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# More time to discuss captive ban

The US Federal Housing Finance Agency (FHFA) is to extend the comment period for the agency's proposed captive ban on Federal Home Loan Bank (FHLB) membership by 60 days.

The comment period was previously set to close on 12 November 2014, which itself was 60 days after publication of the proposed rule in the Federal Register.

The proposed rule change, if adopted, will effectively exclude captive insurers from membership to any one of the 12 FHLBs.

The comment period will now close on 12 January 2015, and any made after this time will not be recognised by the FHFA.

The FHFA has stated that it is extending the comment period "in light of the importance of the issues addressed in the proposed rule, the high level of interest in the proposal and requests from multiple stakeholders for more time to evaluate the proposed rule".

The definition of 'insurance company', under the proposed rule, would mean an entity that has its primary business the underwriting of insurance for non-affiliated persons.

This would continue to include traditional insurance companies but not captive insurers. As a result, existing membership of captive insurers would be 'sunset' over five years with defined limits on advances.

Speaking on 8 September during the North Carolina Bankers Association's American Mortgage Conference, FHFA director Mel Watt commented: "While captive insurers may, in some cases, be involved in housing finance, their access to the [FHLB System]

readmore p2

## Nebraska rules in favour of RRG

The Nebraska Supreme Court has ruled that the Liability Risk Retention Act (LRRA) preempts a state law that prohibits arbitration provisions for insurance policies.

Dr Brett Speece was audited by the Nebraska Department of Health and Human Services with regard to his billing for Medicaid reimbursements in 2012.

The State of Nebraska then filed a civil suit against Speece over false Medicaid claims in January 2013.

Speece in turn sued Allied Professionals Insurance Company (APIC), claiming that an arbitration provision in the Allied policy was illegal under state law.

readmore p2

## Strength in numbers

US-based care network PrimaCare Direct has launched a new group medical captive, PrimaCare Direct Employer Captive.

The captive is to be managed and underwritten by Roundstone Management of Westlake, Ohio.

Gene Pompili, Roundstone's senior vice president of sales, said: "We believe [PrimaCare's] unique health care delivery system is a great fit with our self-funded medical captive."

"Everyone's incentives are aligned which should make for very efficient healthcare delivery."

PrimaCare Direct clinics will provide direct primary care (DPC) services to the group medical captive's participants.

readmore p2

## More time to discuss captive ban

Continued from page 1

raises a number of concerns that are discussed in the proposed rule. We look forward to receiving your comments on both of these topics.”

In May, Watt described a number of issues, including ensuring that the banks “remain focused on their housing finance mission”.

Redwood Trust’s special purpose captive insurance subsidiary, RWT Financial, was the last captive to become an FHLB member. It received approval in Chicago in June.

## Nebraska rules in favour of RRG

Continued from page 1

Allied appealed against the district court ruling in favour of Speece. The Nebraska Supreme Court overruled the district court in an unqualified opinion that the federal LRRA preempts the state law.

“I am very pleased by this sweeping ruling in favour of the risk retention industry on the preemption of state laws regulating risk retention groups,” said Michael Schroeder, chairman of Allied.

He pointed out that the Nebraska Supreme Court decision follows recent favourable decisions in similar cases by federal courts of appeal in the Second and Eleventh Circuits.

Executive director of the National Risk Retention Association (NRRA), Joseph Deems, called the decision an “important precedent that reinforces the preemption provisions of the LRRA in cases that involve state statutes”.

He added: “[The Nebraska decision] is one more in a series of court decisions upholding the right of risk retention groups to operate free of most regulation in all 50 states when licensed in a single state.”

## Strength in numbers

Continued from page 1

DPC is a new delivery approach in which primary care doctors help manage patients away from costly chronic diseases and hospitalisations.

Employees receive unlimited primary care visits with no copays, deductibles or co-insurance.

This preventive focus ensures long-term healthcare cost control while reducing insurance paperwork, claims, and processing time for doctors and employers.

“This new healthcare purchasing alternative can really help out the small- to mid-size employer,” said Matt Brandt, CEO of PrimaCare Direct.

“By combining DPC with Roundstone’s group medical captive, we can ensure long term healthcare cost control and return almost all of the savings back to the employer.”

The benefits of a group medical captive include transparency and control over claims, access to specialty service providers, inclusion of specialty clinic bundled rates, along with reduced pharmaceutical costs, including rebates sent to the employers rather than insurance companies.

## RRGs stable, says Demotech

Risk retention groups (RRGs) continue to collectively provide financial stability and remain committed to maintaining adequate capital to handle losses, according to a review by Demotech.

Since Q2 2010, cash and invested assets increased 61.4 percent across the sector and total admitted assets increased 43.7 percent.

From the same point through to Q2 2014, RRGs collectively increased policyholders’ surplus 56.1 percent. This increase represents the addition of nearly $1.5 billion to policyholders’ surplus, according to the review.

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During this same time period, liabilities increased 35.9 percent.

These reported results indicate that RRGs are adequately capitalised in aggregate and are able to remain solvent if faced with adverse economic conditions or increased losses.

RRGs reported nearly $900 million of net premium written (NPW) through Q2 2014, an increase of 16.3 percent over Q2 2013.

However, RRGs collectively reported nearly $1.5 billion of direct premium written (DPW) through Q2 2014, a decrease of 13.4 percent over Q2 2013.

