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Vermont loses captive to Connecticut

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Hand and power-tool maker Stanley Black & Decker has moved its captive, SBD Insurance, from the US State of Vermont to Connecticut.

SBD Insurance retained Marsh Captive Solutions of Norwalk, a city in Connecticut, to be its captive manager.

"The iconic Stanley brand is part of the proud tradition of Connecticut manufacturing," said Connecticut's governor, Dan Malloy. "Establishing its specialty insurance division in the state is a most welcome homecoming and signals that our work to establish the optimal environment to grow the emerging captive industry is attracting business. Connecticut has what the industry needs—a deeply talented financial and insurance services sector and a strengthening business climate."

Connecticut's first captive insurer, Thomson Reuters Risk Management, was licensed on 31 July, after moving from Delaware.

In October 2011, lawmakers revised the state's 2008 captive insurance law, expanding the types of insurance captives can transact in the state and establishing a special regulatory unit at the insurance department to focus on captives.

Governor Malloy introduced changes in state insurance regulations for captive insurers last year, with the state offering a $7,500 tax credit to attract them.

"Captive applicants undergo exhaustive scrutiny as part of the licensing process. It is imperative that the captives we regulate are quality applicants and financially solid, all hallmarks of the type of industry that the governor is committed to growing," said Connecticut's insurance commissioner, Thomas Leonardi.

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CITINBRIEF

Sinclair Risk joins Vermont captive association

Sinclair Risk & Financial Management has become a member of the Vermont Captive Insurance Association (VCIA).

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SS&C launches risk profile for insurers

Software provider SS&C Technologies launched CAMRA I-Risk for insurance companies to address solvency standards.

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Vermont loses captive to Connecticut

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"We are pleased to be able to take advantage of Connecticut's recently revised captive legislation," said Craig Douglas, vice president and treasurer of New Britain-based Stanley Black & Decker.

"By moving our existing captive from Vermont to our home state we create further synergies and cost savings for the company."

SS&C launches risk profile for insurers

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Bill Stone, chairman and COO, said: "From innovative bank loan processing to state-of-the-art mobility and portal technology, SS&C is determined to enhance and expand its market leading position in the insurance industry. CAMRA I-Risk comes with full web portal capabilities, including iPad/iPhone apps, leveraging SS&C's innovative Anything, Anywhere, Anytime development philosophy."

"Solvency and accounting standards are increasing in complexity, with stochastic processes being woven into both asset and liability valuation, as well as disclosure, such as ASC 820 and IFRS 7/ASC 825. By all accounts, this trend is likely to accelerate, making the integration of financial reporting and risk reporting an imperative in terms of data integrity, workflow and cost efficiency," said James Ramenda, senior vice president at SS&C Enterprise Risk Solutions.

"The solution not only helps insurers comply with industry regulations, it helps provide the insight needed to improve risk management, make better-informed business decisions, and ensure financial stability over the long term."

Sinclair Risk joins Vermont captive association

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Sinclair is an independent insurance agency in the US State of Connecticut with 60 employees at its headquarters in Wallingford and hub offices in Norwalk and Chester; Springfield, Massachusetts; and Naples, Florida.

"We built our reputation on providing clients with solutions that go beyond traditional insurance programmes," said David Sinclair, president of Sinclair Risk & Financial Management.

"One such solution that makes sense for some companies and high net worth individuals is the establishment of a captive. We've invested a great deal of resources in developing our expertise in setting up 'captives'."

"As a result, we've become an important resource within the industry and for our clients. Joining the VCIA allows us to affect change regarding legislation and keep our pulse on trends and key issues impacting this emerging industry," said Sinclair.

AGCS seeks expansion in Sub-Saharan Africa

Industrial insurance firm Allianz Global Corporate & Specialty (AGCS) has signalled its intention to establish a significant local presence in Sub-Saharan Africa with the appointment of Delphine Maidou as CEO of its regional subsidiary, AGCS of Africa Pty.

Maidou, currently AGCS's head of market management in Canada, will be based in the company's Johannesburg office from and will lead its planned expansion across the region, taking overall responsibility for AGCS business in both South Africa and the wider Sub-Saharan zone.

AGCS plans to more than double its local team over the next three years to support this move. This investment will strengthen AGCS's regional services so that all African clients and brokers will have access to its full range of products including property, marine cargo, general aviation, engineering, liability, financial lines and global programmes.

AGCS also benefits from the already established presence of Allianz Africa, which has offices in 11 Sub-Saharan countries, including Ivory Coast, Senegal, Ghana and Cameroon, and with which AGCS will collaborate closely in these markets.

AGCS estimates that the South African non-life market alone will generate a premium of about R60 billion (€5.8 billion) by the end of 2012 and that the corporate segment is currently worth about R6 billion (€580 million) of the whole non-life market, with other local markets growing as their economies expand.

AGCS forecasts that the Sub-Saharan economic area will grow by more than 5 percent over 2012 and 2013 and that this growth trend will continue.

Andreas Berger, AGCS chief regions and markets officer, commented: "Given the region's abundant natural resources and the plans to significantly invest into infrastructure projects we expect this to continue and AGCS intends to be part of this growth."

Maidou added: "Africa is a relationship-driven market that cannot be run without being on the ground. The continent is a complex cluster of independent markets requiring local knowledge in each territory. Our model operates by working with local and global brokers and by having active teams on the ground in the countries where the business is generated."

VCIA fills seats at Vermont conference

The Vermont Captive Insurance Association (VCIA) saw an increasing number of attendees for its annual conference in Burlington, Vermont. Attendance rose above last year's mark, reaching just shy of 1100 participants, with 25 percent of conference attendees being captive owners.

"We are very pleased with the increase in sponsorship we received from the industry to present the VCIA conference. We would not be able to host this excellent event without the overwhelming support of our sponsors and exhibitors," said Richard Smith, president of VCIA.

