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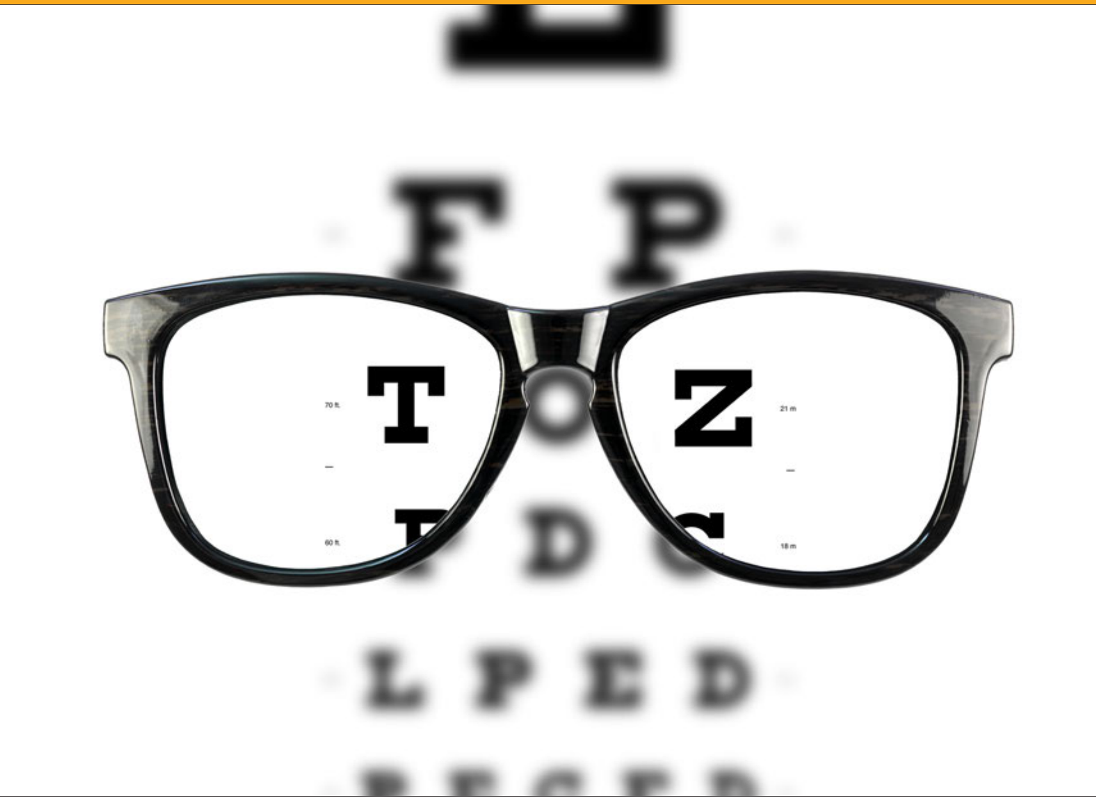


Long-awaited clarity for NRRA

New bipartisan legislation to clarify the Non-Admitted Reinsurance Reform Act (NRRA) in relation to captive insurance has been introduced in the US Senate.

Efforts to clarify the law have been a priority of the Coalition for Captive Insurance Clarity (CCIC), with the new legislation being met with praise by coalition members.

"It is our belief that the clarifying language of this bill will eliminate current misinterpretations of the intent of the NRRA and will allow organisations to select captive domiciles that provide the best options for their risk management programmes," commented Andrea Bartlett, chairman of the South Carolina Captive Insurance Association.

It has been claimed that the original NRRA legislation created considerable confusion and inadvertently upended one of the organising principles of the captive insurance industry—regulation and taxation by the captive's domicile.

Vermont Senator Patrick Leahy commented: "Congress never intended the NRRA to include captive insurers and the legislation I have introduced with Senator [Lindsay] Graham would simply clarify congressional intent."

"It is a straightforward, commonsense clarification that will give needed assurance to the captive insurance industries in Vermont, South Carolina and across the country."

"This is an important issue for South Carolina," added Senator Graham. "The legislation … will enable organisations to have a choice in where they domicile their captive. Our legislative fix will create opportunities for

readmore p2

London & Capital offers new captive analysis

London & Capital has launched a suite of proprietary indices for captive insurers.

The London & Capital Captive Indices examine the long-term trend of three typical asset allocations across a 10-year cycle.

The indices will be published every quarter with an in-depth analysis available by London & Capital on an annual basis.

Index 1 is for captive insurers with a high frequency, low severity claims pattern, that pursue a conservative investment strategy. Here, London & Capital has a 90 percent allocation to investment grade bonds, with cash and equities accounting for 5 percent each.

Index 2 is for captive insurers with less immediate cash-flow requirements for claims, and which are pursuing a balanced investment strategy. This has a 70 percent allocation to investment grade bonds, with equities at 15 percent, high yield bonds at 10 percent and cash at 5 percent.

readmore p2

Prudential seals $16 billion longevity risk transfer

The Prudential Insurance Company of America recently completed what is believed to be the largest longevity risk transfer transaction to date, having reinsured longevity risk of the BT Pension Scheme (BTPS).

The company entered into the reinsurance transaction with the Guernsey-based captive insurer of the pension scheme, BTPS Insurance Incorporated Cell Company.

readmore p2

Long-awaited clarity for NRRA

Continued from page 1

this emerging industry and I hope Congress will push it into law."

The CCIC was formed under the leadership of the Vermont Captive Insurance Association to "push for clarity that may include legislative language that would reaffirm that the intent of the new federal NRRA was never intended to apply to captive insurance".

London & Capital offers new captive analysis

Continued from page 1

Index 3 is for captive insurers that can withstand short-term market volatility, as they are looking to fund long-term liabilities. This has a 50 percent allocation to investment grade bonds, 30 percent to equities, 15 percent to high yield bonds and 5 percent to cash.

The indices make reference to four of the main asset classes suitable for captives, namely: cash, US investment grade bonds, US equities and US high yield bonds.

William Dalziel, head of institutional clients at London & Capital, said: "We know captive insurance companies are unique. They are all 'special cases' in terms of risk profile and each has a specific range of liabilities to meet through its chosen investment strategy."

"Our indices will serve as an important benchmarking tool for captives, showing them very clearly where their investment performance stands against an optimised portfolio that's appropriate for their investment objectives."