The DPW to policyholders' surplus ratio for RRGs collectively through Q2 2014 was 72.1 percent, down from 101.3 percent at Q2 2013.

The NPW to policyholders' surplus ratio for RRGs through Q2 2014 was 43.3 percent and also indicates a decrease over 2013, as this ratio was 45.3 percent.

Douglas Powell, senior financial analyst at Demotech, commented: "Despite political and economic uncertainty, RRGs remain financially stable and continue to provide specialised coverage to their insureds."

"The financial ratios calculated based on the reported results of RRGs appear to be reasonable, keeping in mind that it is typical and expected that insurers' financial ratios tend to fluctuate over time."

While RRGs have reported net income, they have also continued to maintain adequate loss reserves while increasing premium written year-over-year, which, according to Demotech, shows "a great deal of financial stability".

## Capstone moves into Tennessee

Capstone Associated Services has been approved as a captive manager in Tennessee as part of its continued expansion of client services.

Capstone now has offices in multiple US and offshore jurisdictions as well as its headquarters in Houston, Texas.

Since 1998, Capstone has operated fully or partially-tax exempt captive insurers formed under Section 501(c)(15) of the Internal Revenue Code, all in conjunction with The Feldman Law Firm LLP.

Capstone also administers captive insurers under Section 831(b) and 831(a) of the code.

The captive manager stated: "We have had continued success in this planning. Our affiliated law firm has obtained on behalf of clients approximately 40 rulings from the Internal Revenue Service confirming the tax-exempt nature of these small insurance companies."

## JLT continues specialty expansion

JLT Specialty Insurance Services is set to purchase Alliant Insurance Services's energy business that focuses on larger and more complex major and international accounts.

This agreement follows JLT Group's recent announcement of its intention to expand its US specialty capabilities into key specialty areas, including energy, construction, financial lines, credit, political and security, and aerospace.

The agreement will enable Alliant to focus more of its efforts within the energy space on those areas where it sees the most opportunity to continue to deliver growth.

Commenting the acquisition, Mike Rice, CEO of JLT Specialty Insurance Services, said: "This is a further exciting development in the build-out of our US specialty capabilities into the energy arena where JLT is already one of the strongest specialty players around the world."

Tom Corbett, chairman and CEO of Alliant, added: "The transaction aligns with our company's strategy for delivering targeted growth in the energy sector."

"We are excited about our continued activity in the energy space and will continue to expand our energy portfolio through organic growth, acquisitions, and outstanding service."

## Go east, where the insurers are

Members of the National Association of Insurance Commissioners (NAIC) have joined regulators and industry executives from Thailand, Japan, China, Australia, South Korea and Malaysia to discuss regulatory harmonisation at the Asia Pacific International Forum.

The forum, hosted jointly by the NAIC and the Hawaii Insurance Division, included panel and roundtable discussions on topics such as international capital standards, group supervision and reinsurance.

"Collectively, the US and Asia represent a substantial portion of the global insurance marketplace," said Adam Hamm, NAIC president and North Dakota insurance commissioner.

"This forum is an opportunity for regulators in the region to collaborate with our respective industries to develop regulatory strategies that will be effective without hindering innovation."

Following the forum, members of the NAIC joined representatives from the Financial Services Agency (FSA) of Japan to advance the NAIC-FSA Japan Insurance Regulatory Dialogue, launched in March.

Highlights of the second meeting included discussions on international standard setting, insuring cyber liability risk and an update on other regulatory developments.

## Willis places $250 million cat bond

Willis Capital Markets and Advisory (WCMA) has structured and placed a $250 million catastrophe bond transaction for the State Compensation Insurance Fund, California's largest provider of workers' compensation insurance.

Golden State Re II is the second time the fund has accessed catastrophe bond capacity.

The transaction, which closed on 16 September, provides the fund with $250 million of fully collateralised protection for workers' compensation against California earthquakes over a term of slightly more than four years and three months.

The renewal transaction features a modelled loss trigger on a per-occurrence basis, similar to the one used by the fund in its first catastrophe bond transaction in 2011.

Investors were eager to support this transaction as it upsized from $150 million to $250 million while settling in at the bottom end of the initial pricing guidance of 2.2 to 2.7 percent.

The transaction will replace a $200 million transaction as the fund chose to increase the capacity it sources from the capital markets.

Tony Ursano, CEO of WCMA, said: "The pricing that State Compensation Insurance Fund was able to obtain on Golden State Re II highlights the rapidly changing dynamics in the [insurance-linked securities] landscape over the last three years."

"For a similar layer that was placed in 2011, State Compensation Insurance Fund was able to obtain 25 percent more capacity while pricing dropped more than 40 percent."

"We expect investors to continue to welcome well-structured deals as capacity continues to seek ways to access insurance risk."

