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CAPTIVEINSURANCETIMES

ISSUE061
26.11.2014
WEDNESDAY
captiveinsurancetimes.com

NAIC stalls on accreditation standards revisions

A committee of the National Association of Insurance Commissioners (NAIC) has deemed it necessary to prepare a new and completely revised preamble that will clarify the scope of the NAIC accreditation standards, including their proposed applicability to XXX/AXXX, variable annuities and long-term care reinsurance.

The NAIC committee stated that the revision has been undertaken "in order to provide both clarity and accuracy to the proposed revisions".

The current preambles have been gradually added to and revised over the years to the extent that the NAIC states it is "difficult (if not impossible)" to simply add a section on multi-state reinsurers that both "adequately and transparently" addresses the proposed revisions.

The NAIC has directed the committee to provide a draft of these proposed revisions to the chair of the committee for exposure before the end of 2014.

Many have claimed that the original revision is overly broad and the language is imprecise, as it states: "A multi-state reinsurer is an insurer assuming business that is directly written in more than one state and/or in any state other than its state of domicile."

"This includes but is not limited to captive insurers, special purpose vehicles and other entities assuming business."

This definition would sweep in numerous alternative risk structures that have nothing to do with life reinsurance, including some captives that operate on a direct basis, which has drawn industry opposition.

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Captive applications to begin in Ohio

The State of Ohio is open for business and is hoping to begin licensing captives by the beginning of 2015, according to the Ohio Department of Insurance.

Rules and forms are currently being promulgated and, according to Ohio Captive Insurance Association (OCIA) founding member, Mark Koogler: "At this time, it is anticipated that the Ohio Department of Insurance will accept applications for licensing of captive insurers in December 2014 or January 2015."

The OCIA is continuing to solicit prospective members and currently has 10 on its books.

Koogler also confirmed that an inaugural meeting of the OCIA is taking place on 1 December in Columbus, Ohio.

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MetLife completes merger

MetLife has completed the merger of its subsidiaries MetLife Insurance Company of Connecticut, MetLife Investors USA Insurance Company, MetLife Investors Insurance Company and Exeter Reassurance Company.

The merged company has been renamed MetLife Insurance Company USA and is to be domiciled in Delaware. All necessary regulatory approvals have been received.

At its Investor Day meeting in May 2013, MetLife announced it would merge the subsidiaries to "better position the company to comply with Dodd-Frank collateral requirements, proactively address regulatory issues surrounding the use of captive reinsurance companies, and improve the risk profile and transparency of MetLife's US variable annuity business".

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NAIC stalls on accreditation standards revisions

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The Captive Insurance Companies Association, most notably, claimed that the adoption of the proposed accreditation standards would cause severe damage to the captive insurance industry and also that “no bases have been put forward as to why the proposal should apply to the entire captive industry”.

Exclusive: Captive applications to begin in Ohio

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In line with its growth as a captive domicile, the state’s Department of Insurance has named Tracy Snow as chief of captive insurance.

Ohio governor John Kasich signed the state’s captive bill on 17 June.

MetLife completes merger

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The decision was part of MetLife’s larger effort to reduce the risk surrounding its variable annuity business.

All policy, contract, certificate or retained asset account terms, conditions or benefits remain unchanged as a result of the merger.

Fitch Ratings has claimed that the merger has no material effect on the overall financial strength of the MetLife enterprise or its operating subsidiaries, despite increased product diversification.

Arkk extends its XBRL offering

Arkk Solutions, software and service supplier to clients such as Zurich, Axa and Prudential, has released the extension of its XBRL reporting suite for complying with the incoming Solvency II legislation, due on 1 January 2016.

Arkk’s latest offering can be used either to convert customer populated European Insurance and Occupational Pensions Authority templates, or using their new Bluebird adaptor, the templates can be automatically populated from a multitude of data sources.

Arkk’s managing director, Richard Metcalfe, commented: “We saw there was a clear demand for a conversion tool in the Solvency II space.”

“Whilst most businesses have been running projects to gather the complex data required for some time, on the most part their internal technology projects, or in some cases third party software vendors, do not have the ability to transform the required data into XBRL format for filing.”

The XBRL conversion module is consistent with Arkk’s other regulatory reporting offerings across Alternative Investment Fund Managers Directive and Capital Requirements Directive IV reporting.

The product is Excel-based, providing quick implementation as there are no external systems integrations and extensive user training required.

To further speed the delivery and deployment process, customers have a choice of a cloud-based solution or a more traditional desktop implementation.

JLT strengthens energy position

JLT Specialty Insurance Services (JLT USA), the US subsidiary of Jardine Lloyd Thompson Group (JLT) has purchased part of the energy business of Alliant Insurance Services that focuses on larger and more complex major and international accounts, some of whom are existing international clients of JLT.

This bolt-on acquisition follows JLT’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.

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This acquisition has added a further 20 highly experienced energy practitioners led by Mary Beth Crabb, Peter Mortlock and John Parsley to JLT's US specialty capabilities, building on its existing global energy position and underlining its commitment to invest further to build out this critical area of the US specialty offering.