Awards were given to several industry participants for their service to the industry and to the association. An award was granted to Michael Bemi of The National Catholic Risk Retention Group, and an industry service award was given to Art Koritzinsky, director in the alternative risk solutions group at Marsh.

Guernsey PCC recaps: aerospace up, Reader's Digest down

Better Capital has released its interim management statement for 2012.

The limited liability, closed-ended investment company was incorporated on 24 November 2009 in Guernsey, and converted to a protected cell company (PCC) in January 2012, changing its name from Better Capital to Better Capital PCC.

Upon conversion, the company established the 2009 cell to which it attributed its investment in BECAP fund (Fund I), which has a portfolio of investments in distressed businesses.

It also established a new protected cell, the 2012 cell, which issued new shares raising £169.9 million for investment through the 2012 cell into BECAP12 fund (Fund II), which will invest in a portfolio of distressed businesses.

The 2009 and 2012 cells have the investment objective of generating attractive total returns from investing in portfolios of businesses that have significant operating issues or financial distress, with a primary focus on businesses with significant activities within the UK and Ireland.

The company stated that its 2009 cell has committed an aggregate of £203.8 million, and the 2012 cell has committed an aggregate of £165.5 million.

On 10 August 2012, Fund I had cash balances of £20.4 million placed with instant access through a diversified cash management policy.

Market conditions for most portfolio companies remain weak but the majority of Better Capital's businesses in Fund I are holding solid, with aerospace part supplier Gardner continuing to benefit from strong market demand in the civil aerospace sector

However, the company stated that the traditional direct marketing business of Reader's Digest continues to decline in line with market trends, as its customer base shifts to electronic gadgets.

Blackburn Group releases new RiskPro Health apps

Blackburn Group's enterprise risk and claim settlement solutions partners have launched RiskPro Health, a new group of health insurance risk and claim management applications.

Partners involved in the launch include Hanover Stone Partners, a network of senior risk management advisors, and Cantor & Company, owners of risk data analytics company RiskMap.

RiskPro Health is an extension of the Group's RiskPro technology solutions. These provides risk management industry participants with a range of products and services (delivered through applications on internet-based platforms) to combat challenging risk issues.

The RiskPro Health application has been devised to assist the self insured and funded health industry in serving insurers and self-insurers around the country.

RiskPro Health's licensed practitioners offer insurers a range of risk solutions, along with managing their most serious claims, offering customised solutions for health and wellness based on current diagnoses.

Hanover Stone Partners forms CaptiveGuard

Risk management services firm, Hanover Stone Partners, has launched a new practice that will provide a range of governance and related advisory services for captive insurance companies and their parent organisations.

Hanover CaptiveGuard draws on the experience of Hanover Stone Partners's network of 36 senior risk advisors and 25 specialty partner firms to assist parent organisations and their captive subsidiaries.

The services of CaptiveGuard include: actuarial reviews, global and local insurance regulatory compliance, evaluating captive management company's performance and facultative and treaty reinsurance market security.

In addition, the new practice will also provide strategic and financial reviews of a captive's underwriting portfolio and evaluate potential strategies to accelerate growth, improve underwriting profitability, and increase return on capital.

John Kelly, managing partner and founder of Hanover Stone Partners said: "As organisations around the world look to expand the utilisation of their captives—including writing third-party business, funding employee benefit programmes and through intra-company investment activities—their captive operations have become increasingly complex and their risk profiles have evolved."

"As a result, they require more robust oversight and governance, as well as continual objective and independent operational review."

Guy Carpenter approved in China

Guy Carpenter & Company, a member of Marsh & McLennan, has received approval from the China Insurance Regulatory Commission (CIRC) to open a new branch office in Shanghai, China. The new branch will be headed up by senior vice president Phil Xue.

This is part of the firm's efforts in building a strong local presence in China. Earlier in the year, Hong Guo and Vienna Cheung were appointed as deputy CEO and COO respectively.

Based in Beijing, Hong Guo's appointment as the general manager of Guy Carpenter Insur-

ance Brokers Beijing, the firm's wholly owned subsidiary in China, has recently been approved by CIRC.

"With its newly approved branch licence in Shanghai, the firm will build a solid network by offering a wide range of reinsurance services and risk management expertise tailored to meet the unique needs and challenges of Chinese clients," said a statement from the company.

A.M. Best rates AmerInst Insurance Company as 'A- excellent'

A.M. Best has affirmed the financial strength rating of AmerInst Insurance Company as "A- (excellent)" along with its issuer credit rating (ICR) as "a-".

Bermuda-based AmerInst Insurance Company acts as a reinsurer of professional liability insurance. The company's shareholders are predominantly certified public accountants (CPAs) or with CPA firms.

The ratings agency has also confirmed the ICR of AmerInst's holding company, AmerInst Insurance Group, as "bbb". AmerInst Insurance Group's ICR is based on its methodology. The ratings outlook for both companies is stable.

"The ratings reflect AmerInst and its parent's strong capitalisation, experienced management team and niche expertise in providing professional liability coverage," said a statement from A.M. Best.

"The long term contractual relationship with Crum and Forster Insurance Company as a partner in underwriting, marketing and claims also contributes positively to the ratings."

The positive ratings could be partly offset by narrow spread of underwriting risk, along with the execution risk that is associated with the implementation of the organisation's new business plan.

"AmerInst intends to continue under its new business plan to employ a conservative reserving methodology under which it historically booked to a higher loss ratio than that of its primary carrier. AmerInst has met A.M. Best's higher capitalisation requirements, which mandate a more conservative level of risk-based capital for a new business plan."