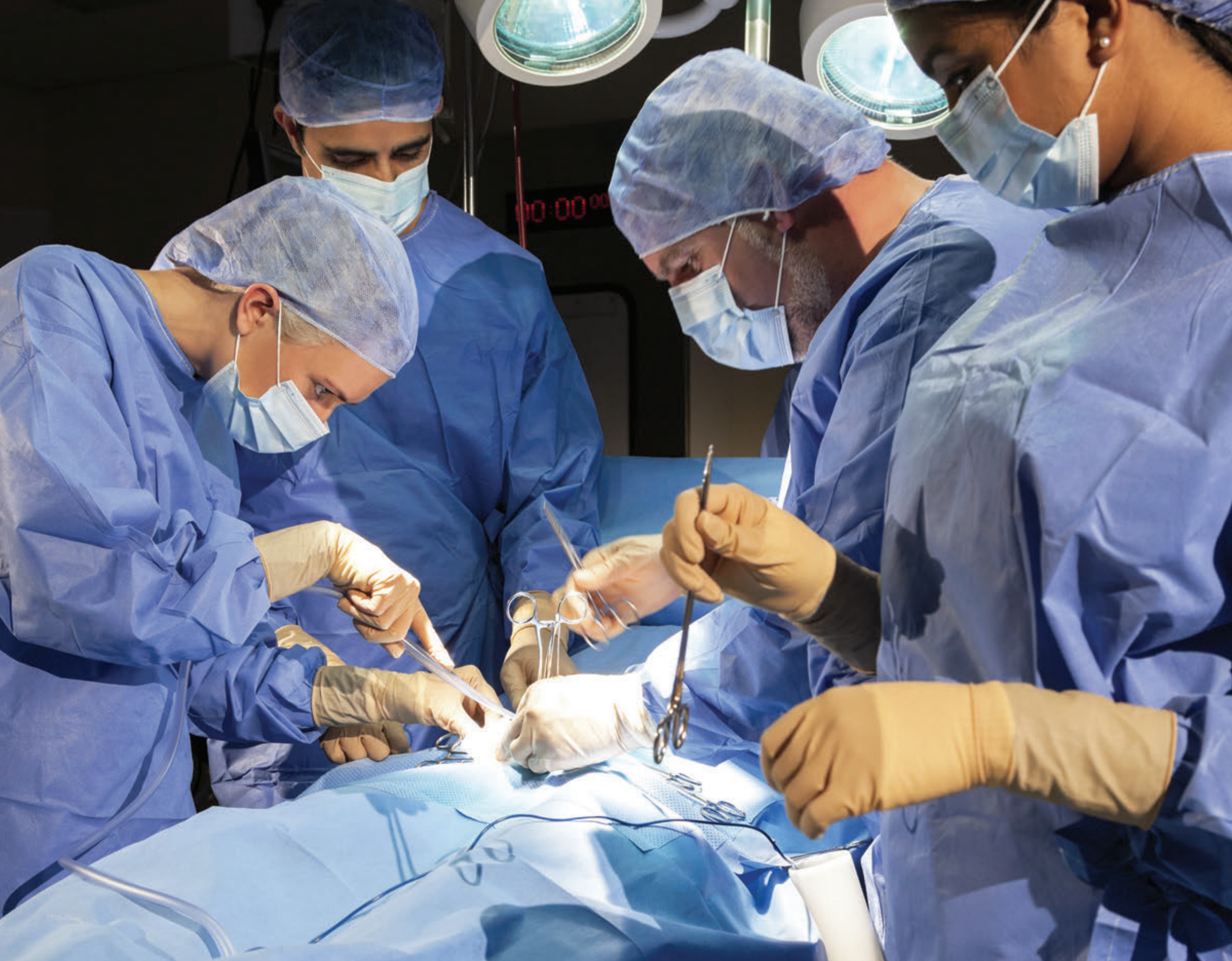
The transaction marks WCMA's seventh successful cat bond placement of 2014 and fifth as sole manager.

## JLT Re and March JLT become one

Jardine Lloyd Thompson's subsidiary JLT Re and March JLT have combined to create a new reinsurance venture in Spain.

JLT March Re will see Richard Shinner, the former head of JLT Tower Re Spain, relocating to London to become a part of JLT Re's marine and energy wholesale practice, to exploit cross-border opportunities.

The joint venture will allow JLT Re to capitalise on the reputation of March JLT and bolster



its service and product offering for prospective clients, according to Ross Howard, chairman of JLT Re.

Carlos Navarro, CEO of March JLT, said: “Combining with the expertise of JLT Re will help us to maintain our leadership as a provider of insurance solutions in key sectors both local and internationally.”

## Meehan posthumously honoured

Ed Meehan, pioneer of captive insurance regulation in the US, has been posthumously honoured with the Karen Cutts Visionary Award.

The Karen Cutts Visionary Award is granted annually by the National Risk Retention Association (NRRA) to an individual who has made an outstanding contribution to the risk retention and purchasing group industry.

Meehan set the foundation for captive regulation in the US as Vermont’s first director of captive operations following enactment of the state’s captive insurance law in 1981.

Vermont went on to become the preeminent domicile, licensing more than 1000 captive insurance companies.

The principles that Meehan established remain solidly in place: regulation free of politics, strong capital requirements, firm but flexible, rigorous oversight, and always ready to hold captives accountable.

The award was presented at the NRRA’s annual conference by Sanford Elsass, chairman of the NRRA; Len Crouse, former deputy commissioner of the Vermont Captive Division; and Derick White, president of Strategic Risk Solutions Vermont and formerly the state’s director of captive insurance.

Meehan’s son Mike, a consultant at Milliman, accepted the award on behalf of his father.

## Technology number one for Bermudian reinsurers

Having first-class technology is “business-critical” for Bermudian reinsurers and essential to remaining competitive in the years to come, according to a survey by Xuber.