Since the announcement at the end of August, JLT has received what they call "a very strong response from professionals across the insurance industry" with the total number of new hires being more than 50 in a little over two months since the launch of JLT USA.

Mike Rice, CEO of JLT USA, said: "JLT was already one of the strongest global specialty players in the energy arena and this acquisition has added substantially to these capabilities."

"I'm delighted to welcome both our new colleagues from Alliant and, as importantly, their clients who we will be extremely well placed to service in what is an increasingly complex and global market place.''

Parsley, who is now executive vice president of JLT USA, commented: "We are delighted to join an organisation that shares our values and focus on clients."

"Together we now have the global platform and market presence to strengthen our client offering and to attract the very best people as we continue to create what we believe will become the market leading specialty energy team."

Time for transparency, says ACE

ACE has urged risk managers at multinational European companies to re-examine the capabilities of their global insurance partners as the international regulatory and business environment grows increasingly complex.

The recommendation follows recent ACE research, which suggests that 70 percent of European risk managers have increased their use of captive insurance arrangements over the past three years to help manage their multinational risks.

The report was released during the European Captive Forum in Luxembourg and is authored by Suresh Krishnan, executive vice president of global accounts at ACE; Suneeti Kaushal, insurance manager at Ikano Insurance Advisory; and Rémy Massol, director of multinational services for Continental Europe at ACE.

European risk managers are experiencing more claims outside their home market, according to ACE's research.

To manage this increase, ACE has stated that it is "imperative" that risk managers work with insurance partners who can help them to deliver transparency in surveying, valuing, and paying multinational insurance claims, along with transparent and timely loss reporting.

Credit risk is another factor that should be thoroughly discussed before a multinational insurance programme is implemented, according to ACE.

This is because changes in a company's international exposures, coupled with the potential impact of Solvency II on the capital-adequacy requirements for European captives, could cause insurance partners to re-examine a "no-collateral" reinsurance programme.

Krishnan commented: "Financial strength, underwriting acumen and price are important criteria for captive owners when choosing a global insurance partner."

"In today's complex international regulatory and operating environment, the requirement for best-in-class service and use of leading-edge technology to effectively manage programme performance should also be given due consideration."

Also speaking at the forum, Kaushal said: "As clients, we want to work with insurers who are value-adding partners; partners who will critically examine our assumptions, and who will work with us to inform and navigate the complex, but varied, regulatory and compliance demands of each country in which we operate."

"Captive owners and managers should insist on an insurer-partner who has the information owners require to make properly considered decisions about the structure of their multinational insurance programme, and who will explore with them potential scenarios and stress-tests to establish how their multinational insurance programme will respond to particular claims situations."

We’ve grown in line with people’s confidence in us.

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Gibraltar Candytuft

Gibraltar embraced captive insurance in the 1980’s and in 2001 became the first EU jurisdiction to offer Protected Cell Company (PCC) legislation – widely used within insurance company structures writing both general and life insurance business.

In 2012, captive insurers achieved total gross premium income of nearly £800m. Three are PCCs managing over 30 cell companiwes. One insurance manager has created 50 cells with its PCC being the largest in the EU providing solutions for cell captives and fronting cells.

Gibraltar’s vibrant insurance sector has almost 60 insurance companies currently writing new business and in 2012 wrote over £3.8bn of gross premium income – with Gibraltar motor insurers accounting for 16% of the UK market.

Gibraltar offers bespoke insurance solutions for companies not currently domiciled with the European Union.

For more information visit the Gibraltar Finance website::

gibraltarfinance.gi

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Within the European Union Single Market

Industrial Alliance partners with Allianz

Industrial Alliance Insurance and Financial Services has signed a partnership agreement with Allianz Global Benefits.

This new partnership will allow Industrial Alliance clients to benefit from the standalone and captive fronting experience of Allianz Global Benefits.

Industrial Alliance has stated that its customers will see cost savings, international dividends and greater control over their benefits plans.

By receiving detailed financial reports on a regular basis regarding the operation of the pool, multinational employers can also identify any problem areas, such as cost escalation or claims incidence in a local benefit plan.

"Being where our clients are is of key importance for us and is in alignment with our growth strategy in this important business segment of employee benefits," said Dirk Hellmuth, CEO of Allianz Global Benefits.

Christian Scherff, senior network manager at Allianz Global Benefits who led the negotiations, added: "Industrial Alliance is the ideal partner to offer our clients the full range of services and products they need in Canada, combined with strong financial security and sophisticated services."

ARM chooses Insurity software

Adventist Risk Management (ARM) has chosen Insurity's Insurance Enterprise View (IEV) software as its data integration platform.

ARM is the risk management company for the Seventh-day Adventist Church, delivering services for its captive insurance companies.

The selection of IEV software expands ARM's current portfolio of Insurity solutions, which includes the Insurance Decisions Suite of core processing software to support its domestic and international business in billing and policy administration.

Reporting and integration, data mapping, business intelligence, analytics and a data warehouse for all lines of business are included out of the box in the IEV software suite to be delivered in an Insurity hosted environment for ARM.

