta, the company delivers workers' compensation, general liability, property and umbrella insurance through independent agents to customers throughout the southeastern, mid-Atlantic and midwestern US as well as Colorado, Oklahoma, Texas and Utah.

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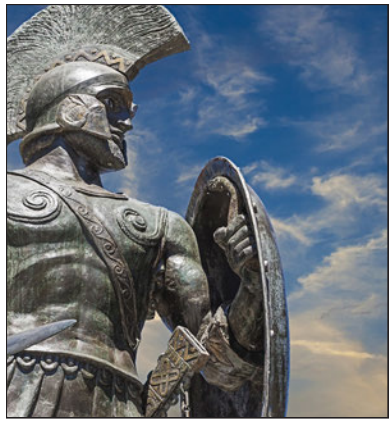

Asian companies are turning to captives

Asian companies are becoming more sophisticated to the extent that they are beginning to look at alternative ways, such as captives, of managing their risk, according to Willis.

Paul Owens, CEO of Willis's global captive management practice, commented: "The use of captives has, until now, been the domain of Western corporations. But now Asia wants to catch up."

"Corporates in Asia are challenging the traditional and looking for alternatives to the risk transfer–based insurance policy. In many cases they have assets across the world and are now waking up to the advantage of using a captive."

A number of Asian countries have begun investing in the infrastructure and legislative frameworks necessary to facilitate captive formations with a view to creating attractive environments for new business.

They have also been seeking advice from a variety of established captive domiciles to decide which models and regulatory frameworks to emulate.

"So far we have seen a mixture of models. Hong Kong has a framework very recognisable to the rest of the captive world, with comparable capitalisation and regulatory rules to the largest captive centres in the Caribbean and the US," explained a Willis Global spokesperson.

"But it is much less established than Singapore or even Labuan, so growth there will depend primarily upon the development of captives in the Chinese market. To compete with the other domiciles in the region for business from other parts of Asia Pacific, it will need critical mass."

Hong Kong has recently passed a bill to provide a tax concession to captive insurers that will see them enjoy a 50 percent reduction in the profits tax on their insurance business of offshore risks.

The secretary for financial services and the treasury, Professor KC Chan, commented: "The tax concession would provide further impetus for groups or enterprises to consider setting up captive insurers in Hong Kong to underwrite their own risks."

"Our fundamental strengths as an international financial centre includes a simple tax regime, rule of law, ready supply of talent, free flow of information and capital, and a highly open and competitive operating environment. Hong Kong is well positioned to establish itself as a domicile of captive insurance."

Chan pointed out that the development of captive insurance would reinforce Hong Kong's status as a regional insurance hub, while making Hong Kong's risk management services more diversified and promoting the development of other related professional services including reinsurance, accounting, actuarial and legal services.

While it is too early to tell how the market will develop, the Willis spokesperson said that it is possible to foresee the development of an "onshore" Chinese domicile in the Shanghai Free Trade zone.

There may also be a relaxation over time of the regulatory rules enabling companies to write more corporate risk through an offshore vehicle, added the spokesperson.

The Pantry forms captive in North Carolina

One of the US's largest convenience store chains has formed a captive insurance company in North Carolina.

The Pantry, based in Cary, North Carolina, has formed Cellarium Insurance Company—a pure captive insurance company licensed by the North Carolina Department of Insurance (NCDOI) on 28 February 2014.

This is the first captive insurer to become licensed in North Carolina so far this year and the first in the state to be owned by a publicly-traded corporation. As of 13 March 2014, The Pantry operated 1537 convenience stores in 13 states, including its primary operating banner Kangaroo Express.

Cellarium is managed by Beecher Carlson Insurance Services, and joins four other captive insurers that have formed in North Carolina since the state's Captive Insurance Act went into effect in October 2013.

The state's insurance commissioner, Wayne Goodwin, commented: "Prior to having this captive insurance law, North Carolina businesses would have had to go to other states or jurisdictions to form a captive insurance company. I am proud that companies like The Pantry are realising the benefits of forming captives here in North Carolina. We are dedicated to helping companies meet their insurance needs and attracting new business to our state."

Lindsay Cunningham, vice president of risk management at The Pantry, said: "As a founding participant in North Carolina's new captive program, we are looking forward to the partnership with NCDOI. We have been fortunate to experience a very smooth and receptive transition with NCDOI."