Almost a fifth (19 percent) of the executives surveyed identified technology as their top business priority in 2015, followed by searching for attractive yields and results (12 percent) and talent (11.5 percent).

Roughly half (46 percent) of respondents said analytics enables them to provide underwriting assistance to insurers, and more than a third (38 percent) said they are executing a big data programme—highlighting the central role of technology within the market.

The executives surveyed by Xuber also agreed that both analytics and big data are likely to be of growing importance for their future success.

Chris Baker, managing director of Xuber, commented: “Despite the many challenges faced by the reinsurance industry, including an ongoing soft market, the pressure of alternative capital, mergers and acquisitions, and impending regulatory reform in the form of equivalency with the EU’s Solvency II regime, the survey results show Bermuda is as adaptive and forward-thinking as it has ever been.”

“This market has always been renowned for its innovation, particularly the development of new and smarter risk management products.”

“As such, the dynamics of the Bermudian reinsurance market are changing and reshaping the way reinsurers do business, as well as influencing future business priorities.”

Of those surveyed, 73 percent identified Bermuda’s regulatory and political framework in the region as a draw for businesses, as well as the market’s leading position in the field of insurance-linked securities.

Concerns for those surveyed was the impact of alternative capital from insurance-linked securities, such as catastrophe bonds, and the way in which the market is responding to regulatory changes, such as Solvency II.

## FiscalReps launches new compliance product

FiscalReps is to launch a suite of tax and regulatory compliance products for the US insurance industry called complianceDNA.

The firm claims that this new online application eliminates the "compliance headache" for US insurance professionals by managing key reporting deadlines, automatically generating documents and returns, and saving evidence of compliance in a single, secure web application.

"With 50 states all employing different tax, licensing and regulatory frameworks, remaining compliant within the [US] is a significant burden for insurance professionals," said Asher Harris, compliance practice leader for FiscalReps USA.

"With complianceDNA, we are introducing a single portal for managing all compliance requirements, which will save the industry time and money and significantly reduce the chances of non-compliance."

Phase one of complianceDNA comprises a premium tax and state licensing solution for risk purchasing groups; a nationwide self-procurement tax solution for insurers and policyholders; and a Federal Excise Tax solution for policyholders and alien insurers with Federal Excise Tax exposures.

Phase two, due for launch in Q1 of 2015, will comprise a premium tax and state licensing solution for risk retention groups; a tax and licensing solution for the surplus and excess lines market; and State Premium Tax compliance for domestic insurance companies.

Phase three, expected midway through 2015, will include federal and state income tax filings and national Association of Insurance Commissioners filings for insurers and captives.

Mike Stalley, founder and chief executive of FiscalReps in Europe, commented: "FiscalReps's market-leading experience in Europe has enabled us to create a robust platform for the [US] that ensures full compliance can be achieved easily, whilst simultaneously driving down the time and cost of compliance management."

"Crucially, complianceDNA significantly reduces the risks of tax non-compliance."

## Reporting for business

Solvency II Solutions and insurance consultants Barnett Waddingham have entered into a strategic partnership.

This teams Solvency II Solutions's Tabular platform with Barnett Waddingham's actuarial consulting services, to help insurance companies meet Solvency II reporting requirements.

The partnership will offer companies a simple 'end-to-end' service that will simplify Solvency II reporting requirements, which will be compulsory from March 2016.

Through the Tabular platform, Solvency II Solutions will cover data integration and reporting, while Barnett Waddingham claims that its consulting experience in system and process transformation "will help insurance companies to reap the benefits of an efficient, repeatable and auditable Solvency II reporting framework".

John Staines, CEO of Solvency II Solutions, commented: "We are very excited to come to the market with this joint proposition.

Barnett Waddingham offers Solvency II programme change expertise that Tabular clients wishing to bring in external resource can take real benefits from."

"The competitive price point and innovative offerings of both parties make this a compelling proposition for insurers looking for an efficient and sustainable Solvency II reporting framework."

Scott Eason, head of insurance consulting at Barnett Waddingham, said: "The idea behind this partnership was to develop a solution [that] makes complying with the new Solvency II reporting requirements as hassle free as possible for insurance companies."

# Ratings round-up

## US bank's captive insurance company goes from strength to strength

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and issuer credit rating of "a" of Park Assurance Company, the single parent captive of J.P. Morgan Chase & Co.

The ratings of Park reflect its excellent risk-adjusted capitalisation, operating performance, liquidity position, sophisticated risk management strategy and practices, conservative investment strategy, and its management team's extended experience in the industry.

Partially offsetting these positive rating factors is Park's large gross underwriting exposures as it offers very high insurance limits and insures some properties with substantial insured values.

Park is very dependent on reinsurance in order to offer its various property programmes and high limits.

The captive provides J.P. Morgan with global property coverages, some of which also cover terrorism losses, and, effective as of 8 July 2011, deductible reimbursement policies covering workers' compensation, auto liability and general liability (pursuant to the Hatherley novation and transfer agreement).

These coverages are key components of J.P. Morgan's risk management strategy, Park benefits from the bank's significant financial resources.

As Park reinsures a large portion of its global property programme, its exposure to underwriting losses is minimal, barring significant losses from terrorism.

It only uses well-rated reinsurers, and its surplus base is more than adequate to support its asset and credit risk exposures.

As Park offers very high limits, its resulting gross underwriting exposures on its largest properties are also "very high", according to A.M. Best.