"A.M. Best will continue to monitor AmerInst as it implements this business plan. Any material negative deviation from the business plan in terms of management, earnings, capitalisation or risk profile could result in negative rating pressure."

NRRA celebrates 25 years

At its annual conference, the National Risk Retention Association (NRRA) will mark 25 years defending risk retention groups (RRG) and purchasing groups (PG) against attempts by some state regulators to restrict their operation in violation of federal law.

NRRA is a non-profit trade association that develops the education and promotion of US domiciled alternatives to standard liability insurance.

Chairman of NRRA, Sanford Elsass, said: "Our association has won landmark cases in the federal courts upholding the right of RRGs to operate nationally when licensed in a single state, but some states continue to impose registration requirements, excessive fees and other limits on RRG authority—actions that are not permitted under the federal Liability Risk Retention Act of 1986 (LRRA), which preempts most regulation by non-domicile states."

The last 25 years has seen an increase in RRG's with more than 250 companies generating roughly $2.5 billion in premium. The PG sector has also grown to more than 850 PGs.

"We'll continue to fight for legislation to put teeth in the federal law by amending the LRRA to include a dispute resolution mechanism that would relieve RRGs from having to seek relief in the federal courts when states impose unlawful restrictions on their operation," Elsass added.

The conference will be held at the Ritz Carlton, Pentagon City, Washington DC from 9-11 October 2012.

At a premium: captive tax

CIT talks to Mike Stalley of FiscalReps, who shines a light on developments in Solvency II and insurance premium tax legislation

GEORGINA LAVERS REPORTS

Could you describe FiscalReps and your role at the firm?

FiscalReps provides premium tax and VAT compliance solutions and advice to the global insurance industry. Our team of insurance, tax and finance professionals delivers services to international insurance businesses, including captives, captive managers and captive owners. Our services are split into four main offerings: outsourcing, technology, consulting and training. I'm the founder and chief executive. I started the business in 2003, after spotting a gap in the market for a specialised and dedicated service.

How do your offerings differ between captive insurers and managers?

Where we work directly with captive insurance companies (and their owners), we offer a very hands-on approach. We assist with areas such as premium allocation, premium tax calculation and premium tax compliance. Given our detailed knowledge of our clients' business, we are in a good position to offer practical premium tax advice to ensure their continued compliance and, in some cases, reduce their overall tax cost.

When we work with captive managers, we tend to manage the tax compliance needs for a portfolio of their clients. Our role tends to be more compliance focused. We maintain close relationships with the captive manager, however, to ensure that the best possible advice is always given where tax issues arise.

What are the biggest obstacles for the captive sector at the moment?

Continuing strong demand for captive solutions means growth will continue. However, if not properly managed, increasing corporate governance demands (including tax compliance) could challenge the role and value of a captive.

What are the implications of insurance premium tax for captives?

In most countries, insurance transactions are subject to taxation, which is commonly referred to as premium tax. It takes many forms, such as VAT, stamp duty or goods and services tax, and each country's tax regime differs greatly. In many cases, captives are responsible for collecting and settling these taxes with the local tax authorities. If not, the liability often rests with the local insured.

As a captive owner, it's likely that both your captive and the local insureds have to manage the correct calculation and settlement of tax across a wide range of countries, especially if you are writing a multinational programme through your captive.

FiscalReps was seeking further details on the proposed insurance premium tax in Hungary, including whether a fiscal representative will be required for non-Hungarian insurers—have you made any headway?

At that time, the legislation was only in draft form and awaiting parliamentary approval. We can only offer absolute clarity on the exact tax regime to be introduced once that happens. However, we have already started building relationships with the local insurance market, including trade associations, regulators and tax officials. This puts us at the forefront of any developments. Once the act becomes law, we can offer our clients definitive guidance on the operational implications of the new tax regime.

When a country introduces a new tax regime, the operational requirements often remain uncertain even after the act is passed in parliament. Having built relationships with the relevant organisations, FiscalReps is in a position to work with them to develop operational best practice. We can then roll this out to our clients.

Why are some insurance service providers reluctant to give captives tax advice?

It's like asking doctors to give you a legal opinion. Many insurance professionals are specialists in their own area and feel uncomfortable about offering advice outside of their area of expertise. Premium taxes are very complex. The devil is in the detail and, as with all tax matters, only professionally qualified people can really offer advice. FiscalReps works alongside many insurance service providers to offer premium tax advice when they feel unqualified to do so.

What are your views on Solvency II, and what kinds of questions are you getting from captive owners regarding the directive?

The industry appears to feel that Solvency II may place an unnecessary additional compliance burden on the EU captive market. However, there are new requirements that must be met.

Aside from the capital requirements, a number of parts of the legislation appear to encourage a 'best practice' approach to governance. In particular, there's a need for outsourcing partners to be 'fit and proper'. At FiscalReps, we believe that the service that we offer and the professionals who we employ should be of the same professional standard as captive employees. We have focused on recruiting tax, finance and insurance professionals so that, as a business, we can demonstrate that we are 'fit and proper'. We can be considered a reliable outsourcing partner when the activity that we perform is considered to be a core part of the captive operations. Furthermore, we have built a financially secure business with strong internal controls, ensuring that our standards of service remain consistently high. CIT

Mike Stalley
CEO
FiscalReps

Masters of reinsurance

Compulsory reserving is making Luxembourg stand out over its competing jurisdictions, as CIT finds out

GEORGINA LAVERS REPORTS

Under the watchful eye of insurance regulator the Commissariat Aux Assurances (CAA), Luxembourg has become the largest captive reinsurance domicile in the EU, with nearly 250 approved reinsurance companies, of which the majority are captives. Luxembourg passed its first captive reinsurance law in 1984, with an amendment made in 2007 to transpose the EU Reinsurance Directive into national law.

