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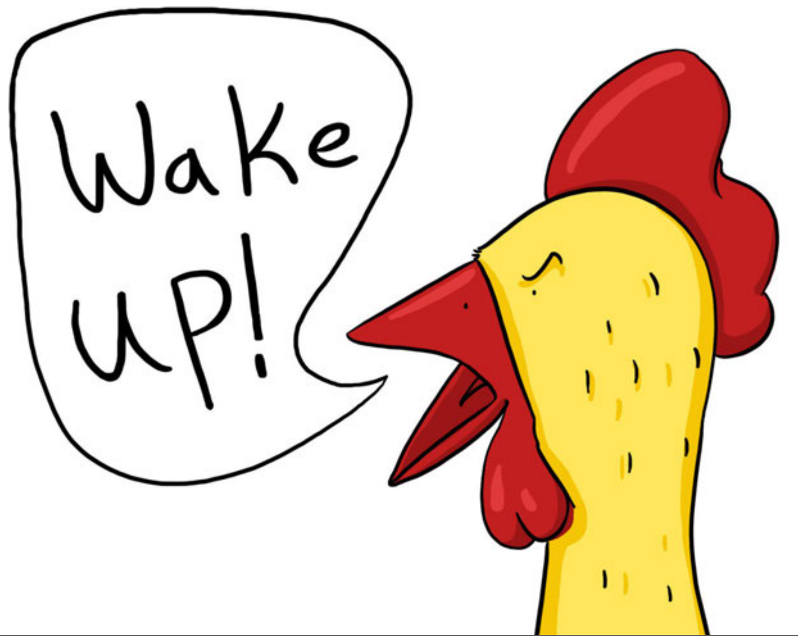

Vermont awakens dormant captives

The State of Vermont has passed a new bill for its captive insurance framework, giving qualifying inactive captives the ability to retain their structures in the state in the event they restart to finance risk again.

Governor Peter Shumlin signed the bill into law on 17 April. It took effect immediately.

"I'm proud to sign this bill in response to the industry's desire to have more options for their captives," said Shumlin. "I commend the legislature in continuing our long tradition of making sure our captive regulations are the industry gold standard."

Previously, inactive captives could only cease operations and surrender their licences if they wanted to avoid maintaining significant surplus, paying the minimum premium tax and complying with several annual filing requirements.

"This is another example of how Vermont legislators and the industry work together to be proactive in this domicile," commented Guy Ragosta, CEO and partner with JLT Towner Insurance Management.

"The establishment of a dormant captive status is a cost-saver for these entities. If they decide to reactivate their captives, they won't have to start the licensing process from scratch."

Dormant captives will be required to have $25,000 in capital and surplus, while continuing to file an annual report and annual licence renewal fee. The other change concerns reciprocal captive insurance companies.

The deputy commissioner of Vermont's captive division at the insurance department, David Provost, said: "This legislation updates several components in our law to keep Vermont at the forefront of domiciles."

"The updates to our reciprocal law will make it more attractive than ever for educational institutions, healthcare providers and other not-for-profit organisations to domicile in Vermont."

readmore p2

Intel uses captive to fund employee benefits

Intel Corp has received approval from the US Department of Labor (DOL) to fund employee benefits in its captive.

Spring Consulting Group submitted the application to the DOL on behalf of Intel.

Intel wants to reinsure its life and accidental death and dismemberment coverage through its existing, Hawaii-based captive. The technology company received preliminary approval on 6 November 2013.

"We are delighted that Intel's request was approved and to see that all of the hard work that our combined teams put into the project pay off," said Karin Landry, head of Spring's Intel team.

"This case is a landmark ruling that is sure to be cited in the future as other employers look to create new, fast-track processes and to have Spring play a role in it is very exciting."

Turkish delight at Fitch assessment

Fitch Ratings has said that the Turkish insurance market is growing strongly, driven by economic development, favourable demographics, urbanisation and an expanding middle class.

The Turkish non-life market made a profit of €260 million in 2013 after four years of poor results.

The life market in Turkey has reported steadily increasing profits with an average annual profit growth of 13 percent from 2008 to 2013 and profit of €155.4 million in 2013.

readmore p2

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Vermont awakens dormant captives

Continued from page 1

Captive insurance has been a part of the Vermont insurance industry since 1981, when the state passed the Special Insurer Act.

Vermont licensed its 1000th captive, Cassatt Insurance Group, in October 2013. The group of nine independent non-profit hospitals in southeast Pennsylvania share risk in providing medical liability coverage for 1200 physicians.

Turkish delight at Fitch assessment

Continued from page 1

Strong premium growth has been buoyed by strong growth in credit in Turkey but Fitch believes that this will be tempered in 2014 as some adverse effects from economic readjustment could feed into insurers' results.

But regulatory solvency is strong in Turkey and Fitch considers the life market to have sufficient capital to withstand shocks in the near term.

Turkish insurers have benefited from a period of political stability and policy decisions and incentives that have encouraged savings and the use of insurance.

Any political instability, breakdown of order, corruption, widespread fraud or significant policy change, especially after the presidential election in August 2014 and general election in June 2015, could have a detrimental effect on the insurance sector and threaten solvency if asset prices fall.

NAIC meets with US president

Members of the National Association of Insurance Commissioners (NAIC) have met with US President Barack Obama, Vice President Joe Biden and senior members of the administration to discuss 2015 enrolment issues under the Affordable Care Act (ACA).

The meeting was called by the White House to focus on the end of open enrolment in 2014 and preparing for the 2015 open enrolment period.

"[The] meeting was an important opportunity to reiterate that states are best equipped to balance the access, cost, and geographic variables that exist in their distinct markets," said Adam Hamm, NAIC president and North Dakota's insurance commissioner.

The meeting, which took place in the East Room, was an opportunity for regulators to discuss ongoing challenges they see in their markets and coordinate with the department of Health and Human Services (HHS) and the administration to find solutions.

State regulators expressed concern about the lack of insurance regulatory expertise with HHS secretary Kathleen Sebelius's departure and recommended that the appointment of a permanent director of the Center for Consumer Information and Insurance Oversight (CCIIO) be done quickly, and that the new director should rely on the expertise of state insurance regulators as decisions are made.

NAIC CEO Senator Ben Nelson attended the White House meeting along with 44 chief insurance regulators from across the country.