Park is also dependent on the protection afforded by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA).

While TRIPRA offers significant protection from terrorism losses, the net impact on Park could still be "burdensome", considering the high coverage limits offered.

Nevertheless, A.M. Best has acknowledged the low probability of such extreme events and the support available to Park as part of J.P. Morgan.

A.M. Best has downgraded the issuer credit rating to "bb" from "bb+" and affirmed the financial strength rating of "B (Fair)" of Sorford Surety Insurance. The outlook for both ratings has been revised to negative from stable.

The company is a subsidiary of IBT Group, LLC, which itself is a subsidiary of Eurofinsa.

Eurofinsa and IBT are members of a multinational group of companies that specialise in the development, design, construction, equipment and finance of public infrastructure projects around the world.

The rating agency has stated that Sorford's risk-adjusted capitalisation is "relatively adequate for its rating level", though the issuer credit rating downgrade reflects concerns associated with the company's lack of sustainable business volume since its inception in 2010 and the related deterioration of capital and surplus due to administrative expenses.

A.M. Best is also concerned with Sorford's ability to meet the assumptions included in its business plan, along with the impact of economic volatility and the possibility that Sorford could be exposed to "a confluence of events that will test its capital strength".

The rating agency has stated that it will monitor the quarterly performance of Sorford against its stated operating plan.

Any material adverse deviations with regard to management, earnings, capitalisation or risk profile could potentially undermine the stability of the assigned ratings.

Key triggers that could result in positive rating actions would be Sorford generating consistent net income, limiting its losses, meeting or exceeding its business plan and steadily improving its credit metrics to support the ratings over the long term.

Finally, A.M. Best has affirmed the financial strength rating of "A+ (Superior)" and issuer credit ratings of "aa" of Factory Mutual Insurance Company and its subsidiaries, Appalachian Insurance Company and Affiliated FM Insurance Company.

All companies are members of FM Global Group and domiciled in Johnston, Rhode Island.

The ratings reflect FM Global Group members' superior level of risk-adjusted capitalisation, historically strong operating performance, its leadership position in the commercial property market and the benefits gained from its advanced approach to loss prevention and property conservation.

These positive rating factors are partially offset by FM Global Group's significant exposure and susceptibility to natural and man-made catastrophes.

In addition, the group maintains elevated common stock leverage that, while manageable, adds some volatility to its overall balance sheet and earnings.

FM Global Group is a market leader among providers of commercial property insurance in the US, serving a significant number of Fortune 1000 companies worldwide, many of which have been with the FM Global Group for more than 25 years.

The group's ability to consistently retain more than 90 percent of its policyholders is a result of its stable capacity, unique level of engineering resources, international reach, loss prevention technology and shared commitment to property preservation.

# Captive boards and trading partners: communication is key

## William Whitehead of AIG Global Risk Solutions explores the strength and value of face-to-face interaction between a captive board and the trading partners associated with a captive programme

If you gave an essay test to your captive board, how would it respond to the following questions?

- What is our vision and mission for this captive?
- Who are the trading parties that are critical to our success?
- How many times in the past 12 months have you met with these critical trading parties to discuss goals and objectives and to evaluate the state of the relationship?

I challenge you to try this test. While basic, it is an excellent tool to gauge if you have achieved a shared understanding, while also assessing if you are maximising the value of trading partner relationships.

The most successful captives have boards that have close and regular communication with all the parties involved in managing their insurance programme, including the broker, fronting carrier, excess carrier(s), outside counsel, independent auditors and actuaries, claims managers, domicile regulator(s) and investment manager.

You and your board should have face-to-face exchanges with these key partners at least once a year. These discussions give you the chance to explain, in person, your captive's issues, goals and challenges, and assess how well the trading partners listen, confirm and respond.

Trading partners working in unison to create solutions can be extraordinarily powerful. Why would you rely on someone else to tell your captive's story to key trading partners? Likewise, why wouldn't you want your board members to see and evaluate those trading partners on their own? Let's use three examples of topics for discussion to illustrate the benefits of working together:

**Example one: collateral requirements**

**"Why do fronting carriers require the captive to provide collateral and is there any way to reduce the amount?"**

To begin, think about re-employing the test. Hand out those blue books to the board. Remind them they have a fiduciary responsibility, and then ask:

- Why does our fronting carrier require collateral?
- What forms of collateral are required, and are we using the form best suited to our needs?
- What can be done to reduce or eliminate this collateral requirement?
- What is the claim trigger in our fronted policy, and how does it affect our collateral?
- With whom should we discuss collateral management?

Collateral seems to be a subject that remains shrouded in mystery. Most of the mystery stems from not having a clear understanding of the 'why, how and who' of it. Do board members understand that, in a fronting transaction, the carrier takes on a credit risk that may need to be supported by collateral? Do they realise that a carrier must allocate capital to support the fronting transaction's impact on its credit, operational, regulatory, tax and legal risks? Also, regulatory conditions may require the carrier to hold collateral to support cessions to non-admitted reinsurers that result in potential capital costs (for example, the Schedule F penalty in the US).

Like any well-managed business, captives and their boards seek predictability, which yields stability. When collateral management seems mercurial, the issue becomes contentious. This is completely avoidable. Each party understanding the compliance and accounting issues establishes a foundation to jointly create solutions that meet the captive's goals and avoid affecting the capital position of the fronting carrier.