This legislation has evolved to require that reinsurance companies collect adequate technical and balancing reserves. It allows captives with less favourable risk diversification to build large technical reserves to cover these risks.

For both life and general insurance, captive insurance companies, like any Luxembourg commercial company, are liable to pay corporate income tax at a rate of 21.8 percent and a municipal business tax at a rate of 6.75 percent in Luxembourg City (overall tax rate: 28.59 percent). Auditing firm PricewaterhouseCoopers notes that "a reinsurance company can benefit from a deferral of taxation"—a loophole that is no doubt appreciated by those in the sector.

Setting up shop in Luxembourg comes with a pricetag. For an insurance captive, a minimum guarantee fund of €2.3 million or €3.5 million, depending on the risk category that is insured, is required. For a reinsurance captive, the numbers skew slightly lower—€1.23 million or €3.2 million, depending on whether it is a professional reinsurance undertaking.

Though the European insurance market has exhibited fairly regular growth in premiums, coverage requirements have deteriorated for companies having to deal with high volatility in premiums, difficulty in finding cover that is adapted to the risks resulting from their activities, insurers' refusal to cover some risk areas, and market capacity constraints.

Companies looking for alternative solutions to control and finance their risks are slowly coming around to the idea of captives, although regulation still remains an issue.

While captive owners and managers are by and large sympathetic to the prospect of new insurance legislation replacing Europe's current 14 capital adequacy and risk management directives, the industry is still waiting for a moment of lucidity on exact requirements for Solvency II. Solvency II remains among the biggest hurdles for captives ahead of the directive's scheduled introduction at the beginning of 2014, and could be a stumbling block for Luxembourg.

Solvency II may swell regulatory capital requirements for EU's captives by up to 400 percent. The new rules could also affect regulatory equivalence. In the EU, captives in one domicile are allowed to be admitted into another within the EU. However, under the proposed Solvency II rules, it is not yet clear if a captive that is owned by an EU business or association, but domiciled outside of the EU, will have regulatory equivalence.

"As the compulsory equalisation reserve ranks as first tier capital under Solvency II, Luxembourg is not feeling the strains as much as some domiciles," says Sophie Vandeven, business development manager for Aon Insurance Managers Luxembourg. "Solvency II remains a challenge however, be it only at an operational level."

The creation of an equalisation provision was set in place in December 2007 by Luxembourg's Grand Ducal, with the aim of covering exceptional claims that may occur and are tax-deductible. The CAA establishes individual coefficients and attaches them to each risk category, with ratios set up at six times the standard deviation of the "loss premium" ratio recorded for a given risk.

This is just one of the ways in which Luxembourg lawmakers are helpful when it comes to captives. Since 1984, when the country set up a legal, tax and regulatory framework for reinsurance companies that helped reinsurance captives to bloom, the sector has been doing as much as possible to make sure that it remains one of Europe's leaders. "Luxembourg lawmakers are naturally conservative in their outlook, but are keeping, as much as possible, a pragmatic market approach," says Vandeven. "Control authorities are also very happy to set time aside to meet potential captive owners interested in forming a Luxembourg captive."

Though many lines are written through captives in Luxembourg, employee benefits and life reinsurance are becoming popular, and the country has set itself up as a good spot for reinsurance captives. "Luxembourg has a unique position within the EU, with the compulsory equalisation reserve as a major asset," explains Vandeven. "This enables reinsurance companies to set up large fiscally efficient catastrophe claims reserves."

Looking outwards beyond the country, European captives are remaining strong, with the Insurance Information Institute (III) predicting more captive formations moving onshore into the US and Europe. In an update to its research of alternative risk vehicles, III revealed more than half of captive formations in 2011 were located within the EU and the US, increasing the total of onshore domiciles from 35 percent in 1991. In Europe, Guernsey was the largest domicile with 343 captives in 2011, with Luxembourg coming second with 242, followed by the Isle of Man (133), Dublin (101) and Sweden (49).

On how Luxembourg's captive offering may be advantageous over offshore jurisdictions, Vandeven says: "It's the compulsory reserving that makes Luxembourg stand out over its competing jurisdictions, be they offshore or not. This, along with having 64 tax treaties in place and a further 22 pending, means that we are a well-respected financial centre. Traditional values such as regulatory stability and accessibility should not be underestimated."

Other domiciles that may present future competition "depend on the client's goal on the short and medium term," states Vandeven. "Luxembourg is more oriented towards setting up a strategic insurance and reinsurance management tool for the group, with strong position towards market, thanks to the equalisation reserve." CIT

Working the angles

Robert Briscoe of Milliman outlines best practices for workers' compensation case reserves

The establishment and maintenance of case reserves is common accepted practice in the management of workers' compensation programs throughout the US. Across the industry, almost all insurance organisations and third-party administrators (TPAs) expend significant resources on maintaining case reserves. There remains, however, a very wide range in the quality of the case reserving practices across the insurance industry and among TPAs handling self-insured workers' compensation claims.

Two basic approaches to estimating case reserves have historically dominated claims practices in the industry. One approach is referred to as point estimate case reserves. Under this approach, the claims handlers who are tasked with establishing case reserves are instructed to consider only the data that is available at the point in time they are estimating the case reserve. Speculation as to the outcome of the claim beyond the current known facts is discouraged. The other approach is referred to as reserving to ultimate. The goal of reserving to ultimate is to establish a case reserve on each open claim that is intended to encompass all future payments that are associated with the cost of that claim through its final disposition. Of course, many claims organisations do not effectively enforce the approach that they operate under and in the end often get a mixture of the two approaches.

Casualty actuaries are not greatly concerned as to which case reserving philosophy or combinations of philosophies are used, only that they are applied consistently over time. If only a few years of historical data are available, then case reserves are increasingly important to casualty actuarial valuations, as they contain the only information about the potential size of ultimate losses other than industry development information.

