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Strong H1 for the BMA

The Bermuda Monetary Authority (BMA) has increased registrations for Class 1, 2 and 3 insurers from seven to 10 year-on-year, with new companies including captives from Latin America covering the risks of predominantly Colombian parents and Canadian captives covering property and general liability risks.

"The authority is pleased to see that the jurisdiction's efforts to promote Bermuda's captive sector—particularly in growth regions of Latin America and Canada—have resulted in an increase in new captives registered during the first six months of 2015," said Shelby Weldon, director of licensing and authorisations at the BMA.

"It is also important to note that these are quality captives, writing quality business."

In addition to captives, Bermuda continues to be the world's premier domicile for insurance-linked securities (ILS), with 14 new special purpose insurers (SPIs) registering in H1 2015, compared with 16 new SPIs recorded during H1 2014.

In total, the BMA registered 45 new insurers and intermediaries during H1 2015, which is on par with the 44 registrations recorded during the same period in 2014.

In the commercial reinsurance sector, three new Class 4 reinsurers, capitalised at a minimum of $100 million each, were formed, as well as three new Class 3A reinsurers.

Weldon continued: "The ability to attract over $1 billion of capital in just two new Class 4 reinsurers speaks to the continued significance of the Bermuda market."

"In addition, an increase in the number of new insurance intermediaries setting up in Bermuda—increasing from eight to 11 year-on-year—also demonstrates Bermuda's attractiveness as a global insurance marketplace."

At a similar level to last year, Bermuda's life insurance (long-term) sector attracted one new Class E and three new Class C firms.

The BMA stated that the formation of a Chinese SPI established to facilitate a programme of catastrophe bond transactions with China's largest reinsurer was a "particularly important" part of 2015.

"During H1 2015, the authority noted a number of newly registered insurers expressly designed to facilitate the Chinese insurance market," said Weldon.

"Attracting business from China has been an objective for the jurisdiction for many years. The formation of these insurers is an important milestone in this regard."

AIRMIC criticises IPT hike

The Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC) has expressed its disappointment with the increase in Insurance Premium Tax (IPT) announced by chancellor George Osborne in the 2015 Summer Budget.

Osborne announced a rise in IPT from 6 percent to 9.5 percent, effective from November.

Julia Graham, technical director of AIRMIC, said: "While this wasn't totally unexpected given an upward trend in similar taxes globally, we are disappointed by the magnitude of the rise: an increase of over 50 percent, raising in excess of a billion pounds in additional tax revenues."

"Insurance is critical for businesses, and yesterday's announcement is an added challenge for UK business and the insurance industry in an already tough environment."

Graham said the timing was particularly difficult given that many companies will have already set their budgets for the next renewal season.

She added that, with businesses already under pressure to reduce costs, AIRMIC would urge them to resist the temptation to reduce their insurance cover and limits in the face of potential price hikes.

"Having an effective insurance programme is an important underpinning of any business strategy and cutting corners is a false economy," she said.

The tax rise comes just weeks after AIRMIC issued a report urging businesses to put claims efficacy before price when buying insurance.

The report, written with PwC, argued that certain insurance cover is critical to the financial well-being of a business, and that the challenge for insurance buyers is to raise awareness of the value of insurance beyond that of a commodity.

Graham said the tax increase poses a further challenge: "While AIRMIC is urging businesses to focus on the strategic importance of insurance, the IPT hike is putting the focus back on price."

Bermuda fulfills EU commitments on equivalence

Bermuda has completed another milestone on its path to recognition by the European Commission as being fully equivalent under Solvency II.

The domicile has made legislative amendments to define the requirement for a commercial insurer to have a head office in Bermuda, and created authority for new public disclosure requirements for commercial insurers.

CITINBRIEF

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Emerging company
With large businesses in New Zealand seeking an alternative risk transfer mechanism following the Christchurch earthquakes, Captive Insurance Solutions (NZ) has established itself as the only exclusive captive facilitator in New Zealand, Australia and the South Pacific
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Healthcare costs
Increased cost sharing to foster better consumerism, more efficient plan design, alternative treatment venues and greater use of technology and data can empower a self-insured health plans. Phillip Giles of QBE North America explains
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Captive options
Risk mitigation and alternative risk management strategies equate to smart decision-making, say Megan Brooks and Lance McNeel of Capstone Associated Services
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Europe insight
Although it could be argued that the current regulatory environment in Europe means it is not the ideal birthplace for innovation, Marsh's Lorraine Stack believes that the first steps have already been taken towards a more sophisticated future for captive insurance
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The regulations amended the existing economic balance sheet rules to expand the framework to life/long term insurers, to make technical amendments to the Bermuda Solvency Capital Requirement formula, and spelled out financial condition public disclosure requirements.

Bermuda's Solvency II equivalence application covers the commercial insurance market, both life/health and property/casualty. Based on the definition of "commercial", it excludes most captive insurers.

The equivalence effort was supported by the Association of Bermuda Insurers and Reinsurers (ABIR), the Bermuda International Long-Term Insurance and Reinsurance Association (BILTIR), the Bermuda Insurance Management Association and the Bermuda Business Development Agency.

Bradley King, president and executive director of ABIR, commented: "Equivalence findings of third countries help promote transparent and comprehensive regulation of non-EU groups with EU business operations and encourage cross-border reinsurance trade, which promotes greater competition and value for EU consumers in insurance markets."

"ABIR members are strong supporters of the BMA's efforts to be found fully equivalent under Solvency II, but the real beneficiaries are EU commercial consumers which will benefit from open insurance markets."

Seamus MacLoughlin of BILTIR added: "With [this] action on a package of substantive and technical amendments, Bermuda has completed the legislative and regulatory action that positions Bermuda to meet the caveats on the equivalence assessment as published on 30 January by the European Insurance and Occupational Pensions Authority (EIOPA)."

"These legislative changes are now being reviewed by EIOPA at the request of the European Commission, [which] will make its final recommendation in the fall."

Made in China

GC Securities has completed the placement of Series 2015-1 Class A Principal At-Risk Variable Rate Notes with a notional principal of $50 million through a newly formed catastrophe bond shelf programme, Panda Re.

The notes have been undertaken to benefit the China Property & Casualty Reinsurance Company and China Reinsurance Corporation.

This is the first time that China Re has used the catastrophe bond market to manage its natural peril risks and is the first ever bond benefitting a Chinese insurer or reinsurer. Panda Re also represents the first time that catastrophe bond investors have gained exposure to Chinese perils.

While the Series 2015-1 notes are US dollar-denominated with Panda Re's limit to China Re based on US dollars, they are positioned alongside certain layers of China Re's traditional retrocession programme to provide per occurrence protection from earthquakes on an indemnity trigger basis.

GC Securities served as sole structurer and sole placement agent.

Cory Anger, global head of insurance-linked securities structuring at GC Securities, commented: "The protection response of the Series 2015-1 notes was designed to minimise foreign exchange risk by determining the percentage of Panda Re's limit response in renminbi while acknowledging and balancing that best execution of the bond limit from capital markets investors is currently in US dollar denomination."

"In recognition as the first Chinese earthquake catastrophe bond, China Re took advantage of many latest features for indemnity-triggered catastrophe bonds but also balanced its need for every bell and whistle in order to maximise investor response."

Risk-adjusted reinsurance rate decrease continues

JLT Re's National Catastrophe Practice has reported that the 1 June 2015 Florida renewals saw risk-adjusted pricing shift down in the high single digits.

"On an overall basis the general trend was a downward pricing movement across company programmes. However, the level of price reductions varied significantly by layer of coverage," said Bob Betz who, along with Brian O'Neill, leads JLT Re's national catastrophe practice.

This was the fourth consecutive year of what O'Neill called "significant" risk-adjusted reinsurance rate decreases.