We work with a range of captives requiring varied covers, including professional liability, first-party property, and many special coverage forms. Each captive has unique needs and challenges, and each seeks to minimise collateral.

Collateral determination is an analysis that must take into account:

- The coverage, including terms and conditions;
- The claim trigger; and

- The claim payment/recovery processes and timing thereof.

**The basics of collateral and fronting**

National Association of Insurance Commissioners (NAIC) US statutory reinsurance accounting rules require commercial insurers to hold collateral for reinsurance cessions to "unauthorised" reinsurers in order for the carrier to receive credit for the reinsurance cession. No collateral means no credit for the reinsurance cession from fronting carrier to captive. Now, this would not be a good thing for a carrier. It would cause the oft-referenced Schedule F penalty. In effect, the fronting carrier would be retaining the risk and using capital as if it were insuring the risk, but for a fraction of the income, given that the consideration is a fronting fee rather than a risk transfer premium. That is a poor use of capital.

The NAIC requires that collateral take the form of a letter of credit, a "qualified" reinsurance trust (typically, a New York State Regulation 114 Trust), funds withheld or a combination thereof. No other forms qualify to offset a Schedule F penalty.

The amount of collateral is typically determined by a combination of factors:

- Line of business (LOB)—for casualty covers, usually an undiscounted loss pick or manual rates. For property covers, typically based on paid loss recovery timing;
- Claim trigger—claims made or occurrence? This can have a huge impact and must be thoroughly discussed with the fronting carrier; and
- Financial strength of the captive and parent/group—in general, if the counterparties are deemed financially strong by the fronting carrier's credit department, there will not be a buffer added.

Within each of the three broad categories described above (LOB, claim trigger and financial strength), there are variations on the theme. While the topic may be 'collateral', the programme structure, along with client's needs versus wants, can have a great impact on collateral amounts. No two accounts have the same issues, and it is critical that the fronting carrier learns the issues first-hand from the captive board in a face-to-face, interactive exchange. Good communication yields good results. Not understanding can have long-term negative results.

**Example two: understanding the symbiotic relationship of coverage and the effect of claim triggers when retaining risk through a captive and their impact on collateral**

**I am paying too much for product liability. There is no need to transfer this risk, so let's keep it. Find me a fronting carrier.**

We were recently approached regarding an account whose CFO was convinced that they were paying excessive premiums for their product liability. For the product involved and the limit provided, the premium seemed reasonable—to us. However, that is the view of an insurer, not an insured.

What really triggered the CFO's ire was the fact they had never had a product liability claim. So paying almost anything was going to seem unreasonable. The CFO was determined to self-insure. Caution: retaining risk because no claims have ever manifested can be a dangerous, short-sighted decision.

In the ensuing discussions, it became apparent that the CFO had not made the paradigm shift from being an insurance buyer to running an insurer. When running an insurance operation, it is important to understand financial 'tail' commitments.

We discussed the claim trigger for the coverage. As an insurance buyer, the CFO had purchased an occurrence trigger, but even as an insurer, he still wanted occurrence. We were pretty certain that he did not understand the dynamics involved.

Given the semi-long life of the product insured (assume at least 10 to 15 years), we emphasised that with occurrence, collateral stacking would occur and it would quickly become a negative issue for the CFO.

We have often found that with occurrence triggers, the client's motivation to continue with the terms currently in place is driven not by counterparty mandate, but by a thought process of "that's the way it has always been".

Using a claims made trigger can provide counterparties the protection that they seek, while allowing the captive predictability by ring-fencing open claims, allocated loss adjustment expense and incurred but not reported, thereby providing an element of control on the collateral amount held.

While we were willing to provide both options, we knew from experience that it is critical that the client understands the cause and effect relationship of key decisions. In the end, the CFO stayed insured another year by purchasing risk transfer.

**Example three: utilising partners' breadth of experience can provide surprising benefits to your captive**

**"This client's lawsuits are costing us a fortune. Why was it a client in the first place—didn't anyone check it out?"**

Interactive communication between your captive board and your trading partners can add great value because of the networking that can occur and the broader perspectives brought to bear. Our industry is becoming increasingly specialised. Brokers, insurers and law firms are structured into practice groups.

On the one hand, this trend offers benefits. Because of increased loss exposures and the attendant compliance oversight, specialisation is practically mandatory.

But learning how others in a different industry/specialty recognise and manage certain risk management challenges may bring a new outlook to something with which you have been struggling.

As you are able to have trading partners that cross into many lines, you have a valuable resource at your disposal for brainstorming and creative problem solving.

For example, forensic claim reviews on loss causality stemming from inadequate healthcare patient intake/screening may have much in common with the client intake review process used by attorneys.

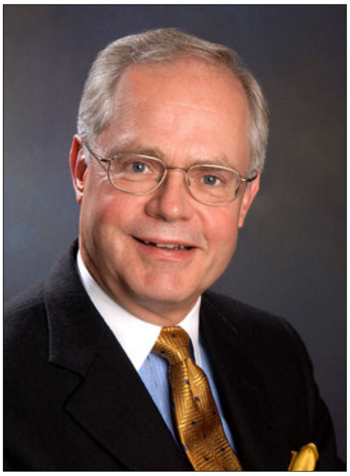
Experience shows us that costly medical malpractice cases and lawyers' professional fees are related to the characteristics of client/patient intake.