"All captives should be able to benefit from an investment strategy that is aligned with their unique risk profile and objectives. The indices are our contribution towards making this information more readily accessible to the industry."

Prudential seals $16 billion longevity risk transfer

Continued from page 1

This amounts to the transfer of a quarter of the scheme's exposure to increasing longevity and so hedges around $16 billion of liabilities. Ogier Legal advised Prudential in Guernsey.

Ogier partner William Simpson said: "We have participated in a number of high profile insurance transactions recently and Guernsey is clearly regarded as the jurisdiction of choice for higher value and more complex arrangements."

"Law firms, accountants and especially the managers locally have developed considerable skill over many years in this area. We were delighted to be involved."

BTPS recently selected Heritage Insurance Management to provide insurance management services for the administration of its newly established insurance company.

Longevity risk is faced by all providers of defined benefit pension schemes and has been the subject of a number of deals as schemes have sought to reduce the inherent risk.

Increased life expectancy increases the liabilities associated with a defined benefit pension scheme.

Hong Kong pushing for Chinese captive business

The Hong Kong government has been making moves to attract captive insurance business from mainland China, as announced at a recent seminar in Beijing.

Hong Kong's permanent secretary for financial services and the treasury Au King-chi said: "Financial cooperation between Hong Kong and the mainland has all along been implemented in accordance with the 'mutually beneficial' principle."

"On one hand, mainland enterprises can access world-class risk management services for their offshore business by forming captive insurers in Hong Kong. On the other hand, Hong Kong's insurance market will be broadened, achieving a mutually beneficial result," said Au.

She pointed out that Hong Kong possesses an efficient multi-currency capital formation platform and has become a premier international financing centre for mainland China.

As many mainland enterprises are already conducting their financial activities in Hong Kong, Au claims there will be "synergy if they also set up their captive insurers in Hong Kong".

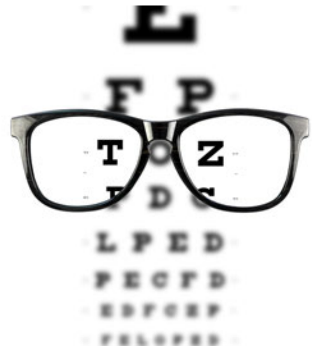
Being proximate to the mainland and sharing the same culture and language, Hong Kong claims that it is better placed than other financial centres in the region to be a domicile for captive insurers formed by mainland enterprises.

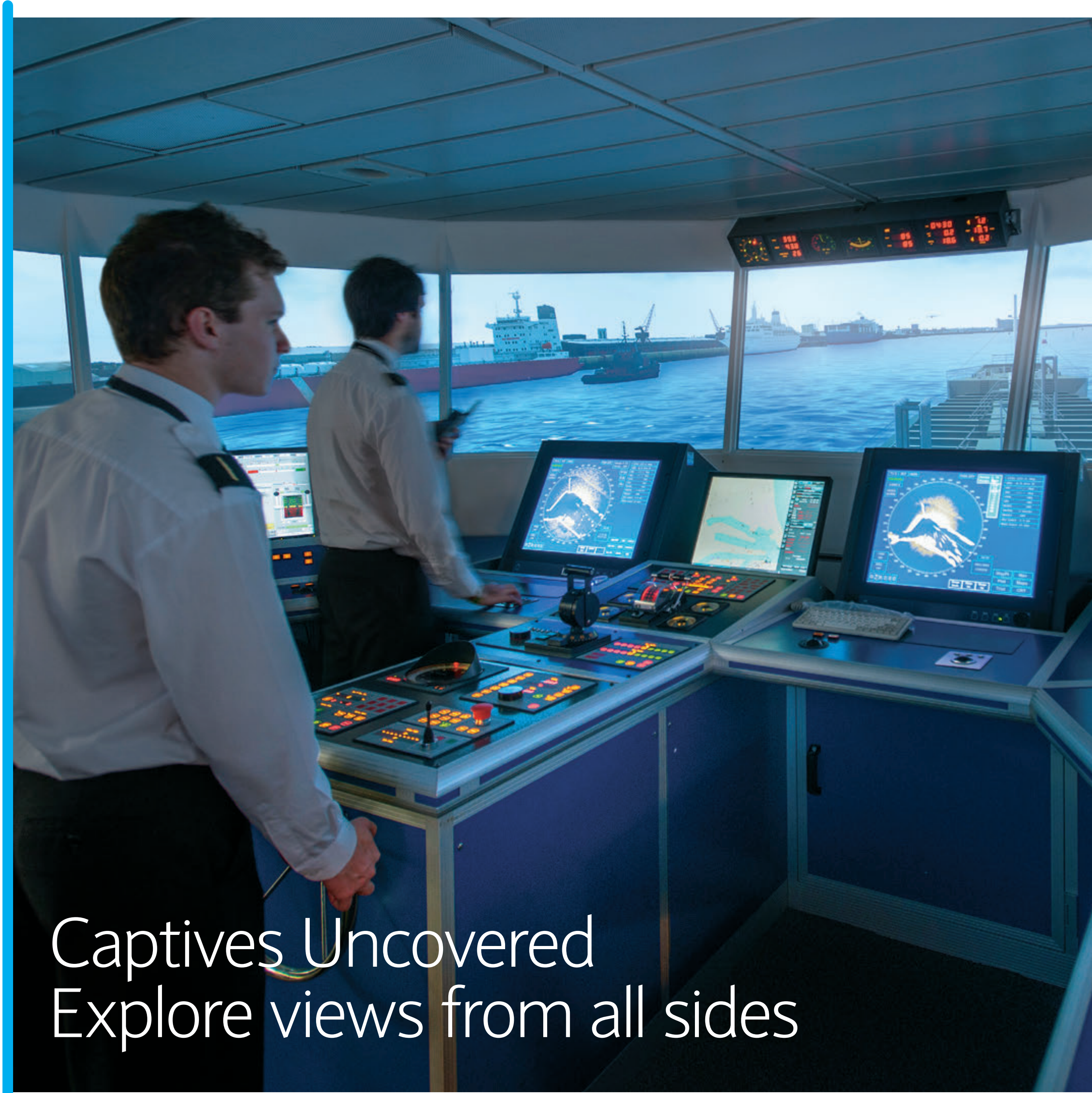
To promote the development of captive insurance, the Hong Kong government amended the Inland Revenue Ordinance to cut profits tax of the business of offshore risks of captive insurers by half, or 8.25 percent.