Mutuals face pricing pressure head on

Mutual insurers must differentiate themselves to remain competitive in the face of increasing pricing pressure, according to David Thomas, CEO of market services and solutions at Willis.

As mutuals work with a long-term view of their customers, the stability of the product is key. As a result there are periods when mutuals' pricing is considerably cheaper than the commercial market, and other periods when they are more expensive.

Thomas commented: "At a time like this mutuals are faced with enormous pricing pressure."

"In this environment they must emphasise how they differ from the competition in terms of understanding the dynamics of a homogeneous book of business, and how their risk management and claims services are bespoke to the needs of their clients. If they do these things well, I think that they can weather the current environment."

John Haydon, executive vice president at Willis Re, said: "Mutuals usually have a particular geographic territory or membership base that means that they are narrow in focus when compared with a typical commercial lines carrier."

"As a result, they tend to suffer when being considered from a Solvency II or rating agency standpoint. This means they must use all of the tools at their disposal, such as analytics, to minimise that disadvantage."

Last year big for global reinsurer capital, says Aon

Aon Benfield has estimated that global reinsurer capital totalled $540 billion as of 31 December 2013.

This calculation is a broad measure of capital available for insurers to trade risk with and includes both traditional and alternative forms of reinsurance capital.

The firm's latest study found that capital reported by the Aon Benfield Aggregate (ABA)

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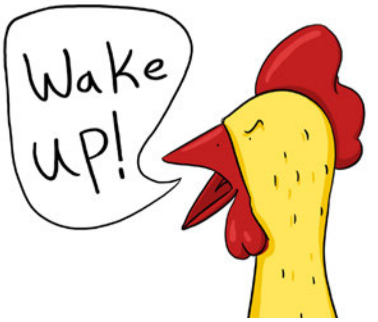

group of 31 leading reinsurers increased by 6 percent ($20 billion) to $337 billion, driven primarily by $34 billion of net income.

Repatriation of equity capital in the form of dividends and share buybacks rose by 15 percent to $20 billion, partly reflecting the increasing engagement of third party capital.

Gross property and casualty insurance and reinsurance premiums written by the ABA rose by 5 percent to $199 billion, driven by acquisition effects and exposure growth in emerging markets.

Disclosed catastrophe losses fell by 38 percent in 2013 to $7.9 billion, contributing 4.7 percentage points to the combined ratio.

Mike Van Slooten, head of Aon Benfield's international market analysis team, said: "Reinsurers have reported resilient results in an increasingly competitive marketplace."

"Most are now adapting their business models to accommodate the increasing availability of lower cost capital, thereby enhancing both their risk transfer capabilities and their offering to clients. We expect capital management activity to accelerate, as the advantages become more apparent."

Fitch confirms strong underwriting in 2013

Global reinsurers posted solid underwriting gains in 2013, as catastrophe-related losses were manageable and loss reserve development remained favourable, according to Fitch Ratings.

Global reinsurers Fitch tracked improved their underwriting combined ratio to 85.5 percent in 2013, from 89.3 percent in 2012.

The insurance and reinsurance industry experienced below-average natural catastrophe insured losses of $31 billion in 2013, compared with the 10-year average (2004 to 2013) of $56 billion and down from $65 billion in 2012.

The majority of losses were from flooding in Germany, central Europe and Canada as well as from severe thunderstorms in the US.

This strong underwriting profitability was offset by an adverse change in unrealised investment gain/loss position on fixed maturities and capital market activity, resulting in shareholders' equity growth of only 0.6 percent for non-life reinsurers in 2013.

In addition, this group experienced only marginal growth in reinsurance premiums written as underwriting opportunities were limited.

Several individual reinsurance product lines, primarily longer-tail casualty and liability lines, continued to experience unfavourable reserve development during 2013.

Earnings continue to be supported by surpluses from prior-year reserves. Reserve releases were equivalent to 6.1 percent of earned premiums in 2013, against 6.5 percent at the end of 2012.

Etiqa gets the thumbs up from RAM

RAM Ratings has reaffirmed the AAA/stable/P1 claims-paying ability ratings of Etiqa Insurance Berhad (EIB).

At the same time, RAM has reaffirmed the AA1/stable rating of EIB's $154.2 million subordinated bonds, valid until 2023.

EIB ranks among the top-five life and general insurance companies in Malaysia, and is able to leverage on the network of its ultimate parent, Malayan Banking Berhad, for a steady flow of captive business and bancasurance.

The low-cost distribution structure, coupled with prudent underwriting standards, afforded EIB healthy profitability, while its consolidated three-year pre-tax profit margin and ROA stood at 25.3 percent and 3.0 percent, respectively.

EIB's capital-adequacy ratio (CAR) stood at 282 percent as at December 2013.

The ratings also considered EIB's sturdy reserves and fund surplus to buffer insurance liabilities as well as the company's strong liquidity and conservative investment mix.

Moderating these strengths are EIB's higher-than-industry motor claims and the predominance of single premium investment-linked (IL) policies.

Income from IL products is viewed to be less sustainable as their demand is linked to the stock market's performance. EIB's IL business slowed in December 2013 amid moderating demand.

According to RAM, potential pressure on EIB's ratings could arise from persistent deterioration in its overall financial metrics, including weak new business growth, combined ratio above 105 percent, CAR falling below 200 percent and weakening reserves.

Texas licenses Gateway Rivers captive

The Texas Department of Insurance (TDI) has licensed Gateway Rivers Insurance Company as a captive insurer under rules recently adopted to implement Senate Bill (SB) 734.

Gateway Rivers is the wholly-owned captive insurance subsidiary of AT&T, based in Dallas.

Commissioner of insurance Julia Rathgeber said: "We're very pleased to have this business in Texas."

"Our state has a thriving insurance market and these new rules will help make it even more robust."

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Leslie Ward, vice president of legislative and external affairs at AT&T in Texas, commented: "The licensing of AT&T's captive insurance operations in Texas allows us to conduct business more efficiently and keep our risk management operations closer to home."

"Any day that lawmakers and regulators can eliminate obstacles to business operations is a day when Texas becomes even more attractive as a corporate home."

The TDI rules and statute require that affiliated companies have significant operations in Texas in order to form or move a captive there.

Captive insurers licensed in Texas can only insure operational risks of affiliated companies and controlled unaffiliated business.