UK flood defence spending may be too little

Uncertainty about UK government spending on flood defences means the Flood Re scheme to pool flood risk may face higher-than-expected claims in the future, Fitch Ratings says.

In the long term this could push up buildings and contents insurance premiums for all UK households and in the short term could expose insurers to additional risk.

Under new funding arrangements, future central government capital expenditure on flood defences, which forms part of the joint understanding on which Flood Re is based, will remain below the 2010 to 2011 peak in real terms until at least 2020 to 2021. The level of funds provided through local investment, designed to offset some of the planned reduction, remains uncertain.

A longer-term reduction in spending could increase the number of properties in England at significant risk of flooding. A study by the Committee on Climate Change estimated that spending would need to increase by around £20 million a year on top of inflation through 2035 just to keep the number of significant-risk properties steady.

This could mean that Flood Re's funds and reinsurance cover may prove inadequate to meet outgoings. In that situation, insurers would be required to make up the difference in the near term, but would then pass on the cost to households through an increase in the annual premiums.

The Association of British Insurers's latest claims estimate of £1.1 billion from the 2013 to 2014 winter storms and floods is manageable for the sector, but would have been much higher if flooding had hit more highly populated areas. The storms are likely to increase the sector's combined ratio by around 3.4 percentage points. The negative impact on insurers' earnings will therefore be limited and will probably be further reduced by future price increases.

Flood Re is a not-for-profit reinsurance scheme owned and managed by the UK insurance industry that will help to provide affordable flood insurance to households deemed to be at high flood risk.

The scheme will be part-funded by a levy on all UK personal buildings and contents insurance policies, expected to be £10.50 per year. The scheme is expected to start operating in 2015 and last 20 to 25 years.

Texas lands first captive

Texas has licensed its first captive insurance company. Cart Assurance Company, has successfully re-domiciled from Arizona to Texas and, as a result, is the first company to receive a Certificate of Authority to operate as a captive insurance company in Texas.

Cart president, Irving Pozmantier, commented: "We have a high degree of confidence in the ability of the Texas captive regulators to provide an appropriate balance of regulation with assistance in establishing captive insurance companies with solid business purposes and sensible business plans. From our first meeting with the department's captive team, they have extended full cooperation, thoughtful suggestions and flexible regulation."

Texas state law was amended in 2013 in order to give it the ability to license captives to insure the risks of parent companies and affiliates, as well as controlled unaffiliated businesses. This also includes the redomestication of captives from other states. A number of companies have taken this option since the law was amended, with several more applications currently nearing approval.

Barbican joins forces with Inter Hannover

Barbican Insurance has agreed a new underwriting facility between Barbican Underwriting, the firm's UK property and casualty underwriting division, and International Insurance Company of Hannover (Inter Hannover).

Launched in 2011, Barbican Underwriting has already established a strong presence in the UK property and casualty sector. The arrangement with Inter Hannover will boost the division's underwriting capacity, enabling it to expand its market position.

This capacity is in addition to that currently provided by Barbican Syndicate 1955. With immediate effect, Barbican Underwriting will underwrite UK property and casualty risks on behalf of both Barbican Syndicate 1955 and Inter Hannover.

Stuart Kilpatrick, head of UK insurance at Barbican Underwriting, said: "Over the past three years, [Barbican Underwriting] has worked hard to secure its position in what is a highly competitive sector of the market."

"This new underwriting facility with Inter Hannover provides us with the ability to further capitalise on the successful relationships we have built with our brokers to achieve strong, sustainable, long-term growth."

Nick Parr, CEO of Inter Hannover, added: "This underwriting arrangement with [Barbican Underwriting] reaffirms our commitment to the UK market."

CICA enjoys record attendance

The 2014 Captive Insurance Companies Association (CICA) International Conference held on 9 to 11 March saw record attendance—with 133 first time attendees and a sold out exhibition hall.

As the only domicile neutral trade association for the captive industry, the CICA conference provided an opportunity for networking within the industry's top service providers, regulators, and domicile association leaders. The CICA conference now includes an annual gathering of the Captive Association Leadership Council (CALC), which is comprised of representatives from all of the captive domicile associations and related groups.

"We're especially pleased to see the increased participation of captive owners and managers," said CICA president, Dennis Harwick, adding that the 2014 International Conference was almost 20 percent larger than any previous CICA conference.