The legislative council passed the amendment in March 2014.

The seminar, Captive Insurance Business in Hong Kong for Chinese Enterprises, was organised by China Taiping Insurance (HK). Other speakers included CEO of China Taiping Insurance (HK) Liu Shi-hong and managing director of Sinopec Insurance Liu Jifeng.

CITINBRIEF




Captives Uncovered
Explore views from all sides

Shell captive chooses synergy2

Eurobase Insurance Solutions is supplying its underwriting platform, synergy2, to Solen Versicherungen, a Zurich-based captive insurer and subsidiary of Shell.

The full functionality of synergy2 provides underwriting, claims, reinsurance, credit control and reporting services.

Eurobase has been providing solutions to the captive market for 12 years and this recent contract further adds to Eurobase's fast-growing captive insurance client base, which also includes Dorinco (Dow Chemicals), VICO (Volkswagen) and IKANO (IKEA).

With the deadline for Solvency II implementation set, captive insurers such as Solen are looking for ways in which technology solutions can help to streamline the collection and analysis of data and to manage risk retention through effective aggregation of risk.

Paul Buckle, director of Eurobase Insurance Solutions, said: "We were delighted to be awarded the Solen contract. We continue to place emphasis in the continued development of our services to the captive insurance market, and it further reinforces synergy2 as the sector's solution of choice."

"We are working collaboratively with Solen to implement synergy2, and are looking forward to a beneficial relationship."

The synergy2 software platform provides a suite of integrated modules, supporting the end-to-end insurance process.

Swiss Re falls short despite Q2 rise

Switzerland-based reinsurer Swiss Re's net profit rose 2 percent to $802 million in Q2 2014.

The figure fell short of a consensus forecast by analysts polled by Swiss financial newswire AWP, which had tipped the group to make an average of $894 million.

Premiums rose 11 percent to $7.5 billion, according to a Swiss Re statement.

Its combined ratio was 93.5 percent, compared with 101.1 percent in Q2 2013.

A combined ratio of less than 100 percent indicates that an insurer is in profitable territory.

Swiss Re chief executive Michel Lies said: "We see the insurance market generally softening."

"Thanks to our leading position we continue to take advantage of opportunities as they arise—for example in high growth markets—and actively manage our overall portfolio. I am confident that Swiss Re will remain successful at every stage of the cycle."

Aon mods its ASTRA

Aon Global Risk Consulting has launched ASTRA, a new Solvency II Pillar I solution.

The tool has already been licenced to a number of companies across Europe, including Hiscox Insurance Company.

ASTRA is an Excel-based Solvency II Standard Formula tool, developed by Aon in response to the demand for a simple, cost-effective solution to assist in completing the standard formula calculation.

Since the early quantitative impact studies conducted by European Insurance and Occupational Pensions Authority (EIOPA), Aon Global Risk Consulting has claimed that it has been working with its clients to "fully understand the complexities of the standard formula calculation".

EIOPA is part of the European financial supervision system, governed by a board of supervisors composed of representatives of the relevant supervisory authority in the field of insurance and occupational pensions from each member state.

It is the regulatory advisory body to the European Commission on Solvency II.


Building on Trust and Support
Based in Malta, Island Insurance Management satisfies the requirements of captives wanting to set up and operate in Malta.
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Associate director of actuarial and analytics at Aon, Jason Noronha, said: "The standard formula calculation has proved more complex than expected for many companies."

"ASTRA allows our clients to minimise the time spent completing the calculation and instead focus on understanding the results using ASTRA's suite of insightful management information reports."

Kane scores a brace

Kane SAC has made two new issuances; a \$7,320,000 Series 2-2014 At-Risk Note and a \$9,245,000 Dodeka III through the Kane SAC Limited Note Program, the firm's independent private catastrophe bond platform.

These are the sixth and seventh issuances to have taken place since Kane launched the catastrophe bond platform in August 2013.

Both sets of notes have been listed on the Bermuda Stock Exchange (BSX), the total listed Kane SAC outstanding notes to \$137,166,810.

Robert Eastham, managing director of Kane, Bermuda, said: "We are delighted to be able to announce a further two note issuances through the Kane SAC Limited Note Program as we approach our first anniversary."

"Our success in this relatively short period shows that the platform is becoming a market-recognised means of facilitating the flow of smaller, cost-effective transactions into the capital arena."

US captives outperform commercial sector

The universe of captives rated by A.M. Best continues to outperform the commercial sector in every key financial measure, according to the latest edition of Best's Journal.

In 2013, the US captive composite posted a 12.4-point improvement in the loss and loss-adjustment expense ratio over the prior year, aided by a respite from major, outsize property losses.

The report also noted that risk retention groups (RRGs) produced aggregate operating results that outperformed a peer group of commercial casualty writers.

Other highlights of the report include the premium increase of US state workers' compensation funds. This occurred for the third straight year in 2013 as pricing hardened, the economy improved and greater demand for residual market business appeared more likely.

The report also predicted that the federal terrorism backstop bills would place greater onus on insurers and increase the insurance industry's overall liability.

Growth for European insurance

The European insurance industry has maintained a path of stability and growth, despite times of crisis, according to figures released by Insurance Europe.

The figures, which included data collected from 32 national insurance associations across Europe, looked at various aspects of the European insurance industry between 2003 and 2012.

European insurance premiums increased in nominal terms by a quarter during that period, with non-life premiums growing at a faster rate than life premiums, with cumulative increases of 30 percent and 22 percent respectively, the figures showed.

The split between life and non-life premiums in Europe remained largely stable between 2003 and 2012.

In 2003 life premiums accounted for just over 60 percent (€531 billion) and non-life accounted for just under 40 percent (€346 billion).

In 2012 these percentages were relatively similar at 59.1 percent (€651 billion) for life and 40.9 percent (€451 billion) for non-life.

The amount of life insurance benefits and non-life insurance claims paid out by European insurers increased by 64 percent and 41 percent, respectively, according to the figures.

Michaela Koller, director general of Insurance Europe, commented: “These figures demonstrate how the European insurance industry continues to be a bastion of growth and economic stability in the EU, even during periods of volatility and financial crisis.”

Tough competition in reinsurance, says S&P

Competition among reinsurers is heating up, according to rating agency Standard & Poor’s report.