Bob Kyte, president and CEO of ARM, said: "We chose Insurity's IEV software as it is the most comprehensive and mature insurance data solution on the market specifically designed for insurance carriers."

"We could not have matched IEV's cost, benefit and functional capabilities with any other product or by combining other alternatives."

"The additional value delivered in enabling us to support our churches across the globe provides the pathway and flexibility we need for future growth."

Lani Cathey, senior vice president of sales and marketing at Insurity, said: "Insurity values its partnership with ARM and is excited to have them join our rapidly growing community of IEV software customers to enable data integration, migration and management across the enterprise."

"IEV delivers comprehensive data management for insurers that either require specific components or, similar to ARM, can benefit from the entire solution suite to utilise the role of business data as a strategic asset."

Liability costs rise for long-term care facilities

Liability costs for long-term care providers are expected to increase by 5 percent and claims frequency is also expected to rise, according to analysis released by the American Health Care Association (AHCA) and Aon Global Risk Consulting.

The analysis provides estimates of loss rates, or the cost of liability to the beds that care providers operate.

The projected national 2015 loss rate, which is a combination of claim severity and frequency, is $2,030 per occupied bed.

"The need for long term and post-acute care is growing, and increasing liability costs impede our ability to serve those we care for and their families," said Mark Parkinson, AHCA president and CEO.

"This report underscores the importance of delivering solutions so we can continue to provide the highest quality care and improve lives."

Kentucky's state constitution prohibits limits on tort recoveries and there are no statutes concerning qualification of expert witnesses, certificates of merit, pre-trial alternative dispute resolution or limits on attorney's fees.

Texas, on the other hand, experienced dramatic loss rate reductions following constitutionally enacted tort reform in 2003. These reductions in loss rates have been sustained in the years following the legislation.

Christian Coleianne, associate director and actuary from Aon Global Risk Consulting, commented: "Once again, we continue to see claims frequency rates grow nationally. Kentucky remains the highest cost state in our annual study, with a projected loss rate of $9,220 per occupied bed."

Seventeen states participated in this annual report, which also highlights an aggregate country-wide projection.

Connecticut licenses fifth captive

Aetna has established a captive insurance company in Connecticut, becoming the state's fifth licensed and largest captive insurer to date.

Aetna's captive, the Aetna Risk Insurance Company, will provide liability coverage for the company, including errors and omissions, employment practices liability, and other related coverages. The company previously had captive insurance operations in Bermuda.

Governor Dannel Malloy's 2011 comprehensive jobs legislation modernised the captive insurer statutes, clearing the way for the state to begin licensing specialty insurers.

Malloy commented: "Aetna's commitment in establishing this important subsidiary in its home state speaks to the confidence that business and industry has in Connecticut to grow their operations."

"We have the skilled workforce to meet the needs of this emerging industry and the regulatory climate to properly oversee them."

Connecticut Insurance Commissioner Thomas Leonardi, said: "There are nearly 40 states that regulate captive insurers, but Connecticut is carving out a creative and attractive niche in this emerging industry by helping companies form sustainable captive operations that will be in it for the long run."

"The department appreciates the vision and staunch support from Malloy and the legislature for helping grow this segment of the industry."

NAIC reviews international reinsurance authorities

Five international reinsurance supervisory authorities have been recommended by the National Association of Insurance Commissioners (NAIC) for approval under the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions.

Recommendations include the Bermuda Monetary Authority; the German Federal Financial Supervisory Authority; the French Autorité de Contrôle Prudentiel et de Résolution; the Central Bank of Ireland; and the Bank of England.

If approved by the full NAIC membership, the jurisdictions would be placed on the NAIC List of Qualified Jurisdictions from 1 January 2015.

Adopted by the NAIC in August 2013, the process was developed to evaluate the reinsurance supervisory systems of non-US jurisdictions for reinsurance collateral reduction purposes.

Reinsurers licensed and domiciled in these five jurisdictions are eligible to be certified for reduced reinsurance collateral requirements under the NAIC's Credit for Reinsurance Model Law.

To date, 23 states have adopted reinsurance collateral legislation reform, which represents approximately 60 percent of the primary insurance premium in the US.

There is a goal to add five more states in 2015, which would bring the total to more than 80 percent of the premium.

"Reinsurance collateral reform continues to play a prominent role in discussions with federal and international authorities."

"This move toward adding jurisdictions enhances the NAIC's position on this issue," said Adam Hamm, NAIC president and North Dakota insurance commissioner.

"We appreciate the cooperative efforts of these five authorities in working with state regulators."

The recommendations will be posted for a two-week public comment period and then submitted for review.

Upon approval by the task force, the recommendations will be submitted for a vote prior to the end of the year.

Once approved, a qualified jurisdiction is subject to re-evaluation every five years, unless there is a material change in circumstances.

The Swiss Financial Market Supervisory Authority and the Financial Services Agency of Japan, are also being evaluated.

RRG formation still slow, says JLT

The past year has much resembled 2013 as three trends—court victories, financial stability and a soft market—continued in the risk retention group (RRG) market, according to JLT Towner Insurance Management.