"Sessions focused on best practices, positive outcomes, and strategies to expand the use of captives as companies grow. In addition, the multiple networking opportunities provided attendees with the chance to generate contacts throughout the captive world."

"During the CALC meeting, we explained the initiatives that CICA is taking to address industry challenges that cross jurisdictional lines—such as challenges from the OECD and the National Association of Insurance Commissioners, along with a wide ranging discussion of reputational challenges and issues of common concern," Harwick added.

AIG delivers, with captive program solutions.

AIG set up its first captive program in 1945. Over 65 years later, our international network transacts billions of dollars of captive premiums and processes well over 100,000 captive claims each year. By designing programs that blend elements of risk retention and risk transfer, we can offer creative and nontraditional captive insurance solutions. Learn more at www.AIG.com/captives

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Willis talking about Myanmar

Willis Group Holdings has reinforced its commitment to Myanmar's growing insurance industry by opening a representative office in the country.

The office in Yangon will support Willis's multinational and Asian client base, and also provide domestic businesses and the insurance industry in Myanmar with a point of contact into Willis's regional and global capabilities.

Political and economic reforms in Myanmar have fuelled a rise in demand for risk services and products, particularly in the infrastructure, construction, transportation, telecoms and energy sectors.

Adam Garrard, CEO of Willis Asia, said: "We have seen a growing wave of interest in Myanmar and this is an exciting time to be opening our doors in Yangon. It is a fascinating country with deep natural resources and a large and youthful population."

"Myanmar's insurance industry is at a relatively early stage in its development, and we are proud to be the first of the larger global brokers with an office there. We hope Willis's global expertise and experience will help in the development of a strong insurance industry."

The chief representative officer in Myanmar, Khaing Zar Aung, said: "This is an unmissable opportunity at a turning point in Myanmar's economic history. Our presence on the ground enables us to liaise closely with local and global clients and insurers in Myanmar, and to strengthen and build relationships."

"Willis has already developed a strong relationship with Myanma Insurance by advising and placing reinsurance for its major risks.

The new office will help us build on such links. Importantly, Willis will now be in a position to help Myanmar's insurance industry to access the very latest risk management innovations and to develop best practice."

Willis opened its office in Yangon on 1 March after being granted permission by the Directorate of Investment and Company Administration.

JLT Towers Re strengthens position in Bermuda

JLT Towers Re has launched newly combined operations in Bermuda.

JLT Towers Re Bermuda, has been created through the merger of the businesses formerly known as JLT Re Bermuda and Towers Watson Re Bermuda, following JLT Re's acquisition of Towers Watson Re's global operations.

Bradley Maltese, who has executive responsibility for the Bermuda operations, said: "Bermuda is a key marketplace and this team will help us enhance relationships with Bermudian carriers and provide further impetus to JLT Towers Re's growth aspirations in a number of classes of business."

Guy Hengesbaugh will manage the day-to-day running of the operation and will continue to work closely with George Daddario and other colleagues providing services to North American clients. Hengesbaugh is well known to the market from his underwriting experience and, more recently, his leadership of Towers Watson Re's Bermuda operation.

Charles Withers-Clarke will head up the specialty classes including aviation, energy, marine and space but will also work with other members of the team on specific property and catastrophe opportunities.

The combined businesses in Bermuda will operate from a single base at JLT Park—a Bermudian wholesale broking operation specialising in the fields of property, casualty, professional liabilities, healthcare and construction, and is part of the JLT Group.

AON plays sensei to Gibraltar's ILS aspirations

Gibraltar has plans to become an insurance linked securities (ILS) jurisdiction within the EU. The ILS market has grown significantly in recent years and the total volume of catastrophe (cat) bonds and ILS issued in 2013 was more than \$7.5 billion and by the end of the year there was an all-time high of \$20.5 billion of outstanding cat bonds and ILS.

AON's director and global ILS practice leader, Liz Frederick, recently provided ILS training for Gibraltar's Financial Services Commission and a number of its accounting and legal firms. Frederick has previously trained other insurance regulators on ILS protocols.

Gibraltar's insurance company (SPV) regulations of 2009 will serve as the primary legislation for Gibraltar to enter the ILS market and its 2001 PCC legislation is thought to be an attractive part of the offering.

The collective gross premium income for all of Gibraltar's insurance companies exceeded \$3.8 billion in 2012, while its motor insurers had a 16 percent share of the UK's motor market.