Since 2012, the JLT Re Rate on Line Analysis has indicated a continued downward trend, though this rate of decrease slowed in 2015.

"Interestingly, this is also the first year where companies took advantage of traditional open market reinsurance capacity and pricing and reduced their purchase from the Florida Hurricane Catastrophe Fund," added Betz.

Guy Carpenter launches MetaRisk Reserve 4.5

Guy Carpenter & Company has updated its patent modelling tool MetaRisk Reserve to enable users to aggregate reserve risk in a portfolio.

The MetaRisk Reserve 4.5 release has updated its capabilities, making it easier to use and flexible to combine multiple lines of business.

It also features a modelling solution enabling users to supplement Guy Carpenter's Annual Risk Benchmarks Report by estimating line of business correlation from company-specific data.

Steve White, chief actuary and head of enterprise analytics at Guy Carpenter, commented: "MetaRisk Reserve 4.5 gives clients the capability to address company-wide capital requirements by modelling a firm's entire reserve risk portfolio."

He added: "This new release reinforces Guy Carpenter's commitment to helping our clients with Solvency II and Own Risk and Solvency Assessment reporting requirements."

Solid ratings for Jubilee

A.M. Best has affirmed the financial strength rating of "B++ (Good)" and the issuer credit rating of "bbb" of Jubilee General Insurance Company of Pakistan.

According to the agency, the ratings reflect Jubilee's "solid" risk-adjusted capitalisation, track record of good operating performance and "well-established" business profile in Pakistan. An offsetting rating factor is the high level of economic and political risk associated with Pakistan.

Jubilee's risk-adjusted capitalisation strengthened during 2014 with capital and surplus rising by 13.9 percent to $54.1 million, following strong internal capital generation.

The company's capital position benefits from material unrealised capital gains emanating from its equity and real estate portfolios, with the fair value of certain assets significantly higher than the reported statement values.

Jubilee's risk-adjusted capitalisation is expected to remain solid and sufficient to absorb its projected underwriting growth over the next three years.

The company purchases catastrophe excess of loss reinsurance protection based on realistic disaster scenarios provided by its lead reinsurer and broker, however, catastrophe modelling in Pakistan remains "undeveloped and subject to uncertainty", according to A.M. Best.

As a result, Jubilee's capital position is exposed to volatility in the event of a severe earthquake in Karachi, which exceeds the loss protection purchased by the company.

Jubilee has a track record of good operating performance, with consistently increasing pre-tax profits reported between 2010 and 2014. The company reported a solid pre-tax

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profit of $12.7 million in 2014, equating to a return on equity of 21.3 percent.

Earnings continue to be driven predominantly by investment operations, with the technical result continuing to account for less than a quarter of the overall pre-tax result. Despite this, underwriting performance remains strong as evidenced by a five-year average combined ratio of 93.7 percent.

Jubilee maintains a well-established business profile in Pakistan, ranked as the third largest domestic company by 2014 gross written premiums. The company underwrites solely non-life business originating in Pakistan, with what A.M. Best has called a "well-diversified" portfolio by line of business.

A change in A.M. Best's assessment of the economic or political situation in Pakistan or the company's ability to navigate the challenging operating environment may result in positive or negative rating actions.

In addition, the agency has stated that negative rating pressure may arise from a "notable deterioration" in Jubilee's risk-adjusted capitalisation and/or its operating performance.

Guy Carpenter: soft market persists

New capital inflows, excess capacity and limited catastrophe losses have contributed to falling reinsurance prices and a challenging, soft market environment for specialty insurers and reinsurers, according to Guy Carpenter's mid-year report.

"We have seen notable [mergers and acquisitions] transactions in 2015 that clearly illustrate the expected deal flow of a soft market," said Andy Beecroft, head of mergers and acquisitions advisory for the Europe, Middle East and Africa at GC Securities.

"However we have also seen a broader spectrum of transactions that have not been driven by consolidation synergies, but instead by the recognition of a target's inherently attractive business model and ability to generate an acceptable return on capital over the long term."

Guy Carpenter has highlighted the continued flow of alternative capital into the reinsurance markets. The growth of this capital, coming from a number of capital sources, has been 22 percent—compounding since 2008 and accelerating to 34 percent during the period 2012 to 2014.

This increased fluidity of capital likely accelerated the development of the challenging market and has been the major catalyst of consolidation activity in the reinsurance sector, according to Guy Carpenter.

The report also singled out cyber risk as one of the most "pressing and public" topics the industry is grappling with, claiming that it is being addressed as a "strategic priority" in corporate boardrooms and in governments around the world.

The current size of the global cyber network/privacy insurance market, from a premium perspective, is approximately $2 billion and is expected to grow to approximately $5 billion over the next five years.

According to Guy Carpenter, a further challenge for reinsurers is the growing complexity of the regulatory environment as it increases at varying levels between jurisdictions. The report stated that insurers are facing "new issues in their efforts to manage the regulatory landscape".

Stable ratings for Emirates Insurance Company

A.M. Best has affirmed the financial strength rating of "A- (Excellent)" and the issuer credit rating of "a-" of Emirates Insurance Company (EIC) of the United Arab Emirates. The outlook for both ratings remains stable.

According to the agency, the ratings reflect EIC's "solid" risk-adjusted capitalisation, leading market position in the United Arab Emirates and "consistently strong" profitability. An offsetting rating factor is EIC's concentrated investment profile heavily weighted toward domestic equities.

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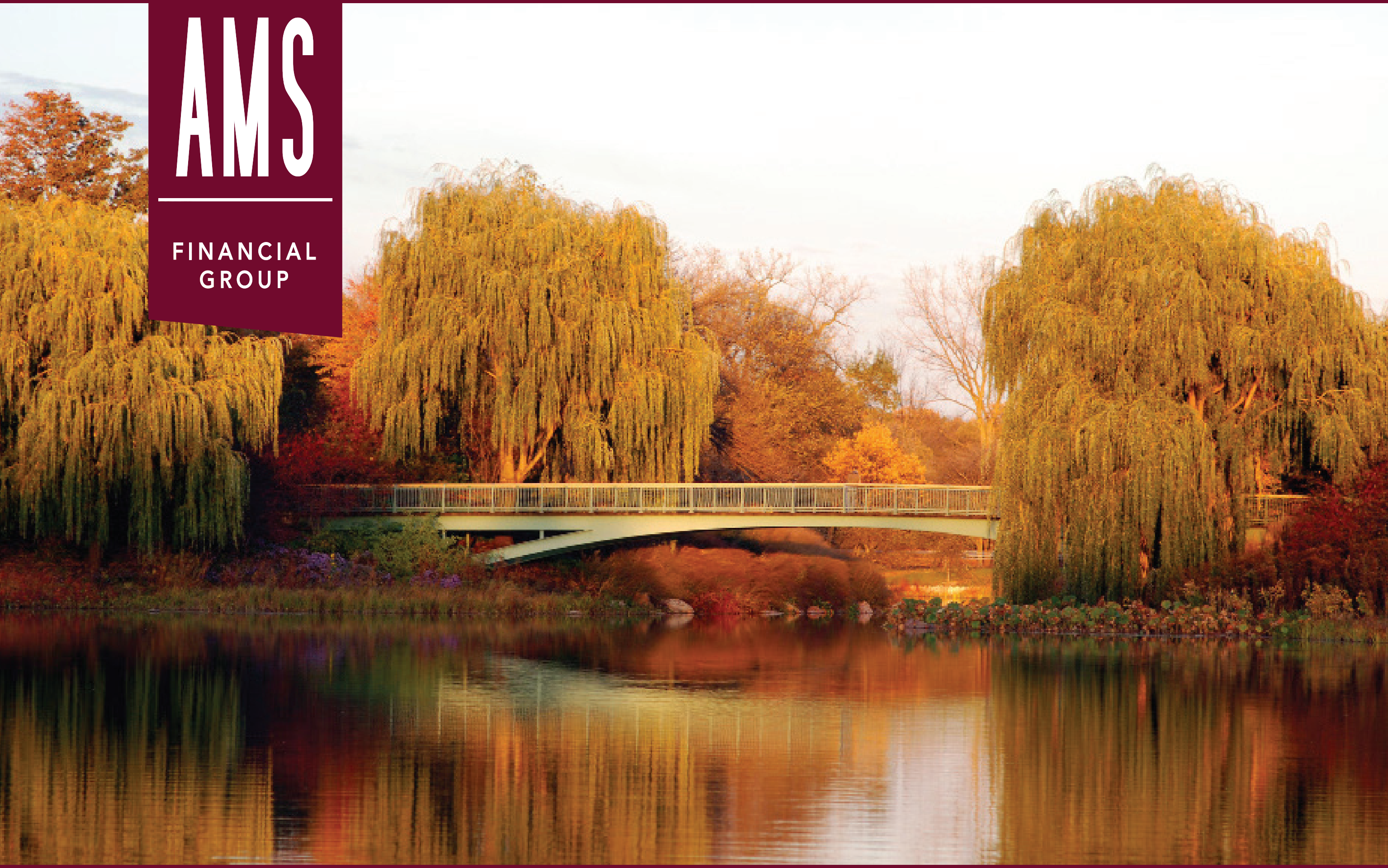