It is only one piece of a comprehensive risk management, best-business practices discipline, but better management can reduce financial and reputational loss. Much can be learned from the experience of others with a slightly different view.

Communication enhances knowledge. It builds relationships and the opportunity to earn trust among all the key partners.

It stimulates proactive thinking, which can yield stable, predictable captive programmes that are flexible enough to nimbly respond to emergencies or the unexpected.

Consider testing your captive board to see if members share common understanding of the key tenets of your programme and its trading partners. If you are not doing so now, make certain to have face-to-face interaction between your board and the key trading partners of your programme. It will only benefit you. It's true win-win. **CIT**



**William Whitehead**
Vice president, underwriting manager
AIG Global Risk Solutions

# Jurisdiction evolution

## The success of a captive domicile primarily hinges on the regulatory environment and the 'supporting cast', according to Anastasia Campbell and Sanchez Brooks

Captives within the Bahamas are well supported by a highly experienced and diversified talent pool of professionals. The Bahamas is steadfast in the development and growth of the captive industry and is starting from within. There has never been a more clear indication of the joint commitment of the public and private sector to develop the jurisdiction and cultivate its human capital.

In 2013, the Insurance Commission of the Bahamas (ICB) and the Bahamas Financial Services Board (BFSB) offered young professionals within the financial services industry the opportunity of a lifetime by teaming together to award two scholarships to study for and obtain the Associates in Captive Insurance (ACI) designation offered by the International Center for Captive Insurance Education (ICCIE). The ACI designation is recognised globally and ideally positions Bahamian professionals to provide comprehensive service and facilities to captive insurers domiciled in the Bahamas.

The foresight of BFSB and the ICB to not only understand and appreciate the importance of having qualified individuals to service the Bahamas's captive insurance industry, but to ensure that persons become qualified, cannot be overstated. The depth and aptitude of the financial services industry has long legitimised the Bahamas as a jurisdiction for real and substantive business and the recent initiatives of the ICB and BFSB further solidify the Bahamas's position within the sector.

The ICCIE is a unique organisation, as its courses are relevant to any captive domicile worldwide and its lecturers are handpicked captive experts with specialisations including formation, feasibility studies, governance, marketing, and so on. The ICCIE's mission is to be "the premier provider of captive insurance education and to offer the pre-eminent professional designation in captive insurance".

The programme is very interactive. It cultivates team building and encourages the exchange of ideas and experiences, which has proven to be a successful model for bridging participants from all corners of the globe with varying degrees of knowledge and working experience within the captive insurance industry.

In order to successfully obtain the ACI designation, one has to complete five core online courses, which serve as a solid foundation and knowledge base:

- An Introduction to Alternative Risk Financing Mechanisms;
- Understanding Risk and Risk Retention Mechanisms;
- Protecting the Captive: Predicting Risk, Reinsurance and Other Transfer Mechanisms;
- Forming and Operating a Captive; and
- Business Ethics in the Captive Insurance Industry.

In addition to the core courses, students are required to complete two electives and three 'hot topic' webinars. These webinars cover topical current issues within the captive insurance industry ensuring that participants are well-versed in the most recent industry developments.

The electives, however, allow students the opportunity to focus on areas of personal interest or on areas that may be particularly relevant to their respective jurisdictions.

For example, studying (Understanding the Intricacies of Cell Captives) will benefit the industry in the Bahamas, as our legislation (particularly the Segregated Accounts Companies Act) provides definitive statutory safeguards to ensure that assets and liabilities remain isolated within each respective segregated account, or 'cell'.

Similar to the Chartered Insurance Institute (CII) and the Insurance Institute of Canada (IIC), which are the recognised designation bodies for general insurance, and the Life Office Management Association (LOMA), which qualifies the life and health insurance professionals, the ICCIE was developed to identify and award captive insurance professionals. Many Bahamians have proved themselves by achieving the highest level of designations (known as fellowships) awarded by the CII, IIC and LOMA.

It is therefore imperative that the same level of success is replicated with the ICCIE if the Bahamian captive market is to reach the heights envisioned by the Bahamian government, regulators, the private sector and other stakeholders. In particular, it is essential that young professionals recognise this tremendous opportunity and aim to sharpen their craft and show meaningful evolution along with this re-emerging industry.

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Professionals who are open-minded, analytical, willing to learn and to be challenged, and to explore new trends and methods, will reap the benefits of this industry, which is painted with endless potential.

It is evident that the Bahamas is not only committed to ensuring market growth but also that the market is supported and sustained by proficient and diversified professionals.

The jurisdiction has a high capacity to meet the needs of captive insurers through experienced financial, corporate, legal and other professional service firms, competent professionals and a stable infrastructure.

In addition, the domestic and external insurance legislation were recently overhauled within the last four years and have been dubbed 'market-friendly' and 'pro-business' by the wealth management and insurance sectors.

Indeed, an effective regulatory regime that operates under the new insurance legislation is very much a competitive advantage for the Bahamas.

The regulatory environment within the Bahamas is long-established and well-respected, boasting:

- A pioneering financial services industry with corporate registry and legal and accounting services forming the core;
- Close consultations between the private and public sectors, ensuring regulatory flexibility, a business friendly environment and a historic commitment to providing high quality services to clients;
- Minimum capital requirements which are competitive with other jurisdictions;
- Robust asset protection provisions; and
- A tax-neutral environment for business.