The statute also prohibits captives from accepting insurance policy risks of an insurance affiliate.

Wealth planners would do well to consider captives

Where family wealth is derived from an active business, captive insurance can provide significant opportunities to retain and transfer that wealth to other members of the business owner's family, according to a recent article.

Katharina Byrne of law firm Burges Salmon LLP has published commentary on wealth planning using captive insurance, which stated that the structures could provide opportunity for funds that would otherwise have been paid to a third party to purchase insurance cover, to be retained within the family—either by the business owner, an associated company, or a trust set up for the benefit of the owner's family.

The positives of using captive insurance as part of an estate plan, wrote Byrne, are lower insurance costs, access to the reinsurance market, better cash flow, tax advantages, and good coverage.

"The use of a captive insurance company can result in a potential reduction in insurance costs," wrote Byrne.

"The costs of commercial market insurance takes into account the claims, overheads, and profit retained by the insurance company."

"In the case of a captive, the profit will remain with the business of the owner, in effect allowing the owner to share in the underwriting profit on its own insurance."

"A captive may also reduce insurance premiums by charging a premium that more accurately reflects the claims history of the parent/owner."

Byrne added that reinsurers are the international wholesalers of the insurance world, and that the captive's ability to deal directly with reinsurers can produce additional cost savings.

"The reinsurance market can also have additional capacity and a willingness to insure more difficult risks."

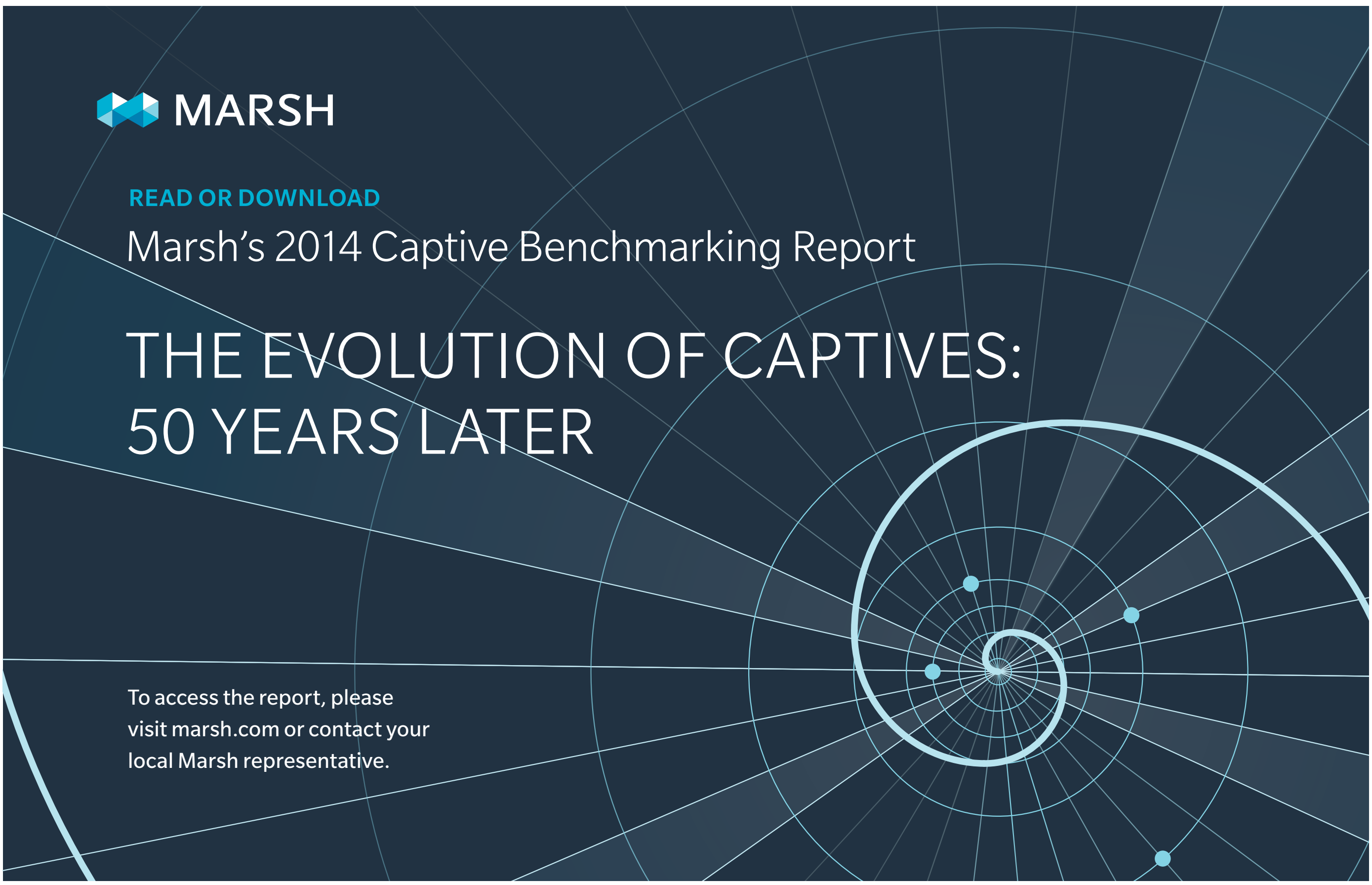
She also commented that a captive may be able to provide insurance coverage where none is available in the commercial market, or only at a prohibitive cost.

"Captive insurance can also be used to fill gaps where commercial insurance providers will not provide cover, or where the cost is uneconomic: it rarely replaces commercial insurance. Common areas of risk that can be included in a captive are the deductibles and exclusions of the business' commercial insurance cover."

"Other risks that are often uninsured by commercial policies but could be covered by captive insurance include business interruption, loss of key customers, credit default, extended warranty claims, directors and officers, errors and omissions, litigation defence, construction defects, pollution and natural disasters."

A captive may also be worth considering for more specialist coverage that is not necessarily connected to a business, for example, to insure an art collection, she said.

As well as cash flow advantages, a captive may prove to be a more tax-effective approach



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than simply self-insuring on a formalised basis, wrote Byrnes.

"The extent of this advantage will depend partly on the tax residence of both the captive and its owners. Generally speaking, arm's length insurance premiums of captives, as with any other insurance company, are an allowable expense for tax in the country from which they are paid."