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EIC's solid risk-adjusted capitalisation remains thanks to low underwriting leverage and a reinsurance programme of "good credit quality".

Capital requirements are driven by EIC's exposure to domestic equities, which accounted for 50 percent of invested assets at the end of 2014.

Despite EIC's high dividend distribution in recent years, the company's risk-adjusted capitalisation is sufficiently strong to absorb the expansion into inward facultative business, increased premium retention and volatility generated by its investment portfolio.

EIC's profile has improved in recent years with the successful diversification into the specialty reinsurance business from the Afro-Asian region, which contributes approximately 20 percent to premium revenue.

EIC recorded an increase in its gross written premium of 17 percent to $229 million in 2014.

Given the strategic shift in its profile, EIC needs to ensure that this new business segment is adequately controlled and managed.

A.M. Best added: "EIC has demonstrated a track-record of strong technical profitability with a five-year average combined ratio of 82 percent, primarily driven by specialty reinsurance, engineering, motor and energy business lines."

In 2014, technical profitability fell by 16 percent to $11 million. The decrease was mainly attributable to several large market losses in the property line of business.

EIC's investment profile remains "highly exposed" to equity investments, which can be a source of volatility for its capital position and operating performance. EIC achieved a stable return on equity of 10 percent in 2014.

Captive Insurance Management rebrands as Arsenal

Captive Insurance Management has changed its name to Arsenal Insurance Management.

Norman Chandler, co-founder of Arsenal, commented: "Arsenal is a wonderful branding for our company due to the arsenal of tools our professionals provide to our customers."

Arsenal co-founder Johnny Johnson added: "We excited about the corporate name change."

The company was created in 2006.

A.M. Best keeping an eye on Brazil

Economic conditions in Brazil are challenging local insurers and reinsurers, but no rating impact is expected, according to an A.M. Best briefing.

Brazil has found itself experiencing economic challenges, including poor economic growth prospects, above target inflation, declining commodity prices and a reduction in investor confidence.

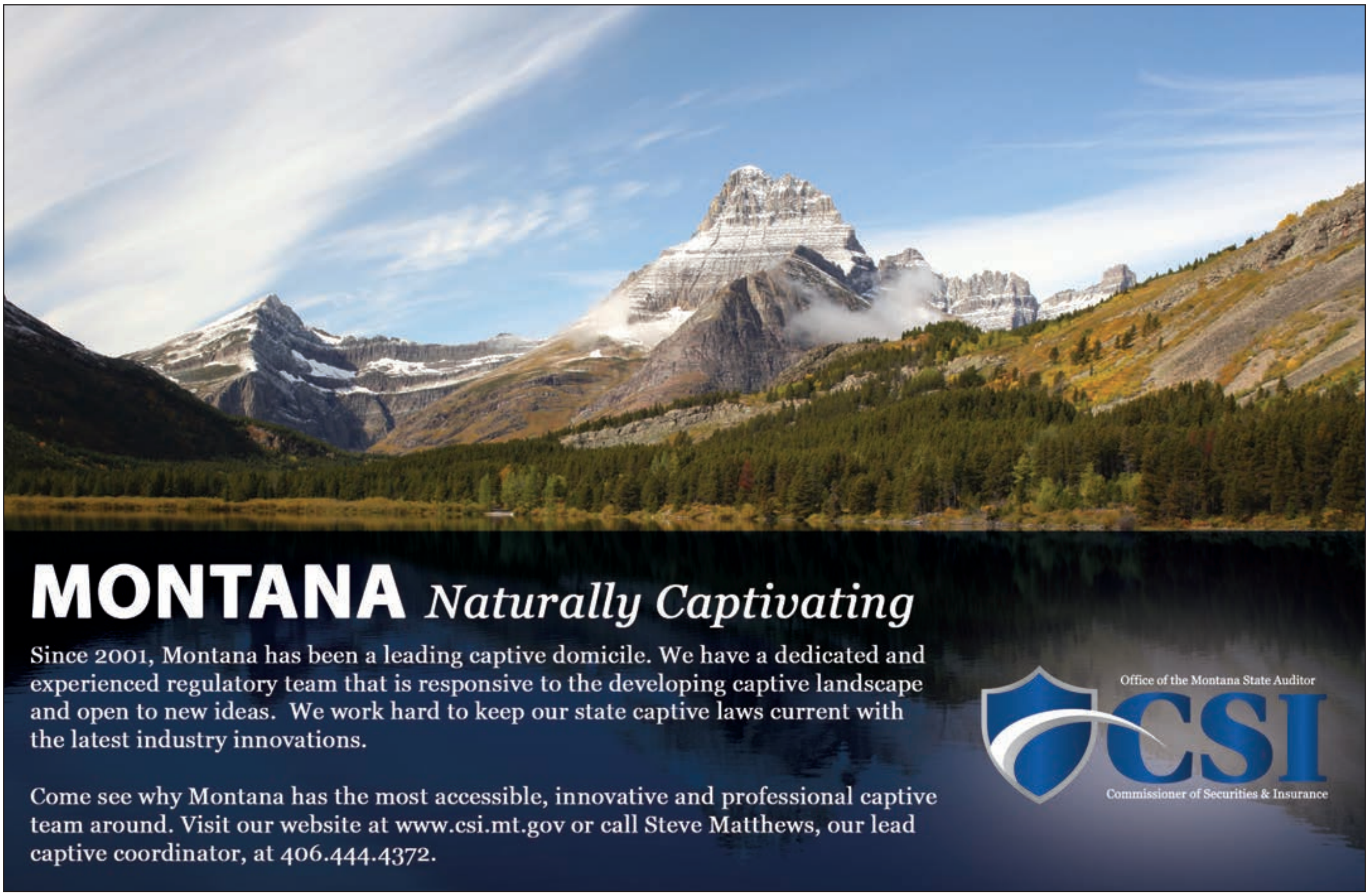
The Brazilian government has taken steps to mitigate these challenges, according to A.M. Best, but the implementation of austerity policies and other initiatives are yet to take effect, causing an impact on Brazil's current economic condition.

Brazil's sovereign ratings are just above non-investment status. A.M. Best commented: "They must contemplate the effect a future sovereign downgrade would have on rated insurers' and reinsurers' balance sheets and risk-adjusted capitalisation."