The ICB, as a progressive and proactive regulator, must be—and is—accessible to its registrants and licensees. In terms of location, the Bahamas is a mere 50 miles off the coast of Florida and has international airports throughout the country, which are served daily by international airlines. With numerous flights into the capital city of Nassau, the Bahamas offers a jurisdiction that is easily accessible from nearly every major city in the US, Canada, Latin America and Europe. With such access and availability, conducting business in and from within the Bahamas is easy.

The Bahamas offers a well-developed and distinguished regulatory framework, an innovative and accessible regulator, and a proficient talent pool of professional service providers, whose commitment growth is evident. The beautiful archipelago of islands is well on its way to becoming the clear choice as the premier service centre in the Caribbean for small- to medium-sized captives worldwide. **CIT**

**Anastasia Campbell**
Associate
GrahamThompson

**Sanchez Brooks**
Underwriter
Summit Insurance Company

# Industry appointments

Willis Group has appointed **Martin Best** as managing director of Willis Management in Guernsey. He will report to Paul Owens, CEO of Willis Global Captive Management.

Best has worked within the Willis captive business since joining the company in 1998, most recently as the COO of Willis's international captive operations.

In his new role, Best will be responsible for ensuring the highest standards of service for Willis's captive insurance clients on Guernsey.

Guernsey, a British Crown dependency and one of the Channel Islands, is the leading captive domicile in the European region with more than 300 companies and 450 cells licensed for insurance purposes, writing premiums of £4.63 billion per annum.

Commenting on the appointment, Owens said: "Best takes the helm at an important time for us as more and more of our complex clients are looking at the prospect of setting up a captive as part of a comprehensive and sophisticated risk management programme."

Best added: "Guernsey has an outstanding reputation for innovation and professionalism in the world of international insurance."

"High-quality professional insurance management combined with a first-class regulatory and tax environment make it a very attractive domicile for those seeking to establish a captive insurance operation."

"I am thrilled to have the opportunity to lead our captive operations on the island and deliver the best possible solutions for our clients."

The International Organization of Securities Commissions (IOSCO) has re-elected **Greg Medcraft** as chairman of the board at the annual conference in Rio de Janeiro.

He is the chairman of the Australian Securities and Investment Commission and joined as chairman in March 2013, a year after the board merged with respective committees.

Medcraft said he is committed to working with the board, "with a clear focus on our work in building trust and confidence in the global markets we regulate".

**Howard Wetson** and **Ranjit Ajit Singh** were also re-elected as vice chair and chair of the growth and emerging market committee, respectively.

**Leonardo Gomes Pereira** was also re-elected as vice chairman of the growth and emerging market committee.

**Dave Tatlock** has joined the Strategic Risk Solutions (SRS) in its Burlington, Vermont office.

Tatlock joins SRS from Co-operative Insurance Companies (Co-op), where he was senior vice president of finance and CFO.

"Tatlock brings a wealth of experience to SRS both from his time with Co-op and earlier at Johnson Lambert," commented Brady Young, president and CEO of SRS.

"We believe his knowledge and management of commercial insurance company operations will be a valuable resource for our larger Vermont domiciled captives and risk retention group clients."

Tatlock was with Co-op for 14 years and was responsible for all aspects of financial management and reporting for the $65 million property-casualty insurance company based in Middlebury, Vermont.

He was also a member of the company's executive management team, responsible for strategic and operational planning.

Tatlock said: "As a commercial insurance company CFO in Vermont, I was well aware of the continued growth of the captive insurance industry in the state. The timing to transition into the industry was right and I am excited to start a new chapter in my career."

"I have been impressed by SRS and the team in Vermont. I'm looking forward to getting started and bringing my prior experience to SRS's captive clients."

**Dan Labrie**, president and CEO of HAI Group, has been elected chairman of the National Risk Retention Association (NRRA) at its recent board of directors meeting.

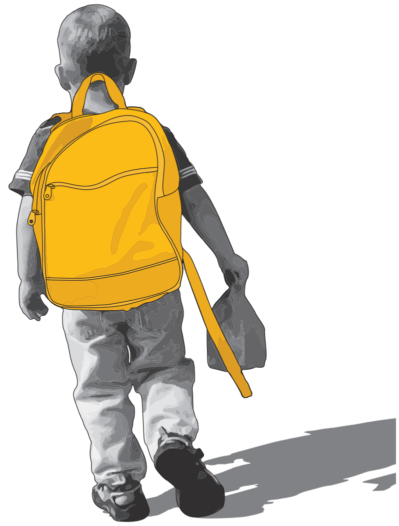
"Labrie is a leader in our industry who has given strong support to [the NRRA] over the years. We are especially pleased that he has agreed to serve as chairman," said Sanford Elsass, who has been chairman for the last three years.

HAI Group is composed of 11 diverse companies that provide insurance and other services for public and affordable housing.

It offers liability insurance to its members through the Housing Authority Risk Retention Group, one of the largest and most successful risk retention groups (RRGs).

The company was one of the first RRGs organised after enactment of the Liability Risk Retention Act of 1986 (LRRA).

Labrie commented: "The NRRA is the public voice of risk retention and purchasing groups with a successful record of defending the industry against challenges to the authority of RRGs to operate in some states; I am confident in the future growth of this important sector of the insurance industry." **CIT**



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