As in previous years, a handful of court cases featured states unsuccessfully testing provisions of the federal Liability Risk Retention Act (LRRA) that preempt regulation by non-domiciliary states.

While successful in court, the sector became smaller.

There have been 18 RRG retirements in 2014, as of October, dropping the total number to 236.

However, RRGs continue to improve their financial stability, increasing reserves and income.

"That the market remains soft is probably the biggest story in a relatively uneventful last few months," said JLT Towner Insurance Management partner Len Crouse.

"When the market is this soft, RRG formation is usually slow."

"This period is no different. You can also partially attribute a drop in the number of RRGs to the soft market."

"Some RRGs dissolved to take advantage of very low rates in the traditional markets."

Ratings round-up

Castle Harbour, Prism and Pacific LifeCorp under the spotlight

A.M. Best has affirmed the financial strength rating of “A (Excellent)” and the issuer credit ratings of “a” of Castle Harbour Insurance, Harrington Sound Insurance and Colliers Bay Insurance (Cayman Islands).

The ratings and outlook reflect what A.M. Best deems to be the captives’ excellent capitalisation and conservative operating strategy.

The ratings also consider the captives’ critical role and favourable profile as part of the parent company, Schlumberger Limited, as well as its excellent operating performance during the past five years, providing tailored insurance coverage to certain subsidiaries of the parent for certain property and casualty risks.

Partially offsetting these positive rating factors are the captives’ relatively large limits in its general liability and property lines of business. Nevertheless, A.M. Best has stated that it “recognises the substantial financial resources of the captives and its parent”.

A.M. Best views the captives’ enterprise risk management practices as strong, given the impact on its conservative risk culture, defined risk controls and the optimisation of its capital and surplus.

The agency has also stated that it expects the captives’ future operating performance to be stable but strong, and the stable earnings profile “should further support the companies to control growth and business writings, which are consistent with the captives’ capital and surplus position”.

A.M. Best has affirmed the financial strength rating of “A- (Excellent)” and the issuer credit rating of “a-” of Prism Assurance.

According to A.M. Best, the ratings reflect Prism’s strong capitalisation and solid operating performance.

Also supporting the ratings is Prism’s strategic role as the captive insurance company of Apogee Enterprises, and the substantial financial flexibility available to Prism as part of Apogee.

Prism retains relatively large insurance limits and its limited market profile as a single parent captive.

Despite this, the ratings recognise the company's balance sheet strength and conservative underwriting leverage measures.

A.M. Best has stated that it could upgrade Prism's ratings and/or revise its outlook if there is significant improvement in its underwriting performance and capitalisation or a reduction in its overall net exposure.

However, A.M. Best could downgrade the company's ratings or revise the outlook if its Capital Adequacy Ratio declines, operating performance deteriorates or insured losses deplete capital.

Fitch Ratings has affirmed the ratings of Pacific LifeCorp (PLC) and certain subsidiaries, including Pacific Life Insurance Company (PLIC). The rating outlook is stable.

According to Fitch, PLC's ratings are based on the company's "diverse business profile, very strong statutory capitalisation, good liquidity and solid investment performance".

Somewhat offsetting these positives are the elevated leverage across the organisation, significant variable annuity (VA) exposure and earnings pressure.

PLIC had statutory capitalisation of $7.5 billion at 30 June, up 6 percent from the prior year-end and driven by statutory net income and unrealised capital gains from derivatives.

The company has diversified its product sales and has moved away from the sale of capital-intensive products.

It has also strengthened its VA hedging programme, which Fitch claims could "lessen the statutory capital impact if equity markets experience significant deterioration".

PLIC's reported risk-based capital (RBC) has exhibited more volatility than peers, since historically PLIC had not moved the VA business to a captive affiliate.

At year-end 2013 the company's RBC was 673 percent compared to 596 percent at the prior year-end.

Currently the company cedes a small percentage of new and existing VA business to a captive.

During 2013, PLIC changed the valuation basis method for VA statutory reserves to include a voluntary reserve component. Fitch has stated that both of these actions should reduce RBC volatility going forward.

PLIC, Pacific Life & Annuity Company and Pacific Life Re all currently hold an Fitch Insurer Financial Strength rating of "A+".

The international credit rating agency, Standard & Poor's, has assigned Guernsey an "AA+" credit rating and has confirmed that the outlook is stable.

The grade remains unchanged since Standard & Poor's last report on the island and is the highest that a jurisdiction such as Guernsey, without its own currency, can achieve under the agency's ratings methodology.

Gavin St Pier, Guernsey's treasury and resources minister, said: "We are delighted that Standard & Poor's has reflected Guernsey's financial and economic stability with this AA+ rating."

"What is particularly welcome is the report's acknowledgement of the island's prudent fiscal policies and strong track record of effective, stable and transparent policy making, together with its assessment of our stable outlook for the future."

Material opportunities

Captives and their managers are ready for Solvency II in Malta, while the PCC structure remains a key reason for calling the island home

Mario Buttigieg
Senior manager of the financial institutions group
HSBC Bank Malta

George Mangion
Senior partner and head of the audit department
PKF Malta

What are the advantages of domiciling a captive in Malta?