Brazil-domiciled insurers and reinsurers hold the majority of their invested assets in Brazilian securities, sovereign debt being the most widely held, according to the briefing.

A.M. Best commented: "[We] must consider what potential impact these broader economic issues will have on the insurance sector and which lines of business may be negatively impacted."

The rating agency tests the resiliency of rates insurers' and reinsurers' balance sheet strength by applying various stress tests, including sovereign downgrades and even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default scenarios using its capital model, Best's Capital Adequacy Ratio.

According to A.M. Best, the stress test methodology consists of haircuts to Brazilian sovereign securities, lowering the rating of Brazilian corporate bonds, as well as additional haircuts to equity and real estate holdings.

While it does not employ a sovereign ceiling on its financial strength ratings, it does assess how these external factors would affect an insurers' and reinsurers' future business prospects, operating performance and capitalisation.

To date, insurers and reinsurers in Brazil that are rated by A.M. Best have not been materially adversely affected by the current economic environment, but the agency said it will continue to monitor the situation for any potential ratings impact.

Catastrophe losses hit $46 billion

Catastrophe losses hit $46 billion during the first half of the year, according to Aon's Global Catastrophe Recap: First Half of 2015 report.

Global natural disaster losses during the first half of 2015, from both an economic and insured loss perspective, were each below the 10-year (2005-2014) average, according to the report.

Preliminary data determined that economic losses were $46 billion, dropping 58 percent from the 10-year average of $107 billion, and insured losses were $15 billion, down 47 percent from the 10-year average of $28 billion.

The percentage of global economic losses that were covered by insurance was 31 percent. It is slightly above the 10-year average of 27 percent because the majority of the losses occurred in regions with higher insurance penetration, said the report.

By contrast, around 2 percent of the multi-billion-dollar economic loss from the Nepal earthquake was covered by insurance.

The severe thunderstorm peril was the most costly disaster type, comprising 33 percent of the economic loss and 49 percent of the insured loss.

It also showed a clear majority (73 percent) of the insured losses were sustained in the US due to an active winter season combined with numerous spring severe convection storm events. The Asia Pacific region was second with 14 percent, while Europe, the Middle East and Africa were third with 11 percent of insured losses.

Steve Bowen, associate director and meteorologist in Aon Benfield's impact forecasting team, commented: "The first half of 2015 was the quietest on an economic and insured loss basis since 2006."

"Despite having some well-documented disaster events in the US, Asia Pacific and Europe, it was a largely manageable initial six months of the year for governments and the insurance industry."

"Looking ahead to the rest of 2015, the continued strengthening of what could be the strongest El Nino in nearly two decades is poised to have far-reaching impacts around the globe."

A.M. Best affirms Lloyd's ratings

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and the issuer credit ratings (ICR) of "a+" of Lloyd's and Lloyd's Insurance Company.

The rating agency has also affirmed the ratings on various capital deals.

The outlook for all ratings remains positive. It reflects Lloyd's strong operating performance in recent years, in spite of the exceptional record of natural catastrophes in 2010 and 2011, with A.M. Best's assessment of the robust oversight of the market by Lloyd's and its success in reducing earning volatility.

The outlook also recognises the steady improvement in the market's risk-adjusted capitalisation, which is expected to remain strong in 2015 and into 2016.

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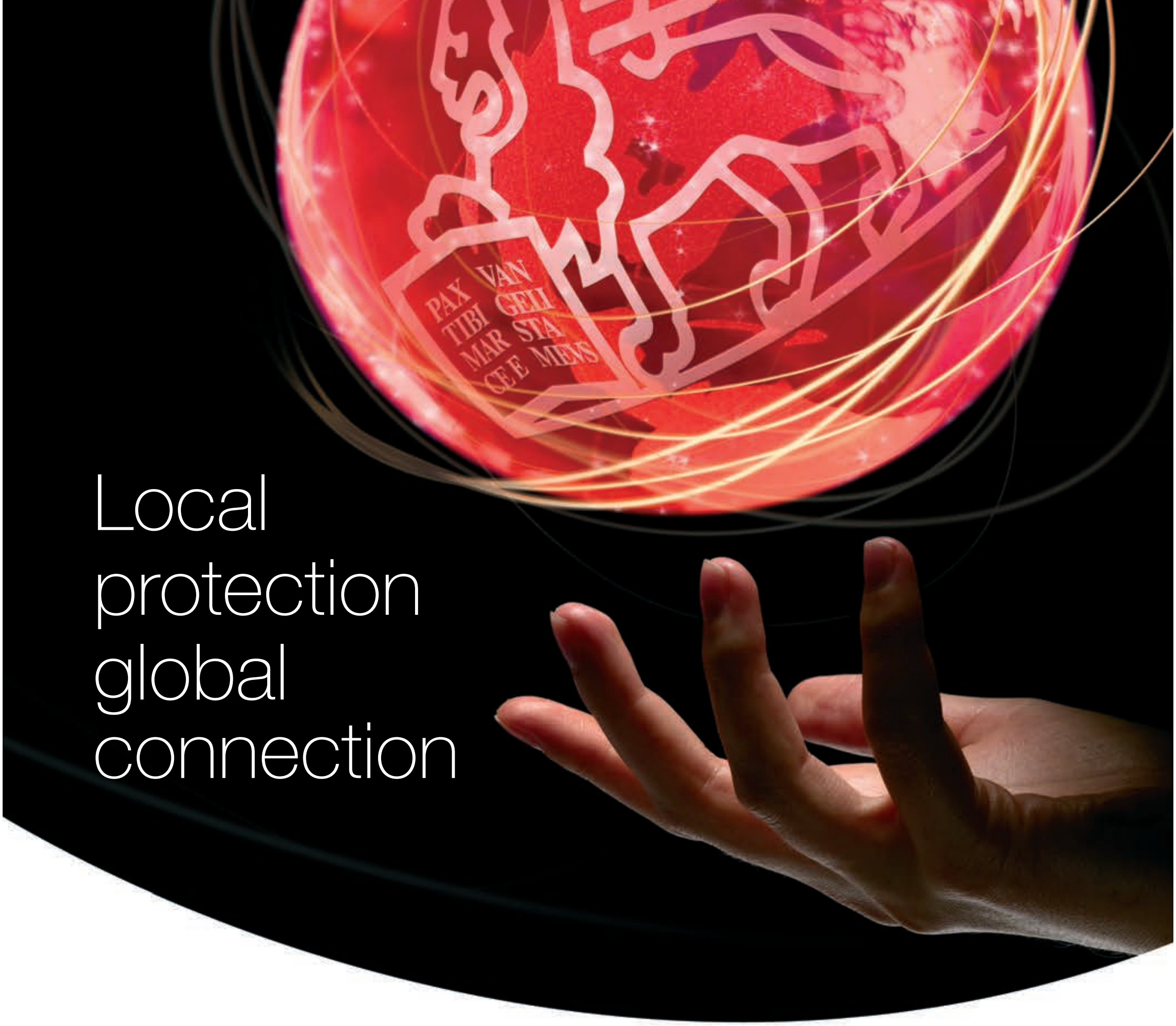