Minister of financial services, Albert Isola, commented: "The Gibraltar insurance industry has grown significantly over the last ten years, in particular the motor sector. We are very proud of the progress that has been achieved and we are keen to develop other and complimentary areas of insurance."

"We believe that insurance linked securities are offer one such opportunity. I am grateful for the support and effort that AON has provided in the recent training programme for the Financial Services Commission."

Experts highlight terrorism backstop law

The US Senate Banking, Housing and Urban Affairs Committee has heard from industry experts about the importance of extending the federal terrorism insurance backstop, which expires at the end of 2014.

Various stakeholders, led by the insurance industry, have consistently pushed to make the law permanent. The law was created as the Terrorism Risk Insurance Act (TRIA) of 2002, and has been renewed three times for short periods—most recently as the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA).

Thomas Stokes, managing principal and US consulting practice leader of JLT Towner, said: "Making the backstop permanent or at least extending it for a longer period of time would provide needed stability to insurance markets. Since its establishment, the federal backstop has given companies much-needed peace of mind and one tool to help them manage this catastrophic risk."

While committee leaders agree that the terrorism law should be extended, some in the committee believe the market has greater capacity and can be scaled back. Stokes, however, cautions against taking out features that are vital to insurers.

"Most commercial insurers don't insure against nuclear, biological, chemical and radiological (NBCR) risks, so the backstop is crucial to insure these risks…and don't forget that captives are ideal vehicles to help protect against these and other risks," added Stokes.

La Mutuelle Générale appoints BNP Paribas

La Mutuelle Générale, one of France's largest mutual insurance providers, has appointed BNP Paribas Securities Services for custody of its €2 billion portfolio. BNP Paribas will also provide fund administration, risk management and performance analysis services and will be responsible for La Mutuelle Générale's institutional accounting.

Paris-based La Mutuelle Générale provides life and health insurance to 1.3 million French individuals.

BNP Paribas will provide La Mutuelle Générale with reporting and analysis for its investment portfolio via the custodian's Data Navigation and Analysis (DNA) service.

This will allow BNP Paribas to assist the company in meeting its requirements under Solvency II, which is scheduled to come into effect at the beginning of 2016.

The new regulation affects capital adequacy requirements as well as risk management techniques for European insurance companies.

These requirements can be met by outsourcing services including fund administration and reporting to a specialist provider such as BNP Paribas.

Christophe Harrigan, financial director of La Mutuelle Générale, commented: "Our objective was to partner with a single custodian for our entire portfolio. We chose BNP Paribas as its DNA offering appeared to us as the most innovative in the market, with a unique method of interactive reporting. This software provides sophisticated data capture, enabling us to break down performance analysis globally using a range of filters."

Head of institutional client development at BNP Paribas Securities Services France, Gilliane Philip-Courtines, said: "We are delighted to strengthen our partnership with La Mutuelle Générale. This demonstrates our capacity to help our institutional clients meet new challenges, including regulation."

"In addition to our global custody and accounting services, our clients enjoy a range of value-added reporting services. Our 'end to end' offering is the most comprehensive in today's market."

GC Securities raises cat bond protection for Munich Re

GC Securities has confirmed the placement of principal at-risk notes worth $100 million through a newly formed catastrophe bond, Queen Street Re IX Limited, to benefit Munich Re.

This is the ninth Queen Street cat bond to benefit Munich Re, the eighth overall issuance benefitting the reinsurer since 2011 and the first provided to it via an Irish special purpose reinsurance vehicle.

The principal at-risk notes provide three seasons of per occurrence protection for named storms affecting the US and for cyclones affecting Australia.

The protection priced approximately 15 percent lower than the similarly structured Queen Street VIII Limited that was placed in June 2013, "demonstrating the robust demand for catastrophe bonds", commented GC Securities.

GC Securities served as sole bookrunner on Queen Street Re IX Limited. It has raised $600 million of catastrophe bond protection for Munich Re since 2011 through the offering of six of the nine Queen Street catastrophe bonds issued.

"Munich Re's ability to offer a cat bond with a favourable peril mix of Australia cyclone paired with US hurricane in a transparent non-indemnity format at a risk layer that offers higher spread was the catalyst to the tremendous support that the capital markets provided," commented Cory Anger, global head of insurance-linked securities structuring at GC Securities.