Mario Buttigieg: Captives establishing in Malta benefit from a number of advantages, including: a politically stable environment; a robust regulatory framework; efficient fiscal legislation; and passporting rights within the EU.

An additional and unique advantage for Malta is that it is the only EU member state that has the necessary legislation that enables insurers to carry on their business, including the business of insurance manager, insurance broking, reinsurance and captives through the set-up of a protected cell company (PCC) with cells.

The PCC law caters for the formation of multiple cells forming part of a single company and the creation and issue of cells shares. It also allows the segregation and protection of cellular assets from other assets of the company, the transfer of cellular assets, and the use of non-cellular assets as a secondary asset base where cellular assets are exhausted.

A PCC's main advantages are that it offers insurers and reinsurers the opportunity to write business at cell level while benefiting from the economies of scale derived from its core and other cells. It is also not necessary to satisfy the minimum guarantee fund at the cell (individual) level, but only at the PCC (whole) level.

Furthermore, a PCC is taxable at the cell level and is able to declare a dividend through its cell, even if the other cells within the PCC are not able to do so.

The PCC business model can take different forms, ranging from non-European insurers

setting-up cells as fronting facilities to reduce their European fronting costs, to companies establishing captives risk financing vehicle.

George Mangion: There have not been many developments in Malta so far this year, though there has been increased interest by owners to seek the advantages of the island.

More than six Fortune 100 companies have captives in Malta and a raft of companies from across the world and in numerous sectors are being well looked after by the country's insurance managers.

The global names of Aon, Marsh, Willis and Heath Lambert and JLT can be found assisting owners of indigenous insurance management companies. The advantages of relocating to Malta are numerous and include international banks, professional fund managers, insurance managers, call centres, stockbrokers and wealth managers.

Moreover, the island is now targeting the insurance-linked securities, catastrophe bond and reinsurance convergence sector with a legislative effort to put in place a legal framework allowing for the formation and domicile of special purpose reinsurance vehicles (SPRV) in Malta.

Last year, the Malta Financial Services Authority (MFSA) put forward for consultation a draft version of the SPRV regulations. The consultation period is now closed and the MFSA is in the process of considering responses received before it is expected to deliver feedback and an updated version of the law, which will likely be passed on to parliament for implementation.

What are the looming regulatory concerns for the island's captive managers and owners?

Mangion: Captive managers in Malta are remarkably positive about Solvency II, perhaps because the end is in sight, and they and their clients have, in effect, done all the hard work. In a recent survey, respondents have shown that they are well prepared to embrace Solvency II with all its increased governance requirements, in part because operators have been subjected to quality regulation for 10 years, so they have done the necessary tests and are poised for the changeover.

Captive owners are confident that they have surpassed the learning curve, and are now in the implementation period and shall reap the benefits of recent preparations. They are proud to say that the common perception is that there is now well-developed expertise in the cost-effective application of Solvency II to suit particular clients' needs. Furthermore, the concept of risk-based supervision is spreading beyond the EU, so one hopes that other offshore domiciles such as Guernsey will be playing catch-up with onshore EU domiciles.

Buttigieg: While the landscape for captive managers and owners is generally stable, regulatory issues and uncertainties will inevitably attract the industry's attention.

Captives are more sensitive to the burden imposed by regulation than other sectors of the insurance industry. Captive owners are generally non-financial service groups and use a captive as an efficient way of accessing the reinsurance markets and generally managing group risks.

Apart from the opportunity costs, increased regulation can mean increased staff cost through increased time commitment and/or increased fees to managers and advisers. Increased regulation may also represent a greater risk profile because if the captive cannot comfortably comply with the increased regulatory requirements, it may face reputational damage and/or regulatory sanctions.

As an EU member state, the key regulatory change for the Maltese captive sector is the implementation of Solvency II. However, this impact is expected to be a contained one, mainly due to the unique advantages of PCCs, as explained above, which could translate this perceived threat into a material opportunity for Malta.

The risk management implications of the rising exposure to emerging markets are allegedly driving European companies to increase their use of multinationals. Is this trend present in Malta?

Buttigieg: On an international level, multinational programmes are rapidly becoming the industry standard and Malta has managed to attract large and reputable multinationals and insurance managers.

This growing internationalisation could potentially expose multinationals to greater complexity and unless they are large enough to have their own comprehensive multinational programme, they can do so through one of the specialised insurance managers entrusted with monitoring developments and developing solutions.

HSBC is the leading international bank in Malta and our clients are telling us that we are number one in the institutional sector.

We enjoy strong relationships with the major multinational and insurance managers on the island, both locally and globally, and we are supporting Malta's growth as a financial centre.

Mangion: It is not that apparent whether this trend is growing, but using a comprehensive multinational programme is usually a better solution. Owners of captives in Malta are waking up to the realisation about incremental management implications relating to exposure to risks.