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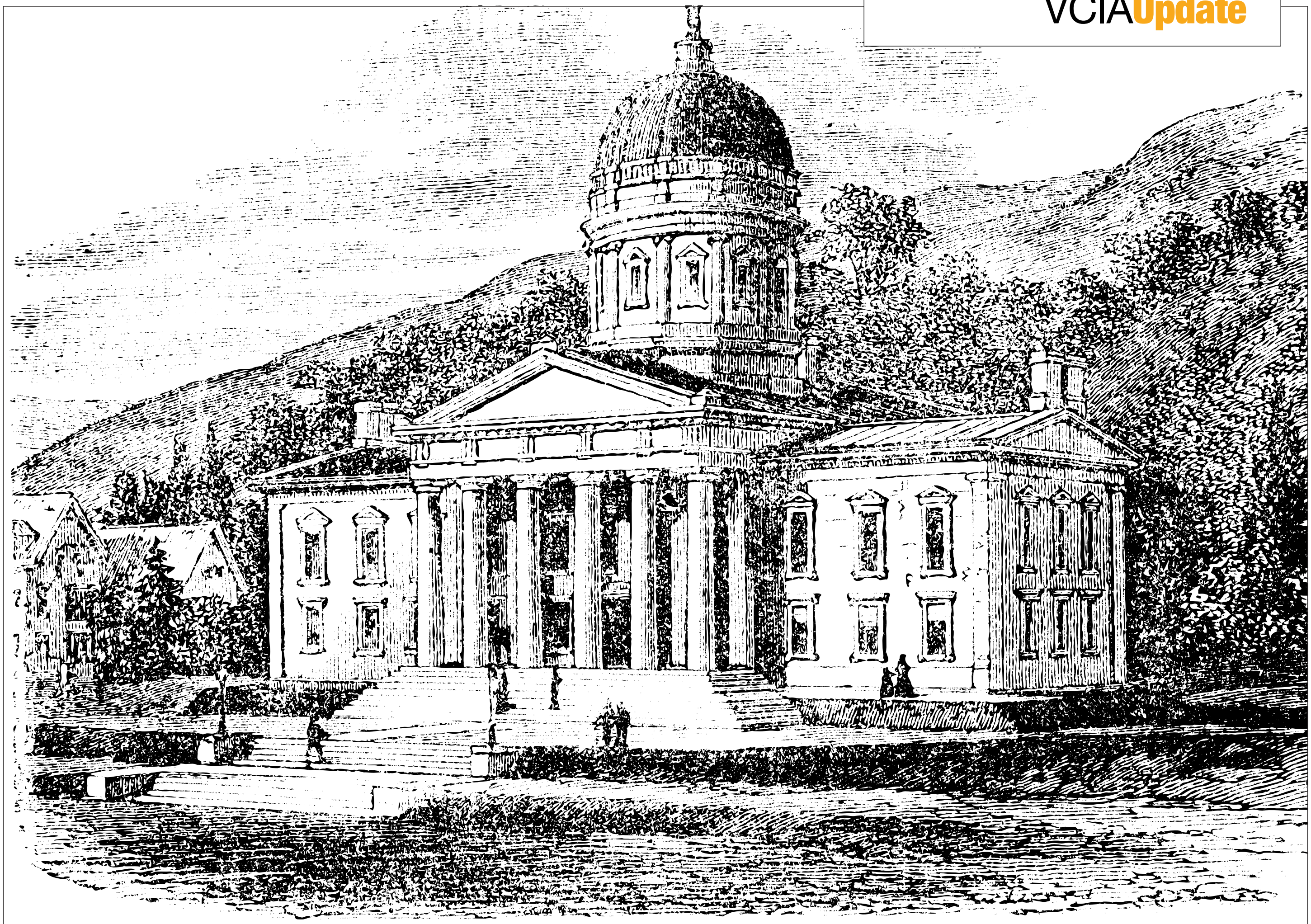

The Attune-ment

As the Vermont Captive Insurance Association hosts its 30th Annual Conference, association president Richard Smith gives his take on the industry's current talking points, and what to expect from the event itself

STEPHEN DURHAM REPORTS

Vermont has made its name blazing a regulatory trail. What regulations is the state currently working on?

Every year, the Vermont Captive Insurance Association (VCIA) and state regulators bring new proposals to Vermont's general assembly providing needed changes to Vermont's captive statute to keep up with this ever changing industry. This year was no different. Governor Peter Shumlin signed new legislation passed in the 2015 session strengthening Vermont's captive legislation in a variety of areas, including ground breaking changes to the investment guideline in the minimum capital requirement, and reducing the minimum capital requirement for sponsored cell captives.

The law changed the investment guidelines that will now allow for captive insurance companies to have greater flexibility by expanding their investment options to include marketable securities. This is a significant change that has already attracted considerable interest and is consistent with current investment guidelines for Vermont's traditional insurance companies.

A summary of some of the changes in the law include the following:

- Number of incorporators—the number of incorporators was reduced from three to one to be consistent with most other incorporations under Vermont law.
- Cell companies capital requirements—the change reduces the minimum capital requirement from $500,000 to $250,000 for cell captive companies.
- Structure on capital requirement for all captive companies—the new law gives captives greater flexibility in meeting their required minimum capital by now including marketable securities along with cash, trust and letters of credit.
- Delinquency of sponsored captives and adoption of the National Association of Insurance Commissioners (NAIC) Protected Cell Company Model Act—Vermont has now adopted the NAIC Protected Cell Company Model Act language regarding the segregation of assets and liabilities, contracting by/for individual cells, and treatment of cells in case of delinquency.

Do regulations elsewhere, whether that is domestically, offshore or even in Europe, have any bearing on Vermont's outlook or actions?

There are a number of challenges to the captive industry, which will likely continue over the next few years: (i) excessive regulation resulting from insufficient knowledge; (ii) the weakening of sound regulatory structures based on a desire to attract business; and (iii) efforts to impose new or increased taxes.

Our primary focus in the past few years remains issue arising in Washington DC. The VCIA will be working with the Vermont delegation, along with other resources, to clarify the Non-admitted and Reinsurance Reform Act (NRRA) issue in the Dodd-Frank Act. As everyone is painfully aware, there has been little action in Washington DC, but we are pleased to now have a bill introduced in Congress that perhaps can pass this year. We are always monitoring issues with the NAIC as well and, working closely with Vermont's captive regulators, have had a positive impact on current discussions.

Many concerns remain on the horizon, including the proposed tax on reinsurance (also known as the Neal Bill), the impact of the Federal Insurance Office on the industry, and the continued attacks by the other regulatory officials. Increasingly, actions by international bodies that have limited understanding of captive insurance could create hurdles for the industry as a whole.

Is the captive industry still a priority for the state's government? If so, what have they done in support of it lately?

Regardless of who sits in the governor's office, or which party has the majority in the State House, the support to the captive insurance industry in Vermont has remained unwavering for more than 30 years. I mentioned the bill that was enacted into law earlier this year as one example. The governor and legislature continues to provide funds to help the VCIA to pursue the Captive Clarification Act in Washington DC, putting their money where their mouth is.

Most importantly, leaders and policymakers in Vermont consistently supply the resources for Vermont's regulators to deliver sensible and knowledgeable guidance to this dynamic industry. Other domiciles may advertise they have the same laws on the books, but none have the depth and experience found in Vermont's Department of Financial Regulation.

What do recent victories such as the reintroduction of the Captive Clarification Act do for the captive industry in Vermont and the wider US? Are they indicative of the tide turning in captive regulation?

It's hard for me to say whether the tide is turning in terms of captive regulation in the US. I think recent victories in the courts on captive tax status, as well as decisions by the NAIC regarding certain aspects of captive and risk retention group regulation, are good news. However, I feel like the recent battles are more akin to fighting crime: you never defeat it, you only continue to mitigate and fight to reduce its impact.

That being said, with more than 35 states now having enacted captive insurance laws, it is likely that there will be more allies in this fight and perhaps we can reduce the number of fires we need to attend to on a regular basis.

What can delegates expect from this year's conference? Will it differ substantially from previous years?