"Queen Street IX was one of the broadest cat bond placements with respect to investor interest and the final number of participating investors thereby allowing Munich Re to receive best execution to support application of cat bond protection to a multi-peril transaction that includes a non-peak peril."

Chi Hum, global head of ILS distribution at GC Securities, added: "The capital markets capacity continues to grow and combined with a strong interest in diversifying cat risks has presented a market opportunity for catastrophe bond issuers that was very much a benefit to Munich Re's Queen Street Re IX deal."

Swings and roundabouts in Vermont and California

Vermont is embracing run-off business with a new proposed law but California is challenging risk retention group reinsurance with a new renewal form, according to captive management firm JLT Towner.

The Green Mountain State recently introduced a bill, the Legacy Insurance Management Act (LIMA), that could drive millions of dollars into its economy.

The bill proposes allowing specialised Vermont-based insurance companies to acquire or unload closed blocks of non-admitted commercial insurance policies and reinsurance agreements—subject to fees and transfer taxes.

The purchaser, or legacy insurance company, does so if it is able to manage the legacy liabilities more efficiently than the original insurance company.

In buying the block of policies, along with a proportion of the financial reserves the insurance company had set aside to cover risks, the legacy firm manages any claims that might come through, and invests the reserves in order to turn a profit.

As LIMA covers only commercial insurance, no life, health, auto, homeowners' or workers' compensation, is included.

The legacy companies must be based in Vermont and hold at least one meeting there every year.

"This law is good for Vermont," commented Len Crouse, partner at JLT Towner and a former Vermont captive regulator.

"[The state] has demonstrated it has the ability, insurance talent and infrastructure to do this. LIMA is another way Vermont leads the way in providing sound, alternative risk financing mechanisms."

"This landmark legislation allows Vermont to respond to a unique insurance market objective," added Susan Donegan, Vermont's commissioner of the Department of Financial Regulation. "And is a golden opportunity for the state to expand its innovative financial services regulatory niche."

In contrast, the State of California opted late last year to potentially make life difficult for alternative risk financing structures with a new registration renewal form that asks whether the applicants serve as reinsurers in other jurisdictions.

The development was discussed at a meeting of the National Risk Retention Association's Government Affairs Committee (GAC).

Litigation subcommittee chair Jon Harkavy indicated the GAC would monitor developments.

"California doesn't believe in RRGs reinsuring risk," commented Crouse, who is also a member of the GAC.

"This can affect risk retention groups and domiciles across the country. I expect both to challenge any attempt made to limit their federal rights."

CICA: regulators at a loss

Medical stop-loss is becoming more common among healthcare employers, according to a presentation at the Captive Insurance Companies Association (CICA) International Conference in Scottsdale, Arizona.

Mid-sized medical employers, or those that have 100 to 1000 employees on their books, have already saved approximately 2.5 percent by shifting from buying insurance to self-insuring.

This form of insurance costs more to set up but, ultimately, gives greater flexibility to employers—primarily by being able to put money into protected cell companies (PCCs) or group captives, instead of an insurer's pocket, according the presentation.

These captives pre-fund the risk, allowing it to be shared across employers, business units and lines of coverage—while also achieving insurance company status for tax and accounting purposes.

With US hospitals needing more and more protection from state regulations, this move towards medical stop-loss looks to establish more regional or industry based insurers—such as the Maine Wellness Association, or Montana's Employee Benefit Management Services.

Despite this trend towards medical stop-loss coverage, there is still uncertainty among regulators such as the National Association of Insurance Commissioners, which are unsure about how these relatively new formations should be regulated.

The Next Stop for Captives

AIG's new Bermuda-based segregated accounts company is the latest in a line of inventive captive offerings from managers

STEPHEN DURHAM REPORTS

The pace of innovation among captive managers is hotting up, as they each attempt to create new ways of the serving prospective and existing clients.

AIG is one such captive manager. It has created Grand Isle SAC to give clients flexibility and ease of entry into the captive market, according to Bob Gagliardi.

Grand Isle claims to offer many of the benefits of a captive, including features that allow the insured to retain a certain proportion of the risks and better manage the associated costs—without incurring the full operating costs of a standalone captive. The segregated accounts company (SAC) is to be domiciled in Bermuda.

Although the SAC is something that has been a part of Bermudian law for a while, this is the first time the option has been readily available to clients. AIG has operated through a Vermont-sponsored captive for a number of years.