For this and other reasons, there is a general consensus that companies strive to achieve consistent, compliant insurance cover. Certainly in this kind of environment, it is becoming more difficult to use traditional approaches such as relying on a single global policy or a patchwork of uncoordinated local arrangements. CIT

Solvency modernisation and the management of risk

Insurance supervisors need to work with present supervisory systems rather than thinking new globalised standards can be used to dramatically reshape those established under existing law, say Missouri's John Huff and Maria Sheffield

The purpose of insurance regulation is to protect policyholders through the provision of tools to ensure that companies operate in accordance with acceptable standards of corporate governance, financial strength and market conduct. This promotes efficient, safe, fair and stable insurance markets that, in turn, encourage growth and competition in the sector.

Over many years, US regulators have developed a detailed and uniform financial regulatory system. In the early 1990s, the National Association of Insurance Commissioners (NAIC) Solvency Policing Agenda resulted in a number of major changes to financial regulation (eg, RBC, accreditation, FAST system, FAWG), which provided more early warning systems and standards for regulation. There has been continuous improvement over the past 20 years resulting in many enhancements (eg, model audit rule, risk-focused exams, uniform statutory accounting model). However, global and national developments made it clear that the US insurance regulatory system was due for another comprehensive review, which led us to the Solvency Modernisation Initiative (SMI).

Launched in 2008, the SMI task force was charged with performing a critical self-examination of the US's insurance solvency regulation framework and a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in US insurance regulation. While US insurance solvency regulation is updated on a continuous basis, the SMI task force focused on five key solvency areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues with an objective to ultimately improve the US solvency system.

The State of Missouri has been an active participant in the SMI as Missouri's insurance director John Huff served as the last appointed chair of the national SMI task force that spearheads this initiative. Having spent 11 years as an executive with leading insurers and reinsurers, including Swiss Re and GE Insurance Solutions where he led global teams, director Huff was uniquely qualified for this position.

From the start, SMI's objective has been to improve solvency regulations in the US and implement best practices from around the world. US insurance regulators believe that well-executed risk management improves a company's chances of continuing to operate in a strong and healthy manner. A further uniformly accepted belief is quantitative analysis should improve the regulator's ability to assess when a company is in a hazardous financial condition, assist with risk-focused examinations, and aid in evaluating the industry's overall ability to withstand certain stresses.

The US solvency framework is a national system of state-based financial regulation that relies on an extensive system of peer review through an accreditation programme, communication and collaborative effort that produce checks and balances in regulatory oversight and ensures all states meet uniform requirements.

Financial solvency core principles underlie the active regulation that exists today. A core principle is an approach, a process, or an action that is fundamentally and directly associated with achieving the mission. Seven core principles have been identified for the US insurance regulatory system, including: (i) regulatory reporting, disclosure and transparency; (ii) off-site monitoring and analysis; (iii) on-site risk-focused examinations; (iv) reserves, capital adequacy and solvency; (v) regulatory control of significant, broad-based risk-related transactions and activities; (vi) preventive and corrective measures, including enforcement; and (vii) exiting the market and receivership.

Solvency modernisation in the US

As mentioned previously, the SMI has focused on five key solvency areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues, which for purposes of discussion can be grouped into the categories of corporate governance, own risk and solvency assessment (ORSA), group solvency, principle-based reserving and credit for reinsurance.

Corporate governance

After performing a comparative analysis of existing requirements to regulatory needs and international standards, the NAIC developed a number of specific enhancements. The proposed enhancements do not prescribe a list of explicit governance requirements, but instead seek to gain a better understanding of an insurer's governance practices and to use that information to modify supervisory monitoring accordingly.

> "The development of the Annual Reporting of Corporate Governance Practices of Insurers Model Act provides a means for regulators to get a better understanding of the governance practices of their domestic insurers"

These proposed enhancements have led to the development of a new model law to facilitate the annual collection of confidential information on insurers' corporate governance practices. The development of the Annual Reporting of Corporate Governance Practices of Insurers Model Act provides a means for regulators to get a better understanding of the governance practices of their domestic insurers. The development of this model law also ensures the confidentiality of governance information collected from insurers and assists US regulators in achieving greater consistency with international standards.

ORSA

The NAIC adopted the Risk Management and ORSA Model Law in September 2012 and the initial ORSA Guidance Manual in March 2012. The regulators completed pilot projects in 2012 and 2013 to study ORSA Summary Reports to improve the ORSA Guidance Manual. The 2014 ORSA pilot project is currently underway. Presently, 20 states have adopted the model law in full or part with legislation under consideration in five states.

The ORSA is an insurer's own process for assessing its risk profile and the capital required to support its business plans in normal and stressed environments on a forward-looking basis. The guidance manual requires insurers or insurance groups to carry out this risk and solvency assessment process on a regular basis.

The ORSA is also a regulatory filing: on an annual basis, insurers will be required to provide a regulatory filing that explains their ORSA process and results. The filing does not have a prescribed format but needs to contain three sections: (i) description of enterprise risk management (ERM) framework; (ii) assessment of risk exposure under normal and stressed environments; and (iii) group capital adequacy and prospective solvency assessment.

A description of ERM framework would include the following key ERM elements: (i) risk culture and governance structure; (ii) risk identification and prioritisation; (iii) risk appetite, tolerances and limits; (iv) risk monitoring and control; and (v) risk reporting and communication process.