North American P&C subsidiaries ace A.M. Best test

A.M. Best has upgraded the financial strength rating (FSR) to "A++ (Superior)" from "A+ (Superior)" and the issuer credit ratings (ICR) to "aa+" from "aa" of the North American property/casualty subsidiaries of multiple ACE businesses.

ACE Limited, Bermuda Insurance, Tempest Reinsurance, the members of the ACE American Pool, INA Insurance, and Tempest Re's parent, ACE Tempest Life Reinsurance.

Additionally, A.M. Best has upgraded the ICR and senior debt ratings to "a+" from "a" of ACE and its wholly owned downstream holding company, ACE INA Holdings, whose debt is fully guaranteed by ACE.

The outlook for all of the ratings has been revised to stable from positive.

A.M. Best has also affirmed the FSR of "A+ (Superior)" and the ICRs of "aa-" of Combined Insurance Company of America and Combined Life Insurance Company of New York.

A.M. Best has also affirmed the FSR of "A- (Excellent)" and ICR of "a-" of ACE Life Insurance Company and the FSR of "A (Excellent)" and ICR of "a" of ACE Seguros SA.

The ratings for the core property/casualty subsidiaries of ACE reflect their strong risk-adjusted capitalisation, diversified global operation enhanced by prudent acquisitions over the past few years and the historically favourable record of generating strong earnings and cash flows.

The balance sheet for these core subsidiaries is strengthened by controlled financial leverage and a relatively conservative investment portfolio that generates stable earnings.

There have also been favourable loss reserve development in recent years.

The positive rating factors are derived from management's experience and consistent focus on underwriting profitability generated by effective risk selection and pricing standards, and maintenance of appropriate policy limits and exposure to catastrophes, including the use of reinsurance to manage net retentions.

ACE's strong enterprise risk management (ERM) programme relies on close collaboration of executives and operating departments to identify, assess and control enterprise risk and accumulations.

The effectiveness of the ERM programme is demonstrated by risk-adjusted capital levels and overall earnings that have remained consistent through soft market conditions, the global financial crisis, and the increase in global catastrophe and weather-related events.

At 31 December 2013, ACE's adjusted debt-to-total-capital level was 17.5 percent (excluding accumulated other comprehensive income).

This is within A.M. Best's expectations at current rating levels.

While A.M. Best has claimed that the core group members are well positioned at their current rating levels, given the rating upgrades, positive rating movement is unlikely in the near term.

Factors that could lead to negative rating actions include operating performance falling short of A.M. Best's expectations and/or an erosion of surplus that causes a decline in risk-adjusted capital to a level no longer supporting the current ratings.

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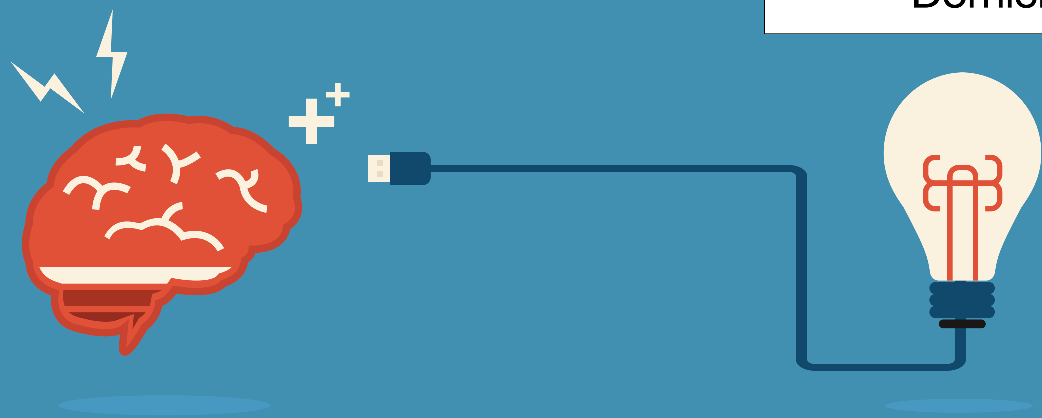


Knowledge is power

Although Oklahoma has had captive insurance legislation for a number of years, the state's managers and regulators believe that the industry is just getting started

STEPHEN DURHAM REPORTS

There are 11 captive entities in the State of Oklahoma. While this may not have the likes of Vermont and Bermuda shaking in their boots, many believe that the state's focus on captive education will attract a good standard of captive manager—and potentially even convert a few local business owners to the cause along the way.

Oklahoma has been a captive domicile for the last decade, but when current insurance commissioner John Doak was elected in 2011, he tasked the Oklahoma Insurance Department (OID) with addressing the changes that had been taking place in the captive industry and regulation at national and global levels.

By 2013, Oklahoma was able to put into place comprehensive captive legislation that significantly increased the state's ability to be a prominent domicile.

In the months since the effective date of this legislation, Oklahoma has approved eight new captives, spread over a variety of industries, including the medical profession, staffing, oil, gas, and agriculture.

Managing director at Elevate Captives, Jerry Messick, says: "There is a lot of education going on in the state and many local businesses have not even heard of a captive. Education is the first challenge, in order to get them comfortable with the idea of retaining risk themselves."

"I am working with six companies in Oklahoma right now, one with international exposure, and the main structures we are looking at are the series or protected cell company (PCC) platforms."

"These are by no means small companies either—the majority of Oklahoma captives are those with $250 million in sales and around 600 employees."

Although big players in the US captive industry such as Willis, Marsh and Strategic Risk Solutions have expressed their interest in Oklahoma, according to Messick, the core of the state's prospective business is likely to come from local businesses.

A large benefit for the state is the cap that it has set on premium tax, which was signed into the legislation in 2012.

The cap is set at $100,000 for pure captives, and at $150,000 for statutory capital.

While the higher cap for statutory capital initially appears disproportionate, Messick claims that this cap actually lowers the bar for a number of the mid-market companies and manufactures that Oklahoma is targeting.

According to James Mills of the OID: "Our department and the new law allow for freedom and flexibility in the captive process."

"The benefits include the ability to obtain a 60-day provisional license, the removal of investment restrictions, no in-state board meeting requirement, a one-year pay-in period for pure captives, and the ability to cover workers' compensation risks."

While there is clearly a proliferation of captive domiciles in the US, Oklahoma's administration claims to be more pro-business than most. This can mean a great deal when locals are considering setting up a captive for the benefit of them and their clients.