The rating agency has found that premiums are on the decline and third-party capital is fuelling excess capacity with reinsurers’ financial strength being threatened.

To combat the effect on businesses, global reinsurers are seeking more-profitable markets and are tweaking their investment strategies to see positive returns.

Smaller firms are merging to gain scale, but reinsurers are still sensitive to changes, found the rating agency.

Standard & Poor’s found that the trend of insurance companies seeking to optimise their reinsurance spending as their purchasing decisions are made at the group level, rather than at the operating unit level, seems to be accelerating.

This approach, according to the rating agency, “reduces an insurer’s need to use a larger number of reinsurers for protection and consequently smaller, less-diversified reinsurers will feel pressure on their market positions”.

The findings are based on Standard & Poor’s assessment of 23 global reinsurers, which share capital adequacy and competitive positions.

Expanding into new markets

Global reinsurance M&A and property and casualty in H1 2014 was boosted by companies attempting to enter new markets, according to A.M. Best.

M&A in the property and casualty and reinsurance industries “continued at a steady pace” in H1, with 35 transactions announced globally.

The disclosed volume of deals was round $5.6 billion, compared to approximately $10 billion for all 2013.

“Similar to that of the past few years, much of the M&A activity in the [property and casualty] industry during [H1] 2014 was driven by consolidation or companies attempting to enter new markets such as Asia and Latin America,” said A.M. Best.

Although not included in A.M. Best’s figures, on 4 July the Swiss-based insurer ACE announced the purchase of the large corporate property and casualty insurance business of Brazilian insurer Itaú Seguros for almost $700 million.

In 2013, Itaú Seguros’s commercial business generated approximately $1 billion in premiums.

ACE’s announcement implied that, once the deal is completed, Latin America will represent approximately 14 percent of its total premiums compared with about 8 percent of total premium in 2013—making ACE one of the major players in the region.

Many firms have also been prompted to offload underperforming or non-core operations due to low interest rates, increased competition and lower insurance rates.

A.M. Best stated that some insurers, “now understand that organic growth remains challenging at this stage of the cycle”, which makes acquisitions an increasingly attractive alternative to growing the business internally.

NAIC greenlights further XXX/AXXX changes

The executive committee of the National Association of Insurance Commissioners (NAIC) has adopted the XXX/AXXX Reinsurance Framework, which furthers plans to develop proposed changes to the insurer/captive regulations specific to XXX and AXXX transactions.

The NAIC stated that the XXX/AXXX Reinsurance Framework will not change the statutory reserve requirements, though it will change what types of assets or securities are needed to back the reserve liabilities.

The framework will also require the ceding company to disclose the assets and securities used to support the reserves and hold a risk-based capital (RBC) cushion if the captive does not file RBC.

"The XXX/AXXX Reinsurance Framework is an important regulatory initiative, and this adoption will allow us to move expeditiously to develop a comprehensive framework proposal," said Adam Hamm, NAIC president and North Dakota insurance commissioner.

With this adoption, numerous groups will develop the details to create the framework for subsequent consideration by the entire NAIC membership.

AJG continues growth with double acquisition

Arthur J. Gallagher & Co (AJG) has acquired certain assets of Minvielle & Chastanet Insurance Brokers, located in the Caribbean. Terms of the transaction were not disclosed.

Minvielle & Chastanet Insurance Brokers (MCIB) is a full service insurance broker and risk management firm that provides property, casualty, health, risk management and reinsurance services to its clients in the Caribbean.

Roddy Clarke and his associates will lead this operation from its current locations in St Lucia, Barbados, Dominica, St Vincent and Antigua under the direction of Matthew Pragnell, head of CGM Gallagher Group based in Kingston, Jamaica.

"MCIB is well-regarded within the industry for its quality client service and strong culture. They will provide additional scale to our existing operations and will also expand our presence into Antigua and Dominica," said Patrick Gallagher, chairman, president and CEO of AJG.

"MCIB will be a terrific complement to CGM Gallagher Group as we continue to successfully grow our footprint in this region. We are pleased to welcome [Clarke] and his colleagues to our Gallagher family of professionals."

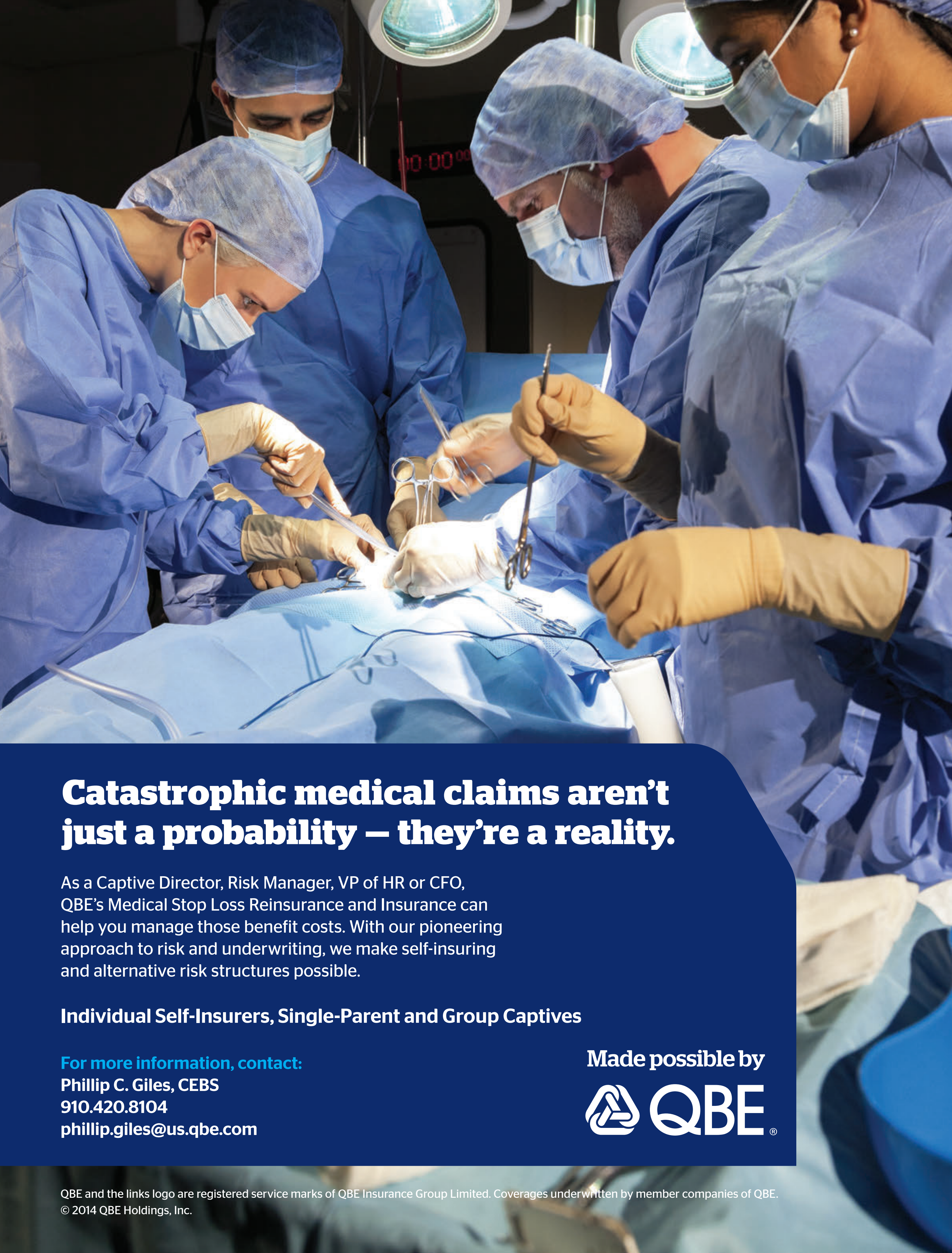
In addition to the MCIB deal, AJG has acquired Cowles & Connell of Brewster, New York, and Meriden, Connecticut. Terms of this transaction were also not disclosed.