Case reserves are, however, used for other important purposes beyond actuarial valuations, including experience modification calculations as an early warning system for the emergence of individual large claims, for changes in the types of claims being underwritten, and for workers' compensation law changes that affect claims costs, and, perhaps most importantly, as a financial goal for the claims handler to work towards.

This paper will discuss best practices in the context of case reserving workers' compensation claims to ultimate, which should be the best practices goal. The discussion will start by outlining the data items that should be considered in setting a best practices case reserve and continue with a discussion of the merits of having those data items in discrete data fields as opposed to recording them in adjustor claims notes. The mathematical issues surrounding the use of mortality tables, benefit escalations and probabilities in the calculation of case reserves for claims that will be open for long periods of time will be discussed. Finally, issues that are associated with the frequency of case reserve updates, authority limits and the recognition of the ultimate cost of the claim, even if the claim has exceeded specific excess limits, will be discussed.

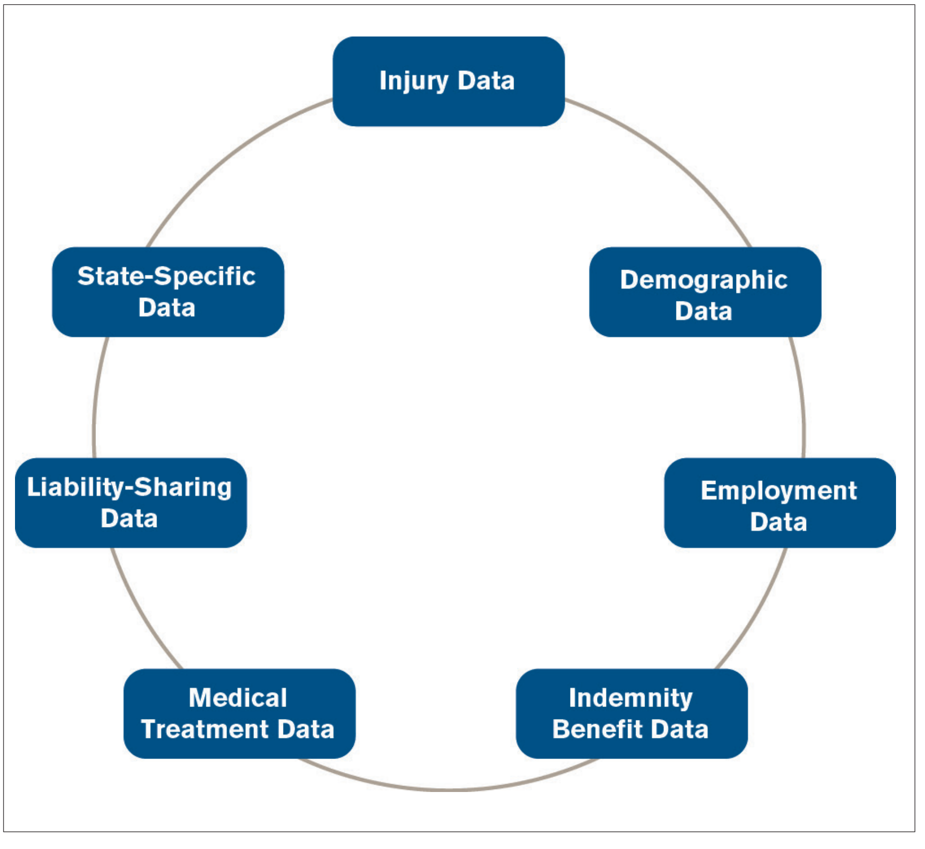
The 50 US states and several federal US workers' compensation systems each pose unique case-reserving situations based on the local statute, regulations and practices. There can be no single best practices solution that is applicable to the 50-plus disparate systems. There are, however, sufficient commonalities in the general structure of US workers' compensation systems, in the medical conditions and treatments for work-related injuries, and in the human condition with respect to dependence on disability benefits, to establish a strong general set of data items that are applicable to all workers' compensation claims.

Once this generalised data is collected and recorded, the case reserving environment can be customised to fit the specific workers' compensation jurisdiction. This paper will discuss that common starting base set of data items and explore how to best utilise them in setting case reserves.

Workers' compensation claims vary widely in the length of time that the claim is open and therefore require a case reserve. Most claims close within a month or two after the injury. Case reserves on small claims that close quickly can be set on a mechanical basis—for example, each claim gets the same reserve as it opens, or, if set judgmentally by a claims handler, can fall into a narrow, essentially mechanical range. Such reserves can be considered a best practices reserve as long as the case reserve amount is a reasonable reflection of expected payments (based on historical payments made on similar claims, for example), and claims for serious injuries are identified and reserved separately. Best practices case reserving does not necessarily involve large volumes of small claims or inordinate resources. It does involve the relatively small number of claims that do not close soon after the injury. These claims, because they do not close, accumulate over time, so that after a few years of writing workers' compensation business or operating as a self-insured employer, each adjustor will be managing a portfolio of such claims. It is important not to view efforts to set best practices case reserves as a process that will touch large volumes of claims and consume significant resources.

Data items to be considered in the setting of workers' compensation case reserves

The data necessary to a best practices case reserve can be organised into the following seven categories:



The injury data includes the date of the injury, the state having jurisdiction, the results of the investigation of the injury as to whether it arose from employment that was covered by the carrier, and, if it occurred in the course and scope of employment, the results of the investigation as to possible subrogation against third parties, and data as to the specific body parts that were injured. Other data items such as the location and time of the injury, the class code of the employer classification system for the claim, and other injury-related data should be collected to round out the best practices data set.

The demographic data includes the claimant's date of birth, marital status, spouse date of birth, ages of minor children, information as to the claimant's life situation such as home ownership, rental of apartments or other living quarters, job status of spouse or other family members, child support issues, and other life situations that may affect the outcome of the claim.