Messick continues: "Setting up a captive domicile can often be a money-grab for some states, but I do not think this is the case in Oklahoma, as the fee structure here is very low."

"The benefit of a home-grown captive weighs a lot in the conversation I have with local business owners."

Although Oklahoma's eyes, much like their compatriots' across the US, are fixed on the Dodd-Frank Act reforms, there are other issues closer to home that also require their attention, such as some of the more unscrupulous captive owners.

Messick elaborates: "There is a lot of talk about promoters who are not using captives in the right way and I think that a review of this is needed, as every industry has the promoters that push things for the wrong reasons. I think the day will come where we will get clarity on what they are putting together out there in the market, and hopefully this will cut down on the problem."

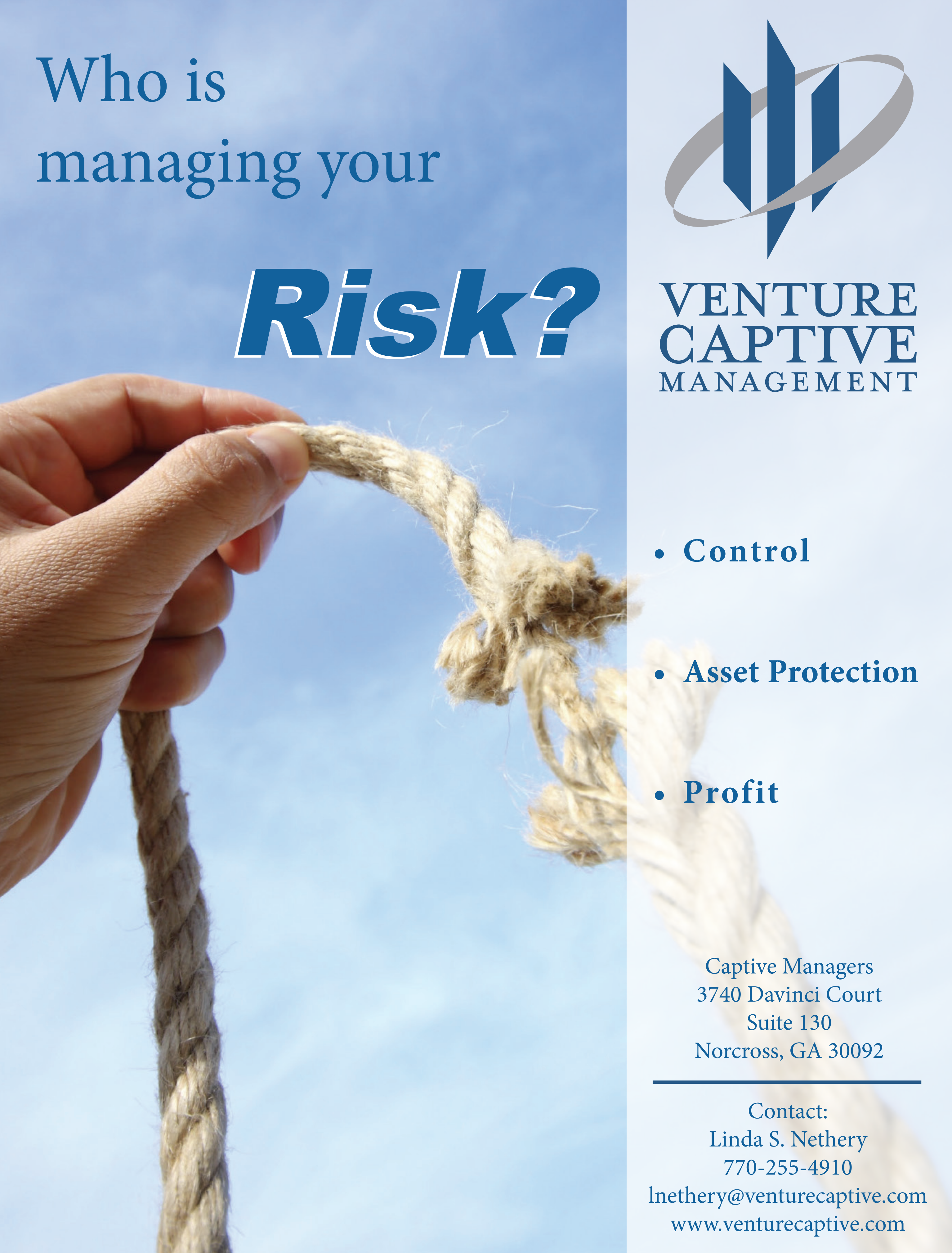
Although it is possible that new regulations could phase out this problem, as managers default upon close examination, Messick believes that education remains important.

In April, the OID began a new phase of educating the business owners of Oklahoma—telling them what the benefits of legislation are, how they can take advantage, and what is the correct way to do it. The Oklahoma Captive Insurance Association (OCIA) conducts the majority of this education through conferences and forums, while the OID plays a role in backing the decisions of the state's captive experts.

Education also needs to, and does, come from captive managers and other service providers, according to Messick.

The OCIA receives a number of referrals from attorneys and certified public accountants (CPAs) that deal with some of the larger accounts and defer to the superior knowledge of the OCIA.

Through this philosophy of slow and measured growth, Oklahoma models itself on becoming one of the go-to domiciles for the diligent captive insurer. The commissioner of insurance for Oklahoma has specified that the state is open for business and the commission will strive to be as helpful as possible to captive managers, despite its size. CIT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TRI-A: with amendments

With the Terrorism Risk Insurance Act about to be reauthorised for a third time, one of the most protracted sagas in recent memory for insurers could soon be coming to an end

STEPHEN DURHAM REPORTS

In April 2014, US Senator Charles Schumer reached a crucial bipartisan agreement on the extension of Terrorism Risk Insurance Act (TRIA), which is currently set to expire at the end of 2014.

Created in 2002, the TRIA programme is a critical priority for post-9/11 New York, as well as other high-risk cities. The programme provides a federal backstop for insurance coverage against losses from devastating terrorist attacks. TRIA was previously reauthorised in 2005 and 2007.

After months of negotiating, Schumer introduced this reauthorisation legislation, which is co-sponsored by Senators Heller, Reed, Kirk, Murphy and Johanns.