Established in 1892, Cowles & Connell is a managing general agent and wholesale insurance broker that provides excess and surplus, property and casualty, professional business liability and other specialty insurance products and services to their independent retail insurance broker clients throughout US.

Jo Ann Peri and her associates will continue to operate from their locations in Brewster, Meriden, Westampton, New Jersey and Wilbraham, Massachusetts under the direction of Joel Cavaness, president of Risk Placement Services, a subsidiary of AJG.

Gallagher commented: "Cowles & Connell is widely respected in the industry for their innovation, depth of experience, and dedication to client service."

"Not only do they add to our wholesale geographic footprint, but their talented sales culture brings with it years of specialty product knowledge which enables them to handle and match hard to place risks with the appropriate markets."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Ratings round-up

A.M. Best

A.M. Best has assigned a financial strength rating (FSR) of “A- (Excellent)” and an issuer credit rating (ICR) of “a-” to Housing Specialty Insurance Company (HSIC).

The rating agency has also affirmed the FSR of “A (Excellent)” and the ICRs of “a” of Vermont-based companies: Housing Authority Property Insurance (HAPI), Housing Authority Risk Retention Group (HARRG) and their jointly owned subsidiary, Housing Enterprise Insurance Company (all members of and together known as the HAI Group).

The ratings of HSIC reflect its strong capital position and the support it receives from the HAI Group, according to A.M. Best.

HSIC is an excess and surplus lines insurer that provides a non-traditional insurance programme to public and affordable housing providers throughout the US, as well as a for-profit, property and casualty stock insurer, which was incorporated in Vermont on 9 December 2013. The company is jointly owned by HARRG and HAPI as a subsidiary.

Partially offsetting these positive rating factors is the start-up nature of the company, which is mitigated by the successful performance and support of the HAI Group.

With its solid operating performance, HAI Group has progressively built up its surplus through retained earnings, as its underwriting leverage is very low.

It’s underwriting results remain strong due to its focused and disciplined underwriting approach and conservative reserving.

A.M. Best has also affirmed the FSR of “A (Excellent)” and the ICR of “a” of Eni Insurance Limited (EIL).

EIL is the sole captive of Eni, an Italian multinational gas and oil company with operations in more than 80 countries.

The ratings of EIL reflect the company’s consistently strong, albeit relatively volatile, operating performance and strong risk-adjusted

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To find out more, please contact:

Life Company Management
Jeffrey More
+44 162 468 3602
Jeffrey.More@ctplc.com

Captive Management
Andy McComb
+1 441 278 7700
Andy.McComb@ctplc.com

Risk Management (US)
Chris Moss
+1 972 447 2053
Christopher.Moss@ctplc.com

Risk Management (EU)
Martin Fone
+44 207 767 2918
Martin.Fone@ctplc.com

capitalisation, as well as its importance to Eni Group as a risk management tool.

These positive rating factors are partially offset by EIL's exposure to peripheral European sovereign bonds.

In addition, EIL has exposure to potentially substantial underwriting losses, due to its large maximum line size.

However, large losses will be moderated by comprehensive reinsurance, which is placed with a strong panel of reinsurers.

The ICR of Electric Insurance Company and its wholly owned subsidiary, Electric Insurance Ireland Limited (EIIL) has been upgraded from "a" to "a+", while their FSR is now "A (Excellent)".

The ratings reflect Electric's strong risk-adjusted capitalisation, good operating profitability and below average expense ratio.

The ratings also take into consideration the value-added commercial insurance services provided to General Electric Company (GE), as well as Electric's strategic importance to GE.

The ratings for Electric are afforded to EIIL primarily due to its affiliation with Electric, its integration into Electric's business plan, as well as its supportive capitalisation, profitable operating performance and strategic role in providing commercial lines products to GE in the EU.

Partially offsetting these positive rating factors are the limitations of Electric and EIIL's commercial lines business to one policyholder (GE).

While the company has exposure to catastrophe losses from a potential terrorist attack, mainly within the workers' compensation line should the Terrorism Risk Insurance Program Reauthorization Act not be extended beyond 2014, the exposure has been decreasing.

Fitch

Fitch Ratings has affirmed New York Life Insurance Company's Insurer Financial Strength (IFS) rating at "AAA".

Fitch has also affirmed all other ratings assigned to New York Life and certain subsidiaries.

Fitch's ratings reflect New York Life's leading market position, extremely strong capitalisation, and solid operating profile with favourable risk-adjusted profitability.

The ratings also consider the company's above-average exposure to risky assets and ongoing challenges related to the protracted low interest rate environment.

New York Life's strong operating profile reflects the company's leading position in the US life insurance and annuity markets, diversified business mix, and low-risk product strategy.