In celebration of the VCIA's 30th Annual Conference, we will host a special reception on the shores of beautiful Lake Champlain. Shelburne Farms will be the venue with breath-taking lake and mountain views. This year, 21 seminars will feature more than 70 speakers providing attendees the opportunity to expand their knowledge of captives and connect with key players in the industry.

Topics have been selected with the guidance of our captive owner advisers and explore everything from employee benefits, healthcare, tax updates and big data, to managing international and challenging risks. A number of popular peer-to-peer forums will present captive owners with the opportunity to exchange their experience and knowledge on a one-to-one basis.

Companies and organisations that are sharing their expertise range from Fortune 500 companies to small, nimble entrepreneurial enterprises, all of them leading the way into new areas of opportunity.

Organisations such as Global Rescue, which provides medivac and crisis response services for hundreds of organisations during thousands of events worldwide, and iconic corporations such as Walgreens and Corning, are among our expert panellists this year.

Attendees at the Annual Members' Meeting will hear remarks by Susan Donegan, commissioner of Vermont's Department of Financial Regulation. Jim McIntyre, the VCIA's legislative representative in Washington DC, will provide legislative highlights. Senator Patrick Leahy has been invited to welcome attendees at the general session, and Hank Watkins, president at Lloyd's N.A. will be our keynote speaker.

New this year, at the time registration opened, social Q&A was set up for all sessions, allowing attendees to provide input during the content development stage. The 2015 conference app allows us to digitally provide all conference information, including seminar descriptions, speaker information, updated schedule/speaker changes, and seminar materials.

Vermont's chief captive regulator, David Provost, will provide his ever popular look at hot topics that he sees for the industry. Our closing luncheon will spotlight keynote speaker Captain Richard Phillips on the topic of 'Steering Your Ship through Rough Waters: Lessons on Leadership'. The subject of the award winning movie starring Tom Hanks, Vermonter Captain Phillips will deliver his unforgettable story to our attendees.

What prompted the VCIA to structure the conference and its content in this way? Do events in the wider industry play any part in how the sessions take shape?

The VCIA begins planning for our annual conference almost immediately at the end of the previous one. Starting in September, more than 35 volunteer members contribute their hard work and input into designing and producing the three-day event the following August. The content is based on an extensive member survey as to what issues attendees would like to see addressed, as well as events that are playing out in the broader insurance arena.

As always, the conference benefits from the ongoing support of our content advisors and captive owner advisors. Their important role is to ensure the timely, innovative and accurate content of the seminar presentations. This diligence, coupled with the keen eye of instructional design advisors, improves the impact of our conference presentations year after year.

The VCIA works hard to stay attuned to what keeps risk professionals up at night so that we can provide the most up-to-date and relevant information to the attendees. We pride ourselves on providing the 'must attend' conference in the captive insurance industry. **CIT**

Richard Smith
President
Vermont Captive Insurance Association

What about US?

Experts discuss the state of play throughout the world's biggest captive market

Jason Flaxbeard
Senior managing director
Beecher Carlson

Mark Koogler
Director
Ohio Captive Insurance Association

John Thomson
Deputy commissioner
Connecticut Insurance Department

Ellen Charnley
Managing director
Marsh Captive Solutions

Skip Myers
Partner
Morris, Manning, and Martin

Mark Dugdale
Editor
Captive Insurance Times

How are things shaping up for your domicile so far in 2015 from a captive standpoint, and how representative do you think that is of the wider US industry?

John Thomson: In 2015, Connecticut has seen several new types of captive approaches for consideration and licensure. In 2014, we did a lot of work on single parent or pure captives. This year we have licensed a sponsored captive, for SOBC Corp in the UK. We are also in the process of licensing a sponsored captive that will be owned by a global broker.

These are exciting evolutionary changes as they show that people are taking advantage of the statutes in Connecticut that allow alternatives to pure captives.

An area where we have seen changes, which is pretty reflective of the turmoil in the US market, is with risk retention groups (RRGs). There are many states that have been aggressive in forming RRGs, but one of the things we will see in the US right through to 2016 is how they are regulated. States are changing their philosophies and that is causing managers to consider new places to domicile their captives.

We have embraced the National Association of Insurance Commissioners (NAIC) model for RRGs and have always found ourselves in line with leading states such as Vermont. They have shown excellent leadership in this area, and I think domiciles should always look towards leadership when it comes to regulation.

Jason Flaxbeard: The captive market seems to be developing well in 2015. We are seeing many more opportunities with captives, most of which relate to business expansion, mergers and acquisitions and the development of enterprise risk management (ERM) plans. Of these, the most exciting part of the business is the creation of ideas around the captive of third-party business within a captive. The fronting marketplace is responding to clients' requirements to support these opportunities.

The US industry from a large account captive basis is very strong. Captives have developed into an integral part of the ERM process and are being used more widely. We are also seeing a number of opportunities in the middle market space, particularly through aggregation of risks. There has been a slight uptick in the number of captives which have been around for a while that are interested in offloading some of their historical risk, deal economics depending.

Mark Koogler: Ohio adopted captive legislation in 2014 and at this time, the state has not licensed a captive. There is strong interest in Ohio for captives, due in part to the number of insurance professionals positioned to assist in the formation and management of captives, and the number of Ohio-domiciled businesses that have captives domiciled in other jurisdictions.

One of the obstacles facing interested Ohio parties is that the state's captive legislation limits pure captives from insuring controlled unaffiliated risks. Therefore, unless a parent's organisational scheme can provide for risk transfer and risk distribution, the availability of the Ohio captive legislation is limited.

Skip Myers: 2015 has been a good year for the District of Columbia. Although captive formation has generally slowed down across the industry, the District of Columbia has gotten its share of captives, particularly RRGs. The domicile has great experience and is especially attractive for them.

Ellen Charnley: Nervada has had a good few years of solid growth, which I believe is indicative of overall US captive growth.

Are there any particular regulations coming up or a general trend that concerns you?

Koogler: The only general concern I have is the continued scrutiny the Internal Revenue Service (IRS) places on 831(b) captives.

The headlines would indicate the problem is with captives but the details indicate that most of the issues are the cause of unscrupulous promoters.

We see a lot of that in the miscommunication among advisers and potential captive owners and our goal at the Ohio Captive Insurance Association and my law firm, Porter Wright Morris & Arthur, is to educate interested parties regarding captives and make sure formation and governance are done properly.

Thomson: I don't think there are any real concerns, but there will be continued discussion on a number of fronts. While there will be continued focus on RRGs as captives, there will also be increased regulation of captives formed for financing XXX and AXXX reserves. There are new and emerging regulatory frameworks, as well as new accreditation standards for specific types of captives. Also, there are potential new regulatory standards emerging from entities such as the International Association of Insurance Supervisors (IAIS).

From a global perspective, regulatory and solvency standards emanating from disparate entities such as the NAIC, the EU (Solvency II) and IAIS will need to be reconciled into a consistent or unified approach and there is going to have to be a lot of discernment and compromise.

Myers: There aren't any major concerns in the District of Columbia, but the NAIC continues to look for opportunities to further regulate the captive industry.

Charnley: I'm not aware of any specific regulation but I understand that the Nevada Division of Insurance has several draft regulations in progress that would affect the area of captive insurance. The main area of focus is on continuing to keep up with revisions to NAIC Accreditation Standards as they apply to RRGs.

For non-RRG captives, the general regulatory trend is towards measures that would facilitate efficiency of review for applications and business-plan changes while maintaining consistent quality and rigor of the review process.

Flaxbeard: Regulations don't concern me as a captive practitioner. Appropriately created captives will continue to operate within regulations as they add value to a client's risk management department.

The regulations are merely the boundaries within which captives operate to deliver an all-important benefit to client operations. I do not see any regulations on the horizon that would affect those boundaries greatly.