"In a post-9-11 New York, terrorism risk Insurance has proven to be an absolutely essential partnership between the government and the private sector that has turned rebuilding downtown Manhattan from a question to a certainty," said Schumer.

"There is still more to be done and this crucial bipartisan plan will reauthorise and extend [TRIA] before it expires at year's end. Redevelopment and economic growth should be encouraged in New York and other high-risk areas across the country, even in the face of unfathomable terrorist events, and I will work with my colleagues to get TRIA passed this year to preserve this essential tool."

Should this reauthorisation go to plan, the programme will be extended for an additional seven years and will include two changes, which were necessary in order to gain Republican support for the seven-year plan. It will be phased in over five years.

The first change is that, in the event of a terrorist attack, insurance companies would first be obligated to pay a portion of their premiums (20 percent of the prior year's direct earned premium for covered commercial lines) as a deductible.

Following that deductible payment, however, the programme currently requires that the federal government cover 85 percent of each company's losses until the amount of losses totals $100 billion.

Each company is obligated to pay the other 15 percent of losses.

In other words, after an insurer's losses exceed its deductible, it faces 15 percent co-pay on all additional terrorism losses in conjunction with the federal government's 85 percent recoupable co-pay.

The proposed legislation would increase an insurers' co-pay from 15 to 20 percent, with the government still covering 80 percent of each company's additional losses.

Secondly, when aggregate insured losses are less than $27.5 billion, the TRIA programme currently imposes mandatory policy surcharges that require recoupment of federal payments made under the programme.

As a result, recoupment by the federal government will be mandatory if the insurance industry's aggregate uncompensated loss is less than $27.5 billion.

Additionally, under the current programme, when aggregate insurer deductibles and co-payments exceed $27.5 billion, TRIA provides the treasury secretary with the authority to recoup federal payments above that amount based on pre-established factors and conditions.

The proposed legislation would raise the mandatory recoupment threshold to $37.5 billion, so that when the insurance industry's aggregate uncompensated losses are less than $37.5 billion, the government will be required to recoup its TRIA payments outlaid to insurers.

Despite the uncertainty over TRIA's pending expiration, the demand for terrorism insurance has remained strong, according to Marsh & McLennan.

The company's recent 2014 Terrorism Risk Insurance Report stated that the number of companies purchasing terrorism insurance has remained constant (in the mid-60 percent range) since 2009, and pricing has also generally remained stable.

Marsh noted in its report that the Boston Marathon bombings highlighted the need for a reauthorisation bill to include a streamlined TRIA certification process that clarifies what type of event would be certified as a terrorism event and the timeframe for certification after an event occurs.

The bombing also illustrated the need for TRIA to cover terrorism events that do not meet the act's certification thresholds.

Dan Glaser, president and CEO of Marsh, commented: "We believe TRIA is a model public-private partnership."

"Marsh's new report confirms there is strong, long-term demand for the insurance it backstops with more than six out of 10 companies in the survey purchasing coverage. The existence of the federal programme plays a major part in the availability and affordability of the coverage."

Now that his bipartisan bill has been introduced, Senator Schumer urged his colleagues to work with him to quickly pass the legislation, as policies are starting to be written that extend into 2015. CIT

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Learn more about what makes South Carolina the ideal domicile for your captive insurance program at **www.doi.sc.gov**.

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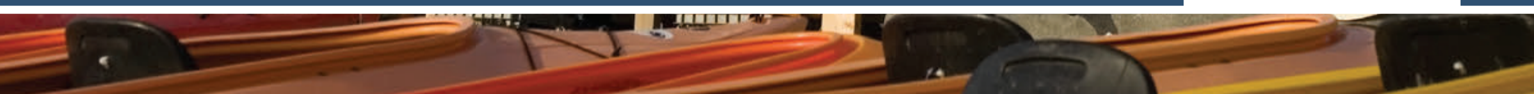

Prime before time

Although it is not the first jurisdiction on potential captive managers' lips, Puerto Rico's insurance industry has an ideal mix of US regulatory stability and the tax advantages of an offshore domicile

STEPHEN DURHAM REPORTS

Over the last few decades, Puerto Rico has evolved into a robust domicile for the development of captives—and many of the key figures involved expect this to continue.

The country has long held itself, geographically and culturally, as a bridge between Latin America and the US. With the emerging markets in Latin America continuing to grow, many in Puerto Rico see now as the perfect time to capitalise on this status.

Although the country is physically not a part of the US, its banks use the US Federal Reserve, while the US Constitution protects Puerto Rican citizens.

The key to the country's appeal is a combination of its position as a regulated and accredited member of the National Association of Insurance Commissioners (NAIC), and the unique tax advantages that it enjoys.

This allows Puerto Rico to advertise itself as the best of both worlds—with a robust regulatory framework and freedom from US tax impositions. All international insurers are subject to a simple tax regime of 4 percent on net income in Puerto Rico, which has a $1.2 million exclusion. This means that a lot of captives pay no tax whatsoever, as they do not write above the premium exclusion limit.

This relatively new captive sector is built on the foundations of a mature insurance industry, which writes around $11 billion annually. Puerto Rico is also the third largest Latin American jurisdiction for insurance, after Mexico and Brazil, as far as premium volume is concerned.

Angela Weyne, Puerto Rico's commissioner of insurance, comments: "Although many US jurisdictions, like Vermont, are well established within the industry—I think Puerto Rico's tax incentive law for captives and service providers gives it an advantage."

"It also differentiates us from offshore domiciles such as Bermuda, as there is the added advantage that we are a US jurisdiction. We follow NAIC rules and regulations, but we are not represented in congress, which is why we do not fall under the US tax regime."

Weyne also points out that these incentives apply, not only to risk takers themselves, but also to those that provide auxiliary services to them.

Move it move it

Executive director of Matos, Gely & Ho, Ruben Gely, says: "The office of the insurance commissioner is constantly moving in order to remain updated with the industry."

An example of this is when Puerto Rico amended its regulations in order to permit single parent captives to assume third party risk, which has, in turn, attracted more managers to the country. As Puerto Rican captives provide coverage for US capital, a number of 831(b)-type companies have decided to register in the country.

Growth in single parent companies have also been fuelled by the legislation and rules that support asset and liability separation, while asset protection plans are very popular.

There are currently over 100 captives domiciled in Puerto Rico, and the country's legislation has authorised the establishment of protected cell companies (PCCs). So far, according to Gely, these entities have proven to be the most popular.