Key competitive strengths include the company's strong brand name, well-established market positions and effective career distribution system.

Fitch stated that it views the company's continued capital growth as a fundamental strength.

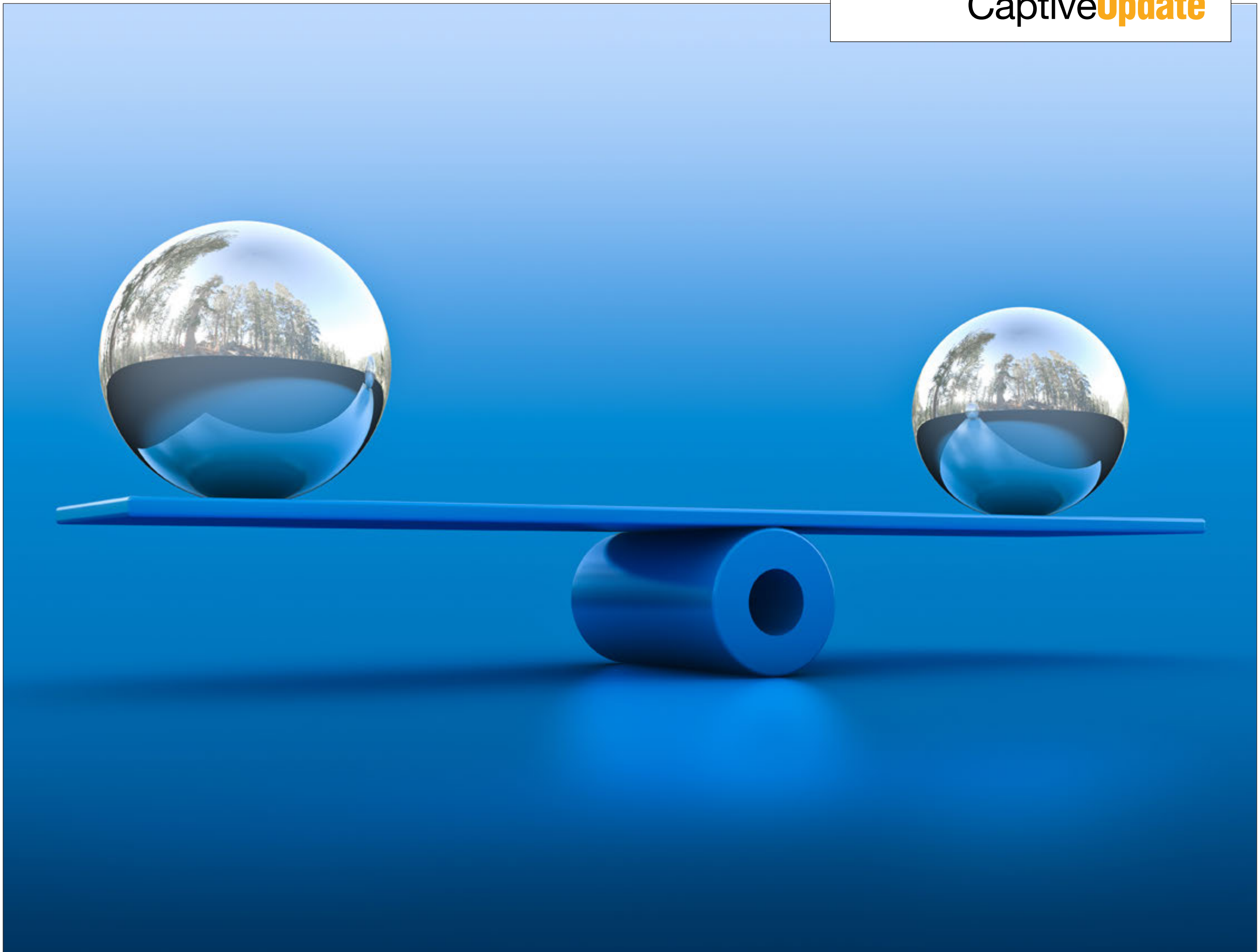
New York Life expanded its statutory surplus by 10 percent to $21.5 billion at year-end 2013, largely driven by earnings and unrealised investment gains during the year.

Fitch has also affirmed Prudential's long-term issuer default rating (IDR) at "A+" and senior unsecured debt at "A".

The affirmation reflects Prudential's continued robust and resilient capital position, operational scale and strong business position in each of its key markets, the UK, US and Asia.

Prudential has strong cash generation and a strategy focused on high-margin products with short pay-back periods and a profitable asset management business, according to Fitch.

The group's leading position and strong brand in its core markets is also cited as a positive rating factor.



To profit or not-for-profit?

Not-for-profit captives have been making the most of their distinct advantages

STEPHEN DURHAM REPORTS

Entering the captive market can be challenging at the best of times. The complex regulatory, tax and legal issues, start-up fees and initial capital costs alone are enough to make the collective eyes of any organisation water. However, in the case of not-for-profits, the fundamental advantages given to them by the US government have proven to be something of a secret weapon.

As opposed to a for-profit entity that can enjoy the tax benefits of establishing a captive insurance entity, not-for-profits are already tax exempt under the Internal Revenue Code. Consequently, the motivation for establishing such a captive is usually based on the analysis that, by doing so, the captive will provide a mechanism to stabilise and/or reduce insurance costs over the long term.

According to Jesse Crary, counsel at law firm Primmer Piper Eggleston & Cramer, these entities can also benefit from increased control over the investment of funds, the ability to reduce premiums and the option to retain profits earned by successful claims management.

The more, the merrier

If an entity covered under section 501(c)(3) of the Internal Revenue Code structures its insurance arrangement through a reciprocal, then the tax can also be avoided at the insurance company level.

Partner at Morris, Manning & Martin, LLP, Skip Myers, comments: "A 501(c)(3), such as a not-for-profit hospital, charity or educational institution, can form as a reciprocal. Groups, of five or six hospitals for example, tend to join together so that they don't get taxed. In the US, if a charity engages in anything other than its exempt function, then the benefit would not be applicable. A university's exempt function would be providing education or a hospital's exempt function would be delivering medical services."

If an organisation can avoid paying tax on its insurance income, then it becomes able to put the profit into surplus to support its exempt function, rather than pay it out to the government in tax.