There may be some discussion around the IAIS proposals on captive regulation, but I don't see that this will adversely affect client value. Compliance may prove onerous but the benefit of captives will continue.

How encouraging for the industry are recent events such as the reintroduction to the Senate of the Captive Clarification Act? Are they symbolic of an improvement in the government's attitude towards captives?

Myers: I do not think that there has been an improvement in the federal government's attitude toward captives. In fact, I think it knows little about captives and would benefit from a greater understanding.

The Captive Clarification Act is needed to clarify a misunderstanding about the scope of Title V of the US Dodd-Frank Act.

Charnley: If passed, the Captive Clarification Act is a positive first step, however, captive owners should still seek tax advice when determining if they are subject to self procurement tax. Simply removing captives from the Non-admitted and Reinsurance Reform Act (NRRA) does not automatically mean every state will amend its provisions for payment.

The NRRA is simply the method by which the tax is allocated and collected. I believe there is a lot of misunderstanding around this point.

Koogler: Government recognition of the value of captives and their participation as a mainstream risk management tool is extremely important. The support for captives shown by the federal government and the Tax Court is very promising.

Flaxbeard: While the Captive Clarification Act is an encouraging issue in itself, what is truly encouraging is the effort of the domicile regulators and captive associations in understanding the hurdles that face the industry and addressing them to ensure that captive boundaries remain appropriate to allow the industry to continue to add value to client programmes.

The government's attitude toward captives has always been favourable. What might be of more importance is regulatory understanding across the board that captives are appropriate risk financing tools. The government's attitude towards tax matters is a different issue to the government's attitude towards captives.

Thomson: I believe that there is going to be a very interesting and spirited debate surrounding the issues associated with this proposed legislation. I see that the underlying principle involves the need for states in the US to be able to collect the premium taxes that are appropriate in their state. I think there is a belief that states can collect and keep 100 percent of the tax even though they do not have 100 percent of the risk. This is very

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similar to the issues surrounding the unitary tax issue that is evolving in the US with respect to state-based income tax for corporations.

I foresee the position that states will be begin taking is that corporations, including their captive subsidiaries will be expected to pay their proportional share of applicable taxes in each state. This is an emerging issue that needs to be understood and vetted.

A fair and comprehensive solution has yet to be identified, but we can achieve it through discussion and collaboration.

Is diversification of the types of cover/insurance vehicles available something that is gaining popularity in the US and your state?

Flaxbeard: Absolutely. Captives exist to provide value to their owners. That value comes through efficient risk financing, appropriate risk management planning and a tracking of results leading to action. What gets measured gets done.

Captives have always had a place in corporations and mature captives are continually looking for avenues to add more value, whether that be through collateral management, access to underwriting profits (warranties, third-party business) or support of parental business through a return on investment profile. I would argue that captive expansion has always been something that is popular.

Thomson: Looking for new horizons in captives is a very exciting thing. I think a number of things are going to emerge. Firstly, we are seeing very clear movement by captives to assume new risks such as cyber and terrorism. We have seen an increase in requests from Connecticut captives to include terrorism in their captives and taking advantage of the Terrorism Risk Insurance Program Reauthorization Act. What's interesting is where we are also seeing a convergence of cyber risk with terrorism. A cyber breach is, in many cases, viewed as an act of terrorism. There is potential strength in captive owners managing those risks together.

The use of medical stop-loss insurance in captives is also growing in the US, particularly when used in conjunction with self-funded healthcare programmes. In addition, corporations are considering the funding of post-employment medical benefits in their captive subsidiaries.

I see that new alternative uses of captives will emerge as captive owners look at their balance sheets and see emerging and unfunded risk obligations. Corporate leadership is recognising that they may want to try and provide a financial solution and begin to fund these emerging and growing financial exposures.

Myers: One of the great benefits of the captive industry is experimentation with new types of coverages. These things run in cycles. I would suggest that there is always some diversification experimentation—we just may be seeing a little more now.

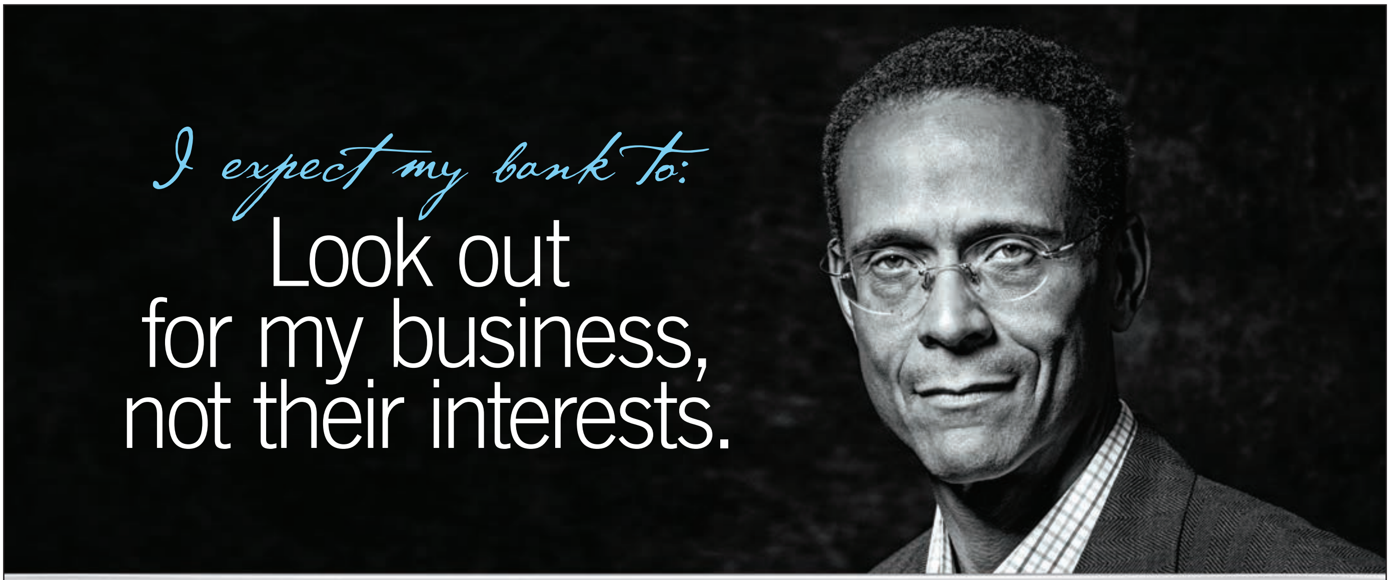
Koogler: The growing diversification of coverages offered by captives in general is important to the growth of the US captive markets. Cyber insurance, health insurance and employer liability insurance coverage seem to be gaining ground among captives.

In Ohio, the captive legislation is somewhat vanilla and any expansion of coverages not designated by statute would require the approval of the insurance superintendent.

Until a captive owner prospect presents a proposal for coverage outside the statutory requirements, it is not clear how receptive Ohio would be to more diversified lines of coverage.

What do you predict for the future of the US captive industry and your domicile in particular?

Thomson: We are looking at positioning Connecticut as a place where owners can



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come and use their captives to strategically manage financial capital, and access new capital, protecting their company's balance sheet with captive programmes. We are very open to these discussions, and now captive owners are recognising these possibilities.

Koogler: Based on the continuing revisions to captive legislation among a large number of US captive domiciles, I predict the competition among domiciles will only increase.

Those domiciles that coordinate changes to corporate law, such as permitting series limited liability companies, and insurance law, such as permitting protected cell captives and coverage to extend to controlled unaffiliated risk, will continue to lead in captive formations.

Those domiciles recognise captives as economic drivers and when regulators and government leaders are on the same page, initiatives can take hold more quickly.

In Ohio, there does not yet appear to be interest on the regulatory side to revise the captive legislation to make it comparable to what other US domiciles are doing.