As well as opening its doors to a number of captive entities, Puerto Rico has also placed a great deal of importance on accepting the right kind of captives.

Weyne says: "We went ahead of the curve when we established our capital requirements—setting the bar higher than most other jurisdictions, at $500,000."

These stricter requirements allow Puerto Rico's insurers to avoid some of the regulatory issues associated with less capitalised entities.

For example, there have been certain cases in the US where insurers have established a captive principally for the movement of reserves, creating a relatively inactive entity that is detrimental to the industry as a whole.

Puerto Rico's capitalisation requirements do not allow this and, according to Gely, this philosophy is paying off—even if it is more of a long-term strategy.

Some of the larger insurers such as Aon and Willis are invested in Puerto Rico's captive industry, with significant commitments in the region.

Ryan LLC in particular has set up a number of captives in Puerto Rico and has worked closely with the insurance commissioner to help update legislation and promote the domicile globally.

Ken Kotch, principal at Ryan LLC, says: "Since Ryan was introduced to Puerto Rico's department of insurance, we have invested in a physical office and a permanent agent in San Juan, which is a component part of being a captive manager there. We have also sponsored a Class 3-agency arrangement in Puerto Rico."

"At Ryan we have 85 clients right now, some of which are based in other jurisdictions, that have selected Puerto Rico as the place to establish their insurance facility and on a bona fide basis, and transact property and casualty insurance."

Popularity conquest

Gely and Weyne attribute the popularity of Puerto Rico with captive managers to the recent change in government.

Weyne comments: "The new administration came into office on 1 January 2013 and one of the first ambitions for them was to update Puerto Rico's economic platform. In the past six months in particular, we have been attempting to market our service industry very aggressively, and the insurance sector is a very significant part of this."

Gely explains that the NAIC requires the approval of captive managers but also allows outsourcing of managers from Puerto Rico to other jurisdictions. This means that managers do not have to be licensed in the country.

"Captive managers are staring to relocate from the US to Puerto Rico as a direct result of these government incentives. The government is committed to support the whole insurer ecosystem and has a particular interest in captives."

"The evidence is that captives are part of the government's long-term economic development, more specifically the promotion of their international insurance centre."

Kotch, on the other hand, does not attribute the uptake in captives to the political regime change, but nevertheless agrees that Puerto Rico is an ideal domicile for the establishment of a captive.

"I have seen regulators come and go since 1996 and the reason I believe Puerto Rico is enjoying such nice trend lines, in terms of interest and activity, is because of its educational mindset," says Kotch.

As well as attending the World Captive Forum, Puerto Rico has been sharing opportunities that were codified by the Commonwealth Congress in 2004 and amended in 2005.

Kotch continues: "I really think it is more a function of the captive arena to become further tuned in to opportunities of this congressional act rather than anything being done on day-to-day basis."

"There is essentially an educational curve that Puerto Rico is enjoying fruits of, and I attribute it to a good set of laws, placed on the books almost ten years ago, that companies like mine understand and are happy to share with our client base. Business owners have to do their cost benefit analysis in order to decide what is best for them and, at least 85 times, Puerto Rico has ended up on the winning end of that." CIT

Domicile snapshot:

Puerto Rico

Captives

107, including PCCs

Capitalisation

Capital and surplus: minimum: $500,000 for Class 1 pure captives; $750,000 for Class 2 association captives; and no statutory requirement for protected cells.

Premiums to surplus: for Class 1 pure captive, 5-to-1; Class 2 association captive, 5 to 1 for affiliated risks; and Class 3 protected cell companies, 3-to-1.

Registration/incorporation expenses

Fees: $350 general application fee; $750 application fee for Class 1 captive; $1,000 application fee for Class 2 captive; and annual charge, $5000.

Investment restrictions

Investment policy required with application

Tax issues

4 percent of net income in excess of $1.2 million. Tax grant guarantee for 15 years, renewable for two additional periods.

Applicable acts

Puerto Rico Insurance Code, as amended by Public Law Nos 399 and 400, signed 22 September 2004 and effective 22 March 2005, as amended by Public Law 98 signed 20 June 2011, effective 1 January 2012; Rule 80; and Rule 81 effective 20 June 2011, as amended by Law 39, 18 March 2014.

Supervisory jurisdiction

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Reporting requirements

Annual audited statement: GAAP basis
Reserve & Underwriting Requirements: no
Local Office Requirements: no