Gagliardi, who is worldwide director and senior vice president of AIG Insurance Management Services, comments: "The main thought was that the SAC would be attractive for some of our own clients, particularly those located outside of the US. We wanted to provide them with flexibility and ease of entry into the captive market."

"While the SAC is open to any prospective US clients as well, our first client has turned out to be a Japanese-based parent company."

"This is the only client we have at this time but there are several other prospects at the moment. The hope is that we can establish a few more cells before the end of the year."

Gagliardi further elaborated that AIG feels an SAC is ideal for a small to medium-sized company seeking an alternative risk management solution, without the commitment associated with a standalone captive.

Any large company that already owns a captive, but would like to segregate a portion of risk from the existing captive programme, could also benefit from using an SAC.

AIG has claimed that it anticipates the majority of SAC activity to be fronted programmes that are written by the company.

Its decision to establish this SAC in Bermuda is largely due to the attractive regulatory environment, as well as the big presence that AIG already has in the country.

Gagliardi says: "We plan to utilise AIG's global risk solutions and captive management teams which are already in place in Bermuda. We have had a captive management operation on the islands for years, while global risk solutions is a large fronting operation headed by Brian McNamara. Around 40 people work for AIG across the two divisions who are focused primarily on the captive industry."

In the long-term, while AIG is hoping to put as much business into the SAC as is possible, the situation is largely dependent on the state of the market and what can be done in other locations such as Latin America, according to Gagliardi.

Gagliardi adds that duplicating the SAC in another domicile is a possibility, but it is also reliant on client demand. CIT

Grand Isle SAC: an overview

Key features and benefits include:

- Quick formation of a segregated account (protected cell) with minimal start-up costs;
- Access to AIG companies for fronting or reinsurance;
- Less time and fewer meetings required from clients;
- Enhanced management and control over losses;
- Potential for sharing in underwriting and investment profits;
- Assets and liabilities of each cell are legally segregated;
- A cell can easily be converted to a standalone captive; and
- Available for virtually any line of business, including general liability, professional liability, workers' compensation, property, warranty, and accident and health.

Potential clients of Grand Isle SAC include:

- Small to medium-sized companies seeking an alternative risk management solution without the costs or commitment associated with a standalone captive;
- Large companies that already own captives, but would like to segregate a portion of risk from existing captive programmes;
- Companies seeking a short-term risk management solution (eg, a transition for captives in run-off or a loss portfolio transfer); or
- Clients that have difficult-to-address risks and the appetite to share in the risk in order to achieve additional capacity and programme flexibility.

State of redress

Close tabs need to be kept on the NAIC to make sure that it is not overreaching and doing something that is adverse to the interests of the alternative market, says Skip Myers of Morris, Manning & Martin LLP

STEPHEN DURHAM REPORTS

You have said previously that regulatory 'mission creep' has the potential to become a problem for US captive owners. Could you explain?

The US regulatory system is vastly different from the in European equivalent—we have 55 jurisdictions, 50 of which are states, and each of their commissioners belongs to the National Association of Insurance Commissioners (NAIC), which acts as the national standard-setting organisation. This brings states together but also creates conflict between them, which is a matter of some confusion to Europeans when they have to deal with the US. The International Association of Insurance Supervisors (IAIS) would much prefer to deal with one federal insurance regulator, but it has 50 to deal with, so it goes through the NAIC, which really has no power—except that it has the power to influence.

What happens is that the NAIC takes on an authority that it doesn't have, and by mission creep I mean that, instead of dealing with straight-up regulatory issues, it tends to push the issues right to the edge. For example, since captives are regulated by each individual state, the NAIC takes on the role of trying to develop common standards. Sometimes that can be beneficial but, for the most part, it ends up invading upon the turf of states that have their own captive programmes—even in some non-US domiciles.

There is always mission creep in bureaucracies because they need to justify their existence—that is what happens and that is what makes it difficult. You need to keep close tabs on the NAIC and make sure it is not overreaching and doing something that's adverse to the interests of the alternative market.

Is the mentality of the NAIC showing any signs of improvement?

In some respects, it has improved. There is more knowledge about captives now than there was five years ago. I do a lot of work with risk retention groups (RRGs), which are a form of captive that are the result of a federal statute that pre-empts state laws. Some of the states do not like them. The NAIC went through a five-year process that ended a year ago where it adopted accreditation standards relating to the regulation of RRGs and imposed them on the state of domicile itself.