The employment data includes the claimant's occupation(s) at the time of the injury, current employment if he or she has returned to work, education, other job skills, termination status (if terminated from employment), return-to-work prospects, language issues, criminal history (if applicable), pertinent dates (such as date of hire, termination, and return to work on modified or full duty), and data on ongoing restrictions with respect to lifting, standing, bending, climbing or other restrictions.

The indemnity benefit data should include the claimant's average weekly wage, information on any dispute over that wage, any concurrent employment issues, current indemnity benefit being paid, expected permanent disability benefits to be paid, data as to when maximum medical improvement (MMI) is expected, if an opinion on MMI has been opined by the claimant's doctor or an independent medical examination (IME) doctor, expected disability rating, information regarding a scheduled benefit if applicable, and, if permanent disability is expected to be paid at a different rate, then the current temporary total disability (TTD) benefit and what the different benefit is expected to be.

The medical treatment data should include all body parts that were alleged by the claimant to have been injured or aggravated by the injury, information as to which body parts have been accepted and which rejected, and, if rejected, the results of any contest or dispute resolution. The principal body part for which ongoing treatment is expected should be named. The data should also include all drugs that are currently prescribed, all comorbidities that are present and all distinct treatments that have been performed, such as the name of the surgery, the result and the name of the medical device (pain pump, spinal cord stimulator, knee replacement), as well as when the device was implanted and the frequency of refills or replacements.

The liability-sharing data should include eligibility/acceptance data regarding second injury funds, other special funds, apportionment with other carriers or employers, and information on subrogation with third parties.

The state-specific data should include status and benefit data that is unique to a particular jurisdiction. Generally, it is best to have separate discrete data fields for state-specific data that occur alongside the general workers' compensation status information for the same data item. This way, readers of the data can see the general status of the claim with state-specific descriptions that lead to specific benefits, eligibility or other claims.

Storing the data

Workers' compensation claim databases store relatively little claims data in individual data fields beyond what is required for financial and unit statistical plan reporting to state agencies and rating bureaus. The rest of the data that are needed to set a case reserve is almost always stored in the adjustor's notes. Historically, this has kept workers' compensation claims systems relatively simple in terms of database structure, but continuously requires claims handlers and supervisors to read and update claim notes to understand what is happening to a claim across its life. Storing data in claims notes, instead of separate fields with data entries controlled to be uniform, precludes searching quickly and easily for specific claim situations and producing all but the simplest reports.

Many carriers and TPAs have supported the current situation largely because creating specific fields for claim data in a claim database leads directly to requirements that the data be obtained and filled in. While it cannot be apparent to anyone that a key data item is missing from a large volume of claim notes, it is readily apparent if a required field is not filled in, and may lead to criticisms of the claims handlers.

Some attempts to put data in discrete fields have been made, but they are almost always claims organisations that only receive claims from a single or small number of states or are in response to new rating bureau unit reporting requirements. Inevitably, these claims systems become so highly customised to the small number of jurisdictions that the systems are not usable in other jurisdictions. They also end up containing fields that are associated with processing the claim, not setting case reserves.

Many existing claims systems were designed and implemented 10 or more years ago. It is not unusual to see 20- and even 30-year-old claims systems still in use today. While many large-scale improvements in database design, ease of development and speed have been made in the last 10 years, few claims organisations have taken full advantage of them.

Using modern database software to record key information in discrete data fields is fundamental to producing best practices case reserves efficiently. While best practices case reserves can be created and maintained from claim notes, creation and updates are time-consuming.

The advantages of discrete data field storage are:

- Value lists, check boxes, and radio button sets can be used to standardise data entry so that reliable searches can be done and to make data entry as easy as possible
- Entries can be updated as the data changes
- All of the fields can be used in reports
- If new claims systems are brought online, the data can easily be moved to new discrete data fields.

It should be noted that the use of discrete data fields does not entirely replace the need for adjustor claim notes. It will always be necessary to record information that does not fit into a set of discrete data fields or that needs additional context to fully explain a complex situation. The use of discrete data fields will minimizse the need to cut and paste old claims notes with just one more sentence reflecting the new current claim situation. Large claims notes summarising the facts and circumstances of a claim are routinely cut and pasted with small changes to reflect the current situation, adding substantially to the volume of overall notes and the time that it takes to read through them to understand the current claim situation.

What are the disadvantages? An obvious one is that a standardised and uniform data field set may not capture the context necessary in a specific situation that is vital for understanding the claim. Relying completely on a simple set of data fields with a fixed number of choices as to the words that are used to describe the claim is tempting; claims notes must continue to be used to fully capture the full sense of a claim and the resulting case reserve. Simple is not necessarily better with respect to specific data fields versus claims notes. A combination of specific data fields and continued reliance on claims notes that are reduced in number and length through the use of specific data fields leads to best practices.

Traditional incurred versus outstanding case reserves

Many older claims systems record reserves as an initial reserve estimate that is then reduced by payments and increased or decreased by changes in reserves. While widely used in workers' compensation, the method arose from liability claims that generally see fewer payments and reserve changes than are seen in workers' compensation claims. Terminology can become confusing when reserves are recorded this way, because the original estimate of the value of the claim minus payments made-to-date plus the net of up or down reserve changes is often called the reserve.

To obtain the outstanding case reserve representing the remaining estimate of future payments, the amount that is paid to date must be subtracted from the total incurred loss value. Use of this method is arguably not a best practice, as it is often very difficult to follow the many adjustments up and down to the true outstanding reserve. Rather than saying, "I am adding $10,000 to the current incurred loss", it is preferable to say, "I am changing the current outstanding reserve of $30,000 to $40,000". While most modern workers' compensation systems track outstanding reserves separately from amounts paid to date and total-incurred values, the changes to the reserves are often couched in terms of the old terminology. The necessity of recording the reasons for the increases or decreases in case reserves in claims notes is greatly complicated by the use of the old incurred tracking system, which often results in large, difficult-to-follow claims notes.