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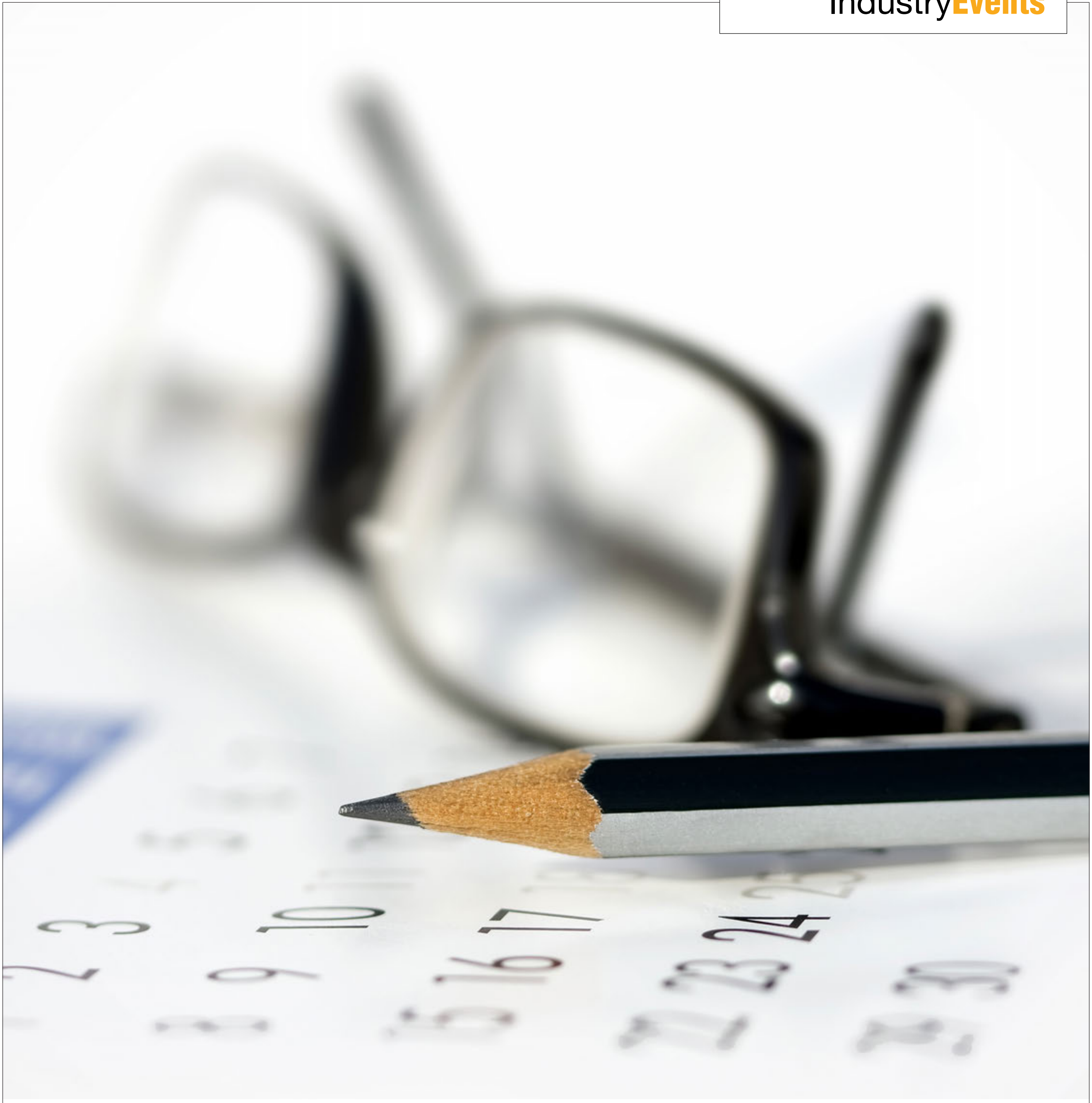

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Industry appointments

Rui Huang and **Quentin Perrot** have been appointed as vice president and senior vice president in the capital markets division of Willis Group Holdings.

Huang will be based in the Hong Kong office, developing the capital markets division in Asia. Perrot will join the London office, in insurance-linked securities (ILS).

Huang has more than eight years of experience in investment banking and insurance, formerly serving as an insurance investment banker at Morgan Stanley, Rothschild, Dresdner Kleinwort and Bank of America.

He most recently worked at Temasek in Singapore, in the financial institutions group.

Commenting on the recruitment of Huang, Michael Guo, head of capital markets in Asia at Willis, said: [His] extensive experience in investment banking and insurance will be a key component in helping us to increase our value proposition to clients in the region."

Perrot joins the firm from BNP Paribas where he worked on ILS on a global basis. Perrot also worked as a credit analyst at the French bank, with clients in the UK, Netherlands and Scandinavia.

Bill Dubinsky, head of ILS in the capital markets division at Willis, stated: "Perrot will play a key role in helping us to continue developing our global ILS practice where his ILS structuring experience will prove invaluable to Willis."

CMC Europe has named **Nick Stammers** as director of its newly launched sister company, CMC Insurance.

The launch of CMC Insurance follows a "demand for CMC Europe's simple and effective change delivery service in the banking sector", according to CMC Europe chairman Steve Wyer.

"[The] aim [is] to replicate our approach with CMC Insurance in the (re)insurance sector."

CMC Insurance will provide solutions and consultancy services to the insurance and reinsurance market that will help with regulatory data requirements.

Stammers will lead the new insurance team, along with Wyer.

Stammers has more than 20 years of experience in insurance, reinsurance, consulting and software.

He previously held a senior position at Pro Insurance Solutions—part of Tawa Group—where he worked with clients in the UK and Europe.

"Having someone of Stammers's calibre and experience join us is testament to the emphasis we are placing developing CMC's (re)insurance presence," commented Wyer.

Commenting on his appointment, Stammers said: "I have been watching the growth and success of CMC Europe. I share Wyer's vision for the need of a specialist consultancy for the (re) insurance sector."

Miller Insurance Services LLP has expanded its Singapore team with underwriting expert **Govinda Rajan**.

Rajan joins Miller in a marine hull production role.

He will be based in Singapore and will work with Miller's Asian offices and the London team.

He has more than 20 years of experience in underwriting and broking. He has also worked in Singapore previously at Aon and then Marsh Hammond and Partners LLP.

Eight new partners have joined Sheppard, Mullin, Richter & Hampton LLP's insurance and business trial practice.

Peter Klee, **Ronald Getchey**, **Charles Danaher**, **John Brooks**, **Nathan Arrington**, **Randal Crispen** and **Marc Feldman** will be joining the San Diego office, while **Theona Zhordania** will work in the firm's Los Angeles office.

The eight-strong group previously worked together at McKenna Long & Aldridge LLP.

They have knowledge in business and insurance litigation, specifically bad faith cases ranging from large first-party property insurance disputes to multi-million dollar claims for excess judgements.

Their clients have included Allstate, State Farm and Travelers, and the group has represented clients in federal and supreme courts in Southern California.

Zhordania has represented clients in securities fraud litigation, Racketeer Influenced and Corrupt Organizations Act claims, first amendment cases, employment and real estate disputes, and allegations regarding malfeasance against officers and directors.

Feldman and Arrington have handled lawsuits in state and federal trial courts throughout California, and Fedman has argued cases before the California Court of Appeal and the Court of Appeals for the Ninth Circuit.

Crispen specialises in complex business disputes. He currently represents a major insurer in coverage litigation arising out of the National Football League and National Collegiate Athletic Association players' concussion injury litigation.

Brooks and Danaher focus on insurance litigation, specifically class action defence. Brooks also represents class action defendants in a variety of fields, including insurance, unfair competition and false advertising, and credit card privacy.

Danaher has also defended clients in class actions involving the payment of overhead and profit, the payment of sales tax, the manner in which actual cash value is determined, whether coverage exists for innocent co-insureds, issues involving medical-pay coverage, and allegations of premium overcharging.

Klee has handled more than 1000 cases throughout the US over the past 25 years. His clients include most of the major insurance carriers in California, including Fireman's Fund, MetLife, Infinity, and the Automobile Club of Southern California. **CIT**

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