That was a struggle, but through that process many states became more informed about what captives actually do and so on. Having said that, there are a number of states that still don't understand. There are a number of regulators or state insurance departments that just want to do it their way and not take into consideration that these are captives and not regular commercial insurance. This is mainly due to a lack of experience, a lack of training and regular staff turnover.

Commissioners turn over every two years or even less and are appointed (instead of elected) in 80 percent of the states. It creates a dynamic where there might not be any institutional knowledge that endures. The NAIC is the place where there is institutional knowledge but it has a bureaucracy that is not accountable to any particular state, just its own leadership.

This issue has come up recently because there was a challenge to the leadership of the NAIC by one of the commissioners, Thomas Leonardi, who came out and said what others have thought— that there is too much cronyism.

Is this dynamic something that is likely to change?

I have been working in this industry for a long time and this is always the problem. It comes and goes in cycles and depends on who is in the position of power. The bigger states have more of a voice in the NAIC because they have more people to staff the committees and, as a result, they are more involved. They also generally have more technical expertise because they have bigger staffs and can afford it. States such as New York, California and Florida have a large input in how things go and also tend to not be very captive-friendly.

They accept captives unless it comes to their attention that a captive from, say, Vermont or Hawaii is doing business in their state as they define it. However, 'doing business' in the legal sense is not just having a risk in that state that gets insured by a single parent captive. However, owning property may be enough to raise attention. There are always going to be feathers that get ruffled, and you have to deal with it.

Now there is an idea that captives don't pay enough tax. The truth is that they do pay a lot of taxes and even tend to pay proportionally more than traditional insurers. There is a study by A.M. Best on this that shows the extent to which captives pay taxes. The misconception comes from the fact that captives can afford the taxes because they don't have the overheads that traditional insurance companies do. They don't pay agents 17 percent, they don't have the marketing expenses and they don't pay the staff.

Marketing for a big company is generally 25 percent, but captives don't have that expense—or certainly single parent and group captives. Some RRGs have marketing expenses, but, all told, these entities are designed to serve the company and the parents or their affiliates, not general parties.

Do tax reforms, such as those currently in the works in New York, have an impact on the industry as a whole?

As your readers may know, New York has this bill that's in the legislature that would presume to give the state the authority to require an income tax return for any out-of-state captive.

> "The NAIC is the place where there is institutional knowledge but it has a bureaucracy that is not accountable to any particular state, just its own leadership"

There could be a legal challenge to that because, under federal law, they may not have the nexus of doing business there.

You could challenge it, but it probably isn't worth doing so because the cost of doing so might be too great—so it will probably be just more efficient to pay the income tax as there may not be much business there anyway.

The salient concept is that they are reaching out to get the extra tax dollars and, if other states did the same, then it could defeat a lot of the benefit of captives.

Where does CICA stand on these kinds of issues?

I cannot speak for the Captive Insurance Companies Association (CICA), but it has been quite proactive on these issues, and it has a broad portfolio of interests due to being domicile-neutral. The captives that are members of CICA are risk management tools (ie, ways to reduce your insurance costs), so the tax issues are really not so important.

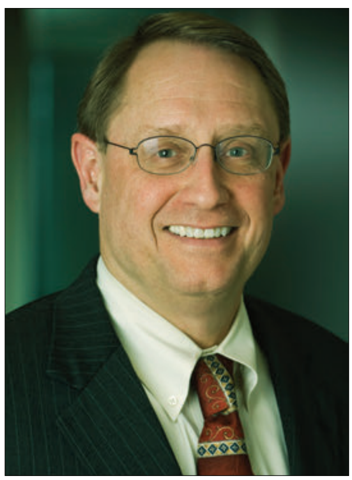
There are companies that have captives that are in a domicile that has no income tax. In some cases, the allegation is made that this is a form of 'transfer pricing'. It is a complicated question, but if all activity occurs on an arm's length basis, then it is perfectly legitimate. It is generally the people who decide to try to push the envelope who cause the problems. The NAIC meeting is coming up soon, so we are waiting to see what might occur there.

The 831(b) micro captives are another important issue, as they are so easy to put together, and they can be flawed if not done correctly. If this is the case, then they are subject to challenge and that's not good for the industry as a whole.

While some states don't do them at all, some are big fans. The question is: do states have the staff to manage and understand them, and can they give them the risk management and actuarial analysis that is necessary to determine it's a fair market, arm's length deal?