Client manager at RCM&D Healthcare, Angela Stoddard, explains: "Our clients issue an excess policy that is fully reinsured to an A-rated reinsurance carrier for excess limits above the primary policy. The policy will sit above the typical coverages above excess such as automobile, helipad, individual physician medical professional liability, employers' liability and employee benefits liability. The policies are then retrospectively rated and maintained on a claims-made basis."

Another inherent advantage of these formations is the added participation of key hospital personnel on the captive's governing boards and committees.

These personnel can contribute useful insights on patient safety, quality, claims, and risk management. This can also lead the captives to develop broader forms of coverage than the direct market is able to provide.

The majority of these healthcare captives are domiciled in places such as the Cayman Islands or Bermuda. Doing so also means that premium, capital gains and withholding tax can be avoided.

Cayman in particular has been a premier domicile for healthcare captives since the 1970s. According to recent statistics from Honigman, Miller, Schwartz, and Cohn, out of the 110 tax-exempt hospital captives and risk retention groups it works with, three are domiciled domestically in the US, while the remaining 107 are domiciled offshore.

Keeping the faith

Faith-based, not-for-profit organisations are also tax-exempt but under a different section of the Internal Revenue Code, namely section 501(a). As with the 501(c)(3) structures, every one of these organisations exists because of donations and, as a result, cannot increase production or move into new marketplaces in order to deal with any wider price increases.

This led organisations to find new ways to ensure as much of the donations were available as possible—and saving on insurance costs was a way to do that.

The Lockton Alliance for Ministry Protection (LAMP) is a department that helps such organisations. It has a single parent and two group captives on its books.

Whether they are US-based ministries, aid organisations providing relief to disaster-stricken countries or church schools at home and abroad, they need to cover their potential losses. For LAMP in particular, the principal lines of coverage they offer are general liability, workers' compensation and auto liability/auto physical damage. LAMP also arranges some specialty lines within the captives it oversees.

LAMP executive director Terry Brandt explains: "Our clients vary in size and complexity, in a lot of different locations with a lot of different functions, but there is not a large frequency of losses. The insurance marketplace tends to be overpriced and we thought we could do a better job of retaining risk and underwriting profit as well as being able to continue to increase their retention of risk over time, all the while maintaining insurability. We also have to make sure that we are helping them to manage, from an international standpoint, to comply with local regulations in each different country."

Rolling with the punches

Crary claims that employee benefits and medical stop-loss are the most notable lines at the moment, and not-for-profit captives are no exception to this. He comments: "The year-to-year increases in employee health insurance are having a crippling effect on the ability of not-for-profit companies to accomplish their charitable missions. These entities, including higher educational institutions and religious organisations, have been among the most aggressive in seeking captive solutions to control employee medical expenses."

Many captives have been adding other new lines of coverage. Cyber liability deductibles in particular are growing in popularity, according Linda Jones, managing director of RCM&D Healthcare. This widening of healthcare captives' offerings has also allowed them to absorb some of the lesser entities in the market.

Jones explains: "We are seeing more group captives emerging as the healthcare market rapidly succumbs to mergers and acquisitions. This is resulting in single-parent captives shutting down and joining a larger group captive." CIT

British Columbia: the Canadian cousin

With the US captive industry still powering ahead, what kind of industry exists north of the border?

STEPHEN DURHAM REPORTS

Although Canada, and British Columbia in particular, has hosted captives for some time, specific legislation relating to the formation of captive entities was not enacted until 1987.

Called the Insurance (Captive Company) Act, it allowed for the construction of pure captives, association captives and sophisticated captives.

This flexible legislation required no specific solvency ratios, allowed easy access to reinsurance markets, gave lower operating costs relative to other domiciles and incurred no federal excise tax. Although the capital requirements in British Columbia are relatively low at around $200,000, there are no additional special tax rates.

The Canadian Captive Insurance Association (CCIA) has primarily been involved with the development and maintenance of British Columbia's captive domicile, though it does deal with companies in the rest of Canada and internationally. The industry is promoted in locally through brokers and consultants advising their clients as to the best method of financing risk.

According to Neil MacLean, partner at Guild Yule LLP, while the number of captives in British Columbia "has remained fairly constant over the history of the legislation coming into effect", additional and significant growth is anticipated in the near future by certain members of the industry.

Angela Wright, chair of the CCIA, comments: "We expect a significant increase in the number of captives over the next 12 months, with the number of captives at least doubling. When we are eventually able to get changes to the legislation to, for example, allow for protected cell captives and other structures, we expect to see some further development."

British Columbia's Financial Institutions Commission (FICOM) is organised to oversee the insurance and captive industries. FICOM, along with Canada's federal regulatory agency, are members of the International Association of Insurance Supervisors (IAIS) and have enhanced their regulatory frameworks and solvency standards to meet the association's criteria.

Effective 1 July, the Jobs, Growth and Long-term Prosperity Act brought into force amendments to the Canada Labour Code that requires every federally regulated employer providing benefits under a long-term disability plan to insure it on a go-forward basis to protect employees, should the employer go bankrupt.

This amendment could affect British Columbia-domiciled captives and other Canadian captives of federally incorporated companies. It could also result in the creation of additional captives either in British Columbia or elsewhere.

This is an example of how legislation in British Columbia, while not aiming to become a world-beater, fosters responsible growth. Louise Fung, managing director of Aon Risk Solutions in Vancouver, explains: "British Columbia is an attractive domicile in terms of appropriate, but not burdensome legislation. Capital requirements are not complicated, rather based on the net exposures underwritten and subject to a minimum requirement of $300,000."

Given the size of British Columbia's captive industry, FICOM and the superintendent's office are, according to Fung, "approachable and supportive of the captive industry's desire to grow". The superintendent's office also provides support to the CCIA and speaks on behalf of the regulatory body at the annual Canadian Captive Conference.

Aside from dealing with regulatory change, another potential challenge for British Columbia's captive industry has to do with treaties between Canada and a number of other domiciles.

Fung comments: "Those types of treaties generate efficiencies, but we encourage captives to evaluate the cost of operating a British Columbia captive when bearing in mind the potential savings available for qualified captives under the International Business Activity (IBA) programme."

Although British Columbia's captives are subject to the same tax regime as other Canadian insurers, this is not the case when they write international business.

Captives writing international business qualify under the IBA programme and, as such, net income derived from that business is eligible for a full provincial income tax refund.