The concern for captive domiciles that are not consistently re-evaluating their legislation is that they will be left behind in the competition for captives.

Flaxbeard: I see it as business as usual for the foreseeable future. I also expect to see a continued review of programmes to drive value such as third-party business, ERM integration, mergers and acquisitions work, and expanded use of segregated cells.

Myers: I think the future of the captive industry is excellent, particularly in the District of Columbia because of its solid, experienced regulatory approach.

Charnley: I suspect that Nevada will continue to grow and be a strong domicile of choice for captive owners.

How are regulatory developments outside of the US, such as Solvency II, likely to affect business at home?

Myers: The NAIC is trying to keep Solvency II at arm's length. Our current system of state regulation does a good job for captives. I suspect there will be efforts to bring the states into more uniformity.

Hopefully, this will not interfere with the ability of captives to experiment, grow and improve.

Thomson: We don't see any captives forming in Connecticut in order to avoid Solvency II, but there is a convergence. The Own Risk and Solvency Assessment, which is one of the pillars of Solvency II, is being adopted by the NAIC. Convergence is where I see regulations going. We have to realise that we live in a global 'village'. I think the US, just as other regulatory jurisdictions, needs to be open-minded and come to the table to discuss this.

Flaxbeard: Regulatory diversity will contract as regulators trend towards monitoring captives much in the same way.

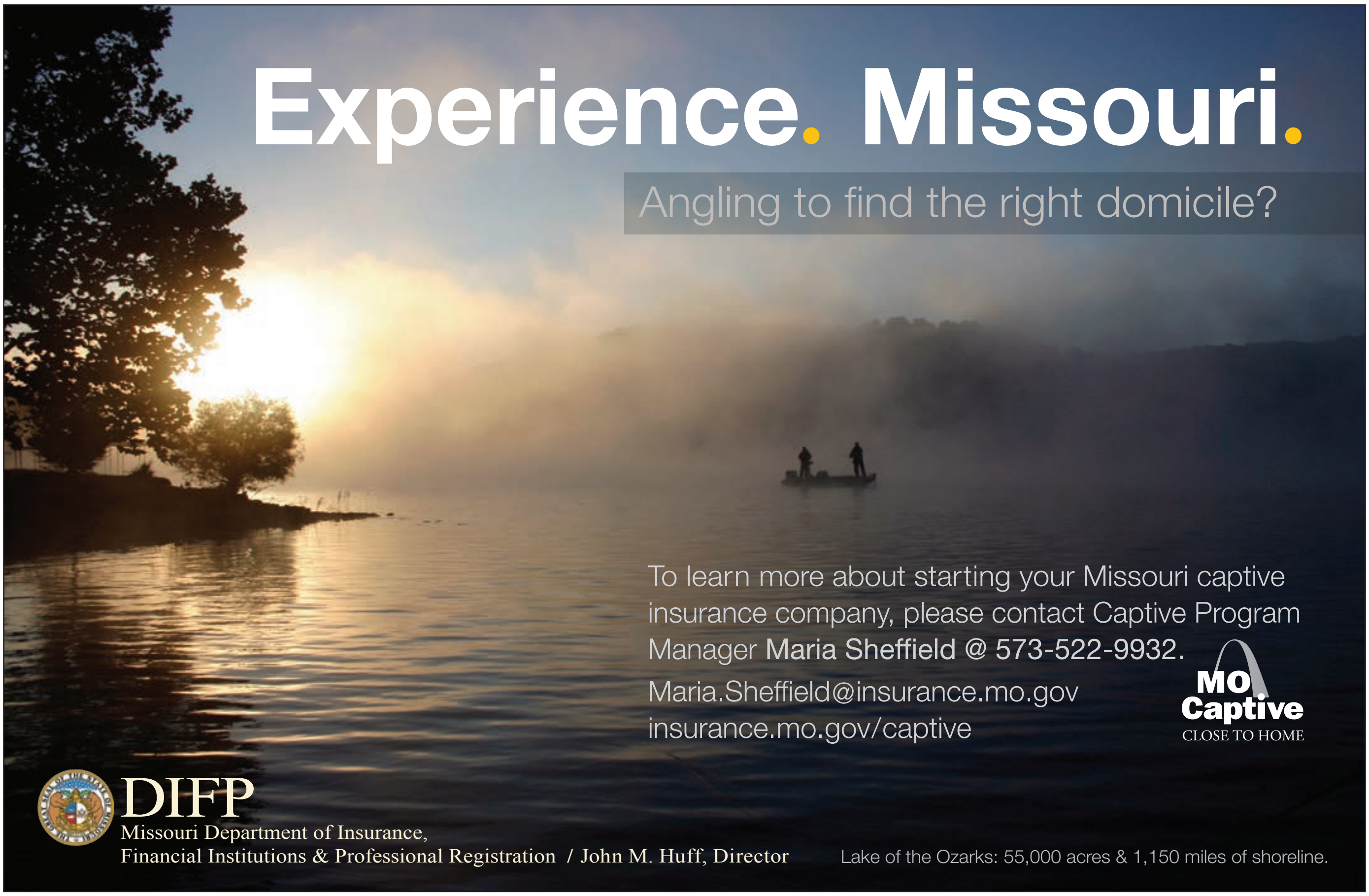
The business of regulation will be affected by the IAIS proposal, which will lead to regulators approaching captives in much the same way.

Solvency II has already changed the approach to captives, ensuring that capital is monitored and utilised appropriately.

As regulators advance towards collaborative regulation, the industry will emerge stronger and will continue to deliver value to its owners.

Koogler: We are not seeing regulatory developments outside the US affecting business in Ohio at this time.

However, the Ohio Captive Insurance Association has members heavily involved in captives throughout the US and in foreign jurisdictions so it is well positioned to monitor the impact of such regulatory developments on captives domiciled in other US jurisdictions and owned by Ohio businesses. CIT



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Cornering the market

Captive Insurance Solutions (NZ) has established itself as the only exclusive captive facilitator in New Zealand, Australia and the South Pacific. Dean Spense and Rodney Mathers explain more

STEPHEN DURHAM REPORTS

How and why was Captive Insurance Solutions (NZ) created, and how has it developed since its inception?

Dean Spense: Captive Insurance Solutions (NZ) commenced operations in August 2014 and was formed as a result of an obvious gap in captive insurance services in New Zealand. Historically, government regulations did not discourage captives in New Zealand, but as a result of changes to the Insurance (Prudential Supervision) Act 2010, entities wishing to establish a captive facility were faced with the same prudential requirements as a conventional insurance company, complete with large cash and reserve requirements.

This had the effect of discouraging the establishment of New Zealand-based captives and even the major broking firms, by and large, dissolved or lost their New Zealand captive teams, and their clients were then referred to offshore sources.

As a result of this, while there was still a demand for captive facilities, the local level of expertise largely disappeared and Captive Insurance Solutions (NZ) seized upon this as an opportunity to assist and guide entities that were obvious candidates for captive solutions, but for which their own brokers could not assist them without calling in help from elsewhere in the world.

Rodney Mathers: The reception we have been receiving from prospective entities has been overwhelming. These entities are looking for maximum transparency, through the elimination of undisclosed commissions by the reduction of as many middlemen as possible.

Publicly-listed companies are compelled to perform to minimum standards, producing maximum profits to their shareholders and the captive model provides this and allows these companies greater opportunities through reducing costs, better control and improvement of their bottom line results.

What is the ultimate goal for the company? Do you predict more uptake of captives in the region?

Mathers: Our goal is to identify opportunities, audit our clients' risk requirements, then set about implementing and managing the establishment of a captive solution.

Our strengths are that we are completely independent of any umbrella or overseas control