The more there are, the harder they are to regulate. In the future, there may be tax issues for these guys and that's not good for the industry.

We want the industry to roll along without regulatory problems, but that is unfortunately not likely to occur in a regulated environment. The pendulum never stops swinging in the middle, and there will always be over-reaction and under-reaction to these types of issues. CIT



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Industry appointments

Chubb Insurance Company has appointed **Dave Draper** to the role of UK and Ireland casualty manager.

Andy Francis, Chubb UK and Ireland commercial manager, commented: “We are delighted to have found someone with [Draper’s] experience and knowledge to aid the development of our casualty business and engage with our key client and broker stakeholders.”

“In his new role, Dave will provide leadership, long-term vision, underwriting strategy and technical support for the UK and Ireland casualty business.”

“We believe there is significant opportunity to expand our Casualty book in the UK and Ireland and are very confident that [Draper] will drive our future profitable growth in this key business line.”

Draper has over 27 years experience in the insurance market, most recently at QBE Insurance (Europe) where he has spent the last 10 years in a number of senior management positions, most recently director of client management for property, casualty and motor.

Draper previously worked at Chubb from 2002-2004 as senior casualty underwriter in London. Prior to his first stint at Chubb, he spent a number of years as a casualty underwriter with Lloyd’s syndicates.

JLT Towers Re has appointed **Bart Zanelli** as head of advisory for North America.

Prior to joining JLT Towers Re, Zanelli spent several years with Guy Carpenter’s GC Securities, where he was managing director of corporate finance and advisory. He has twice been recognised by Risk and Insurance Magazine, in 2009 and 2010, as the capital markets/analytics broker of the year for his work in insurance mergers and acquisitions and capital raising.

His role included executing and closing numerous transactions relating to financing, mergers and acquisitions, and securitisations of insurance funding assets.

Ed Hochberg, global head of analytics, banking, and advisory, commented: “We are very excited to welcome [Zanelli] to the JLT Towers Re team. His experience in [mergers and acquisitions] and capital raising will, no doubt, be well-received by our clients and prospects. With [Zanelli] joining us, it provides us with this important advisory capability in North America, working in conjunction with our successful established team in London.”

Alastair Rodger, global head of advisory, said: “[Zanelli] brings with him a wealth of experience and an impressive track record of successful transactions. These range from start-ups to large deals for very established insurance companies. He adds an important element to our capabilities and significantly broadening of our reach.”

Zanelli will help develop North American business by assisting clients and prospects with investment banking services, such as raising capital, mergers and acquisitions, and the evaluation of strategic alternatives. Additionally, Zanelli will work closely with managing director Craig Darling and Aaron Cubbison, director of strategic capital on this type of activity.

Zanelli will be joined by **Tom Deane** as an additional investment advisor executive. Deane has over eight years of experience in insurance advisory having worked for Benfield Advisory and Aon Benfield Securities. Deane is currently working in the advisory practice in London and will relocate to New York this summer.

Milliman has taken the next step in building its offering in the Nordic markets with the recruitment of two new hires in Stockholm. **Anni Pilbacka** and **Johan Dellner** have joined Milliman bringing with them local and international experience in the management of life insurance business and financial modelling.

Tigran Kalberer, managing principal for the Nordics, Germany, Switzerland and Austria, said: “This is another step in Milliman’s commitment to consulting in the Nordic markets and to helping our clients with their real-world problems. [Pilbacka] and [Dellner] have great experience and are also skilled with certain modelling systems in the Nordics. “

“We are now able to support them directly with this software as well as helping clients to transition to more industrialised solutions. Already, we see substantial interest for this service. We are delighted to have them on board.”

Milliman’s head of consulting for the Nordics, Steve Hardwick, commented: “We are very pleased to welcome [Pilbacka] and [Dellner] to Milliman where their local consulting experience, technical knowledge in Solvency II, and specialist skills, particularly in financial modelling, will allow us to serve our clients more fully.”

Pilbacka and Dellner are both members of the Swedish Society of Actuaries (Svenska Aktuarieföreningen), close to becoming Diplomerad. They have similar experience in the application and development of financial projection models for life and pensions business although specific experience differs and includes liability and ALM modelling for life and disability products, ESGs, capital planning, Solvency II, MCEV, valuation of options and guarantees, and model documentation.CIT

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