Further, an explanation of how the insurer identifies and categorises the relevant and material risks as it executes its business strategy is mandatory. Documentation of assessment tools used to monitor and respond to risk profile change due to changes in environment, operation and business strategy, and documentation of critical risk management policies and procedures are also required.

Each material risk category identified would need to be assessed and both quantitative and qualitative assessments of risk exposures in both normal and stressed environments would need to be detailed. Explanations of assessment methods used, key assumptions made and outcomes of any plausible adverse scenarios would need to be included and considerations of stress impact on available capital and required capital under regulatory, economic and rating agency would need to be detailed. Additionally, rationale of how risk tolerances and limits are determined and documentation of model validation, model calibration and assumption setting process would also need to be provided.

The group capital adequacy and prospective solvency assessment must include an evaluation of insurance group level available capital versus risk capital under different scenarios, lenses, time horizons and valuation approaches. Considerations of intra-group transactions, diversification benefits, contagion risk and liquidity risk must be noted.

The capital assessment should be tied to the business planning and consider normal and stressed scenarios over a two to five year timeframe and forecasting should consider relevant and foreseeable changes to insurer's internal operations and external business environment. This assessment must also demonstrate the link between business strategy and the amount and quality of capital needed to support the business strategy.

Group solvency/supervision

The solvency framework of state insurance regulation has included a review of the holding company system for decades, including approval of certain affiliate transactions with a domestic insurer, but with emphasis placed on taking actions to protect the legal insurance entity writing the policies.

The NAIC adopted revisions to its Model Insurance Holding Company System Regulatory Act and Regulation in 2010 to enhance the 'windows and walls' approach to group supervision.

The revisions call for enterprise risk reporting at the ultimate controlling entity level, enhanced regulator access to data and information from non-insurance operations, clear authority to participate in supervisory colleges, and enhanced information sharing between regulators.

The Insurance Holding Company System Regulation has been adopted in full or part in 14 states and is under consideration in another six states while the Model Insurance Holding Company System Regulatory Act has been adopted in full or part in 38 states, with legislation under consideration in six states.

Principle-based reserving

The purpose of principle-based reserving (PBR) is to replace the existing formulaic reserve requirements with a model based framework, to improve accuracy of reserves and to account for continuously evolving products that constantly make the formula outdated. Outdated formulas can result in reserves too high or too low. Reserves that are too high create unnecessary surplus drain. Reserves that are too low create insolvency risk for the insurer and policyholders.

The model Standard Valuation Law (SVL) establishes requirements for PBR valuation and what the valuation manual must provide. The valuation manual is to include all reserve requirements for life and health companies including details of PBR and non-PBR reserve methodologies. The valuation manual was adopted by the NAIC in December 2012.

Eighteen states have adopted the amended SVL and valuation manual. Implementation of PBR will only occur when at least 42 states (writing at least 75 percent of life insurance premium) have adopted the amended SVL and valuation manual.

Actuarial Guideline (AG) 48 is currently under development and is a PBR-based solution to address standardisation concerns with insurer's use of captives to finance life reinsurance reserves through captives.

Credit for reinsurance

Reinsurers licensed in the US are directly regulated through financial regulation (similar to primary insurers). In addition to direct financial regulation of licensed reinsurers, the US uses an indirect approach to reinsurance financial supervision through statutory accounting requirements for US primary companies (or "ceding" companies) that transfer business via reinsurance.

Revised reinsurance model laws (#785 and #786) were adopted in November 2011. These revisions serve to reduce reinsurance collateral requirements for non-US licensed reinsurers that are licensed and domiciled in qualified jurisdictions. Seventeen states have adopted both #785 and #786, six states have taken up only #785, and five states are presently considering legislation related to the two model acts.

Generally, the following changes are expected through the adoption of these model laws: potential collateral reduction for reinsurers meeting certain financial strength and business practices; and reduced collateral requirements for assuming reinsurers that are not otherwise licensed or accredited in a state, but have been "certified" as reinsurers by the state.

A certified reinsurer is one domiciled in a 'qualified jurisdiction' and that meets other criteria relating to capital and surplus, financial strength ratings and other matters. Foreign jurisdictions will be treated as qualified jurisdictions if they meet standards as to 'appropriateness and effectiveness' of the reinsurance supervisory system of the jurisdiction. Individual states must designate each qualified jurisdiction or can rely on the NAIC list.

The NAIC will produce a list of qualified jurisdictions. In 2013, the NAIC conditionally approved the supervisory authorities in Bermuda, Germany, Switzerland and the UK. This year, the NAIC is considering full approval for these jurisdictions as well as Japan, Ireland and France.

Additionally, work is underway to standardise the initial and renewal requirements for certified reinsurers in these jurisdictions as well as an efficient process where reinsurers may be 'passported' as a certified reinsurer through an abbreviated filing process in other states upon review by the NAIC's reinsurance financial analyst working group.

The globalisation of insurance makes it clear that insurance supervisors around the world need to provide well-defined and unambiguous guidance to afford the financial system with a pillar of stability and consumers with peace of mind.