This means that net income derived from international underwriting is subject to federal income tax at approximately 15 percent.

Despite measures such as these, there are many who feel that British Columbia will never be able to reach the dizzying heights enjoyed by states such as Vermont, and that is a case of logistics rather than indifference.

Michael Mulhern, secretary and treasurer at CUPP Services, comments: "I would say British Columbia's captive insurance industry is nowhere near the level of organisation, visibility, and sophistication as in some US states, Bermuda and others. I think that's simply a matter of economics rather than opportunity. British Columbia has a small population, which means we don't have access to a massive industry or a proliferation of large conglomerates."

"Healthcare in Canada is provided by the government so we don't have huge health and benefit insurers like in the US. Canada as a whole is known for not being highly litigious, so it is not a risky place to do business and the insurance companies that do business here are competent and competitive, which keeps insurance buyers from clamouring for alternatives."

Regardless of the state's modest ambitions and claims that growth is not a priority, it would appear that there are many in British Columbia that are keen to expand upon the groundwork that has already been set.

Fung says: "Looking ahead, the CCIA is looking for opportunities to work with several other provincial insurance regulators to ensure their acceptance of British Columbia's licensed captives." CIT

RiskMinds Risk & Regulation Forum 2014

Location: Barcelona
Date: 22-25 September 2014
www.riskmindsregulation.com

The RiskMinds Risk & Regulation Forum is the meeting place for 250+ CROs, global Supervisors, renowned academics and expert industry practitioners to meet and discuss the key issues in risk management and financial regulation across the banking, insurance and asset management industries.

SIIA 34th Annual National Educational Conference & Expo

Location: Phoenix
Date: 5-7 October 2014
www.siia.org

The SIIA National Conference & Expo is the world's largest event focused exclusively on the self-insurance/alternative risk transfer marketplace, typically attracting more than 1,700 attendees from throughout the United States and from a growing number of countries around the world. The program features more than 40 educational sessions designed to help employers and their business partners identify and maximize the value of self-insurance solutions.

Industry appointments

JLT Towers Re has hired **Elizabeth Kernan** as senior vice president in its specialty practice in San Francisco.

Prior to joining JLT Towers, Kernan served as principal of an Integro company: ReSource Re. She was responsible for the management and placement of her clients.

Alastair Speare-Cole, co-CEO of JLT Towers Re, said: "[Her] capability in the medical professional lines is well regarded in the market, and having played a key role in building a small reinsurance intermediary, she embodies the entrepreneurial client-first attitude of JLT Towers Re."

Hugo Kostelni, executive vice president in San Francisco, added: "I am delighted to welcome Kernan to our growing team and to have her join with us to build the best next generation reinsurance intermediary."

Kernan said: "JLT Towers Re is the perfect fit for me, because I see a team there who provides the personalised service of a smaller broker but with global scale and market-leading analytics that are highly customised to clients."

The Texas Captive Insurance Association has added five new faces to its board of directors.

Philip Tortorich, **Ed Polansky**, **Josh Magden**, **Ellyn Casazza** and **Wayne Dauterive** join the current board of directors, which includes Mike Arnold, Irving Pozmontier and Louis Schendl.

Tortorich is a partner at Katten Muchin Rosenman and head of captive insurance services.

Polansky serves as counsel at Weaver LLP and is the former president of the Texas Society of Certified Public Accountants.

Magden is the vice president of insurance and institutional marketing for investment management at Sage Advisory Services.

Dauterive is the director of risk management for Houston-based Metro National Corporation, and Casazza holds a senior vice president position in Marsh's captive solutions group.

The association has also selected Strategic Association Management to manage its activities.

JLT Specialty has created a new crisis management team in its credit, political and security risk division. **Paul Bassett** will lead the team.

Steven Dalchow will support Bassett on the political violence/terrorism business and lead the portfolio management practice.

Corina Monaghan has been appointed to lead broking activities for North America and **Justin Priestly** will manage the consultancy team. **Chris Holt** will be responsible for security analysis and consulting activity.

Stephen Hudson also joins the team, working as the security and engineering specialist.

The new team will work with JLT's risk modelling tool, Sunstone, which allows clients to identify and manage political violence and terrorism exposures.

Sunstone compliments JLT's current political risk modelling tool, the World Risk Review. The tool rates nine unique political, economic and security risks for 198 countries and territories.

"The creation of the new crisis management team will bolster our credentials and we are excited by the influx of such experienced risk practitioners joining our division," said Nick Robson, head of JLT's credit, political and security risk division.

The new team joins the credit, political and security risk division following JLT's acquisition of Towers Watson's reinsurance brokerage business.

ACE Group has appointed **Kyle Bryant** as regional cyber manager for continental Europe, as it further invests in its cyber risk practice to meet evolving customer needs.

Bryant, previously assistant vice president at ACE USA, will have management responsibility for ACE's growing cyber risk business across continental Europe.

He will focus on bringing together ACE's international first and third-party expertise, underwriting capabilities, risk management and incident response services. The appointment follows the launch of ACE's global cyber risk practice.

Working with Toby Merrill as head of the practice and his colleagues across ACE's global network, Bryant will contribute to the development of the practice and execute its strategy, paying close attention to proposition development, underwriting strategy and market relationships locally.

Bryant will report to Grant Cairns, regional manager of financial lines for ACE in continental Europe and will work in close partnership with Gilbert Flepp, cyber risks manager (first party) for ACE in continental Europe.

His appointment was effective 1 August and he will initially be based in London.

Bryant has more than eight years of insurance industry experience in underwriting, product management, claims and legal roles focused on technology and professional liability risks.

He joined ACE six years ago and, most recently, his responsibilities included regional manager for technology and professional liability in the US Mid-Atlantic region, where he oversaw a portfolio of professional liability, technology errors and omissions, data privacy and cyber insurance risks.

Previously, he was executive underwriter for technology and professional liability in the New York metropolitan region for ACE. CIT

CAPTIVEINSURANCETIMES

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

Reporter: Stephen Durham
stephendurham@captiveinsurancetimes.com
Tel: +44 (0) 208 663 9622

Editorial assistant: Tammy Facey
tammyfacey@blackknightmedialtd.com
Tel: +44 (0) 208 663 9649

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

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

Marketing director: Steven Lafferty

Designer: John Savage
design@captiveinsurancetimes.com
Tel: +44 (0)20 8663 9648

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