The mathematics of best practices case reserves for lifetime payments

Different workers' compensation claims will inevitably pay benefits to injured workers and to providers for different lengths of time. Even within a claim, different benefits pay for different lengths of time. Any case reserve is fundamentally either a periodic benefit that is paid for a specific length of time or an estimate of a settlement that the claimant may take. The lengths of time involved can vary from days or weeks to the life of the claimant and/or the lives of his or her survivors. When the lengths of time involve the life of the claimant, mortality tables are used. There are two ways in which a mortality table can be used to estimate the ultimate benefits that will be paid to an individual:

- A life expectancy calculation
- A life annuity calculation.

Of the two, life expectancies are simpler to calculate. A single life expectancy value is multiplied by the periodic benefit. A life annuity is much more complex, requiring that the periodic benefit be multiplied by a series of factors representing the reduction that is due to mortality spanning the full possible future life span of the individual—for example, the number of years between the claimant's current age and the end of the mortality table (100, 110, or 120 years).

Life expectancy and life annuity calculations return the same answer if the periodic benefit remains unchanged for each future year and the nominal answer is the only one that is sought. Differences between the two calculations only become apparent when the periodic benefit varies across the future of the claim (medical inflation, cost of living adjustments for an indemnity benefit, offsets against US Social Security benefits), or if the value that is sought is adjusted for the time value of money (present value, or PV).

Differences arise from life expectancy versus life annuity calculations because a life expectancy value is the future point in time when half of a group of individuals of the same starting age will have died. The rest of the group will live longer—some perhaps to the end of the mortality table. Changes to benefits past that midpoint are not considered in a life expectancy calculation, and the period of time used in any PV calculation is less than the actual period of the payout of the ultimate benefits.

The life annuity calculation, on the other hand, projects the actual future cash flow, including all future adjustments to the benefit stream, and then applies a declining set of factors representing future year-by-year expected deaths. The resulting cash flow will not represent the cash flow for the individual claim because it cannot be known exactly when that person will die, but if the cash flows from a group of claimants are added together, they do represent the actual cash flow of the group. If the group is sufficiently large, the cash flows will represent a reasonable estimate of the actual future cash flow.

Life insurance and pension calculations are based on life annuity calculations, not on life expectancy calculations.

Life annuities can be used in a similar manner as life expectancies if age-by-age factors are pre-computed combining mortality, present values, and, if applicable, escalations. Such combined factors are published by workers' compensation rating bureaus for widows' death benefits and life indemnity awards. Case reserves that are calculated with such factors are commonly called tabular case reserves. Such factors are typically based on the claimant's age alone. In certain circumstances, if the claimant dies of a work-related injury, such factors become more complex because the age difference between the claimant and the spouse must be a part of the calculation.

Self-insured employers typically book liabilities in their financial statements on a discounted, present value basis. Normally, such PVs are calculated from payout patterns that are calculated from paid-loss development projections. These calculations, depending on the size of the data triangle, may or may not fully capture the length of the payout of the tail claims and do not provide information on individual claims. To the extent that PV case reserves are useful in the allocations of reserves to operating units or to ongoing contracts, life annuity calculations may provide the best answer.

Weighing alternative outcomes

Aside from the issues of life durations of indemnity and medical benefits, best practices case reserves should consider alternative outcomes. If a serious claim can result in either a permanent partial disability (PPD) award for a fixed duration or a life permanent total disability (PTD) award, the dollar value of both potential benefits should be calculated and combined with probabilities. If a settlement is a likely outcome, then that value and appropriate probabilities should be included. Other probabilities may include the possibility of a second injury fund recovery and/or apportionment of parts of the benefits to another employer or to a subrogation recovery. However the various possible outcomes are combined, the details of the calculations should be documented so that the case reserve can be modified as events unfold.

Best practices case reserves require more than a one-time calculation. All case reserves must be updated across the life of the claim, and the frequency of updates can be as important as the initial case reserve calculation procedures. Ideally, a case reserve should be updated as soon as a fact emerges to trigger an update. If the benefit is payable for life, the case reserve must be recalculated each year, because mortality factors are not uniform from age to age. Simply subtracting the annual benefit that is paid from the initial reserve to get a new outstanding reserve at the beginning of the next period will be incorrect.

Some claims organisations update case reserves on the same cycle that they require claims handlers to post a claim summary report to the file—60 or 90 or 120 days. Those claims organisations operate within best practices with respect to the frequency of updates. Some organisations only update case reserves when the outstanding reserve sinks to an uncomfortable level—clearly not a best practice.

Case reserve authority limits often play a role when an outstanding reserve actually gets adjusted on the books of the company. Claims handlers are routinely given dollar limits as to how much authority they have to increase a reserve. If the reserve increase is over the limit, then supervisors or committees, which may be slow to act, must approve it, and so the increase is delayed. Best practices are in place when large increases early in a claim are not necessary because the initial case reserve recognised the potential severity of the claim and/or when new facts dictate a reserve increase (or decrease) that is implemented with minimum delay.

It is a generally recognised best practice to set case reserves on a gross basis, ie, the ultimate liability of the claim before recognition of specific excess insurance or reinsurance. An all-too-frequent failure of best practices is for the claims handlers to realise that a claim is clearly going to exceed the self-insured retention or reinsurance retention and stop processing reserve increases, keeping the outstanding case reserve just below or just above the limit.