The role of insurance supervisors has never been more critical. They need to work with present supervisory systems rather than thinking new globalised standards can be used to dramatically reshape those established under existing law.

As we move forward on these solvency issues, practical and implementable change should be evolutionary, not revolutionary. Further, the work done by insurance supervisors must be credible and therefore transparent. Transparency is critically important in developing the national and global response to financial stability.

As insurance regulators, it is important to recognise the specific nature of the insurer and the risks posed. The most efficient supervisory regime tailors its approach so that policyholders are protected and financial stability is maintained, without applying regulation that, with regard to the nature of the company, is unnecessary and may hinder the efficiency of the market.

Insurance supervisors should take the necessary time to develop standards appropriate to the insurance industry, and resist the pressure to homogenise regulation to treat all products the same. It should be well recognised that confidence in the integrity of insurance regulation must be maintained in order to ensure the viability of the industry. CIT

John Huff
Director
Missouri Department of Insurance

Maria Sheffield
Captive programme manager
Missouri Department of Insurance

Industry appointments

Marsh has appointed **Michael Cormier** and **Michael Poulos** in New York.

Cormier, who recently led Marsh risk consulting, has been named head of portfolio development.

The new role involves supporting Marsh in accelerating growth and development through acquisitions, strategic alliances, and partnerships.

Poulos has joined the firm as head of client advisory services.

The role will oversee Marsh risk consulting and claims advocacy with responsibility for aligning these offerings.

He joins from Oliver Wyman, an operating company of Marsh & McLennan, where he was most recently head of the New York office and the leader of the firm's financial services business in the Americas.

Peter Zaffino, president and CEO of Marsh, said: "Cormier and Poulos are proven leaders with excellent track records of delivering sustained growth and world-class advisory services."

"With these appointments, Marsh will be better positioned to expand the firm's capabilities to assist our clients to thrive in today's increasingly challenging risk environment."

Barbican Insurance has appointed **Tom Gwynn** as property treaty underwriter within the firm's property reinsurance division, with immediate effect.

He will report to Aaron Coates, who is underwriting manager of property reinsurance.

Prior to joining Barbican, Gwynn was a vice president at Guy Carpenter.

He joined the reinsurance broking firm in 2009 following the acquisition of John B Collins Associates, and was primarily responsible for placing North American property reinsurance business in the London market.

Gwynn began his industry career at Collins in 2006 and worked across a diverse range of accounts spanning binding authorities, industry loss warranties and property reinsurance business.

Coates said: "Gwynn's appointment is part of our continuing drive to further expand our presence in the property reinsurance sector."

"He brings what we see as a new dimension to our reinsurance team and I am sure that his market perspective will help us not only enhance our position in those sectors in which we already have a strong standing, but also to enter new areas where opportunities for profitable growth exist."

Barbican has also appointed **John Sawyer** as underwriter to lead property binders within the firm's international property division, with immediate effect.

He will report to underwriting manager, international property, David Slade.

Sawyer brings almost 30 years of insurance experience to the role, spanning both the property and casualty sectors.

Most recently, he was a property binding authority underwriter at Faraday Syndicate 435, having originally joined the firm in November 2003.

Sawyer has also been broker and underwriter at MD Jensvold and underwriter for the property and casualty binding authority business at Sphere Drake (Odyssey Re).

He began his insurance career at JL Dodson Syndicate 660 in 1985.

Slade said: "The international property sector is a highly competitive and specialist environment, which demands the highest standards of underwriting expertise."

Todd Winchel and **Robert Quinn** have joined Wilmington Trust's global capital market division to lead the insurance collateral solutions business.

Winchel will lead product management, and Quinn will manage client development efforts. They will be based in Wilmington Trust's office in Manhattan.

"Together, [Quinn] and [Winchel] bring a keen awareness of collateral options," said Jack Beeson, head of Wilmington Trust's global capital markets division.

"Over the past 15 years they have demonstrated their devotion to their clients, and built strong reputations in the industry for both service and attention to detail. [They] will be instrumental in further strengthening our position in the insurance and reinsurance marketplace."

Winchel has over 25 years of institutional trust and custody experience, including 12 years of insurance trust experience.

He helped establish and maintain thousands of trusts holding more than $100 billion in collateral.

Winchel comes to Wilmington trust from Wells Fargo, where he was senior vice president in corporate, municipal, and escrow Services.

Previously, he was vice president of corporate and insurance trust services at the Bank of New York.

Quinn has worked in the alternative collateral field for over 15 years.

Previously, Quinn was senior vice president of business development for corporate, municipal, and escrow services at Wells Fargo.

Before that, he was vice president of business development for corporate trust at the Bank of New York.

He played a key role in the establishment and success of client development efforts at both financial institutions.

He has delivered seminars on collateral alternatives to thousands of industry professionals worldwide, and is widely regarded as one of the foremost experts in the field.

Winchel and Quinn will be based in Wilmington Trust's Manhattan office on Mercer Street. **CIT**

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Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row
Beckenham, BR3 1AT, UK

Company reg: 0719464