Best practices

Best practices with respect to workers' compensation case reserves consider a broad range of injury, demographic, employment, indemnity and medical, liability-sharing, and state-specific data, preferably captured in discrete data fields whose input is controlled so as to be able to do reliable searches. The reserves should be updated frequently. If authority limits are imposed on claims handlers, decisions to increase case reserves beyond those limits should be made quickly. Gross case reserves that recognise the full ultimate payout of the claim should be maintained regardless of the fact that the claim is approaching or has exceeded specific excess insurance or reinsurance retention levels. CIT

Robert Briscoe
Principal and senior consultant
Milliman

2012

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HCIC Forum 2012

Location: Waikiki
Date: 22-24 October 2012
www.hawaiicaptives.com

The HCIC 2012 Forum will delve into opportunities to enhance your captive and risk management strategies despite the stagnant economy. This conference will provide a wide range of educational seminars and speakers that will offer tremendous learning and networking opportunities. Sponsorship forms and session submission forms may be found at www.hawaiicaptives.com

CIC DC 11th Annual Conference

Location: Washington DC
Date: October 29 - 30
www.dccaptives.org

The Captive Insurance Council of the District of Columbia, Inc. (CIC-DC) Annual Conference is the premiere educational and networking event for those involved in the DC captive insurance domicile. This year's event highlights DC's favorable regulatory and business environment, incorporated cell captives, tax issues and captive insurance strategies.

Cayman Captive Forum 2012

Location: Grand Cayman
Date: 27-29 November 2012
www.caymancaptive.ky

Plans are underway to provide an informative series of panelists and speakers and quality educational content for the captive owner and those who are seeking information on captive formations in the Cayman Islands. There will be memorable social events that will allow attendees to enjoy a taste of Grand Cayman.

Western Region Captive Insurance Conference

Location: Arizona
Date: 14 May 2013
www.westerncaptiveconference.org

The next conference for the Western Regional Captive Assocation will be held in Arizona in May of 2013. The exact dates and locations will be determined in the near future. Please mark you calendar in pencil for this event. There will be no conference in 2012 due to scheduling of other captive conferences and the date of the 2011 WRCIC late in the year. Missouri will host the conference in 2014.

CAPTIVE INSURANCE COUNCIL OF DISTRICT OF COLUMBIA

CIC-DC

11th Annual Conference

October 29-30, 2012

The Madison Hotel • Washington, DC

Industry appointments

Specialty Program and Risk Transfer Alternatives Insurance Company (SPARTA) has appointed **Ralph Jones** as president and COO effective immediately. Jones previously worked for Everest Reinsurance as its president and COO, based in London.

George Estes, chairman and CEO of SPARTA, said: "Jones' experience in property and casualty underwriting, his overall leadership capabilities and general business acumen will help the SPARTA team continue to build future franchise value and a pre-eminent position in the programme marketplace."

SPARTA is a property casualty underwriting company that provides customised, unbundled programme solutions in the property and casualty marketplace.

Marsh has appointed **Andrew Chester** as CEO of Bowring Marsh, Marsh's specialist international placement broking division. Chester's London-based position will commence on 1 October 2012.

Chester will also be retaining his responsibilities as chairman of Marsh's global mining practice.

Chester succeeds **Nick Bacon** who is leaving Marsh to pursue other opportunities, after 26 years at the firm.

"I would like to thank Bacon for his superb contribution to Marsh over many years. As CEO of Bowring Marsh, he has overseen its expansion to encompass Bermuda, Dubai, Dublin, London, Hong Kong, Madrid, Miami, Sao Paulo, Singapore, Tokyo, Zurich, Beijing and Shanghai. This has given us a strong platform to access capacity directly in every major global insurance hub on behalf of clients," said David Batchelor, who is president of Marsh's international division.

Lockton has appointed **Phil Mayes** as senior vice president of its global technology and privacy practice, based in London. Mayes will report to Lockton partner and practice leader, Ben Beeson.

Mayes joins Lockton from Zurich Global Corporate where he was head of technology professional indemnity in London.

P.R.P. Performa has recruited **Scott McIntyre** and **Jason Golder** as senior portfolio managers.

At Performa McIntyre will be responsible for all investment grade corporate credit activity. McIntyre previously worked for Dwight Asset Management as the head of investment grade credit, and was a member of the firm's fixed income strategy team.

In his new role, Golder will oversee the firm's structured product investments. Prior to joining Performa, Golder was a fixed income portfolio manager for Dwight Asset Management.

His role included the analysis and trading of CMBS for a wide variety of institutional portfolios and funds. Both McIntyre and Golder will be based in Burlington, Vermont, led by David Kilborn, chief investment officer and president of Performa US.

Commenting on the appointments, Kilborn said: "Their expertise and outstanding leadership will add strength to our investment team, which has more than two decades of experience managing portfolios for institutional investors"

Consulting and actuarial firm Milliman has elected **Stephen White** as president and CEO, after Patrick Grannan retires following a 34-year career at the firm.

Milliman's board of directors made the announcement, acting to confirm the results of a vote by the privately held firm's principals. White has served most recently as a principal and consulting actuary in the Seattle office of Milliman. He joined the firm in 1985.

Milliman chairman Brad Smith said: "Steve White brings a wealth of hands-on consulting experience to his new role as president and CEO. His abilities as a leader, problem solver and consensus builder will serve him well in the days and years ahead.

"Grannan helped guide our firm through more than a decade of growth and marketplace changes. We are confident that White won't miss a beat as Milliman continues to grow and serve our global clientele."

Marsh has appointed **Liz Flynn** as president of its insurance services businesses. The newly created position will be based in New York.

Flynn will report to Peter Zaffino, president and CEO of Marsh, whilst retaining her current responsibilities as president and CEO of US consumer.

Flynn joined Marsh in 2011, previously working for Guy Carpenter, where she was global COO. **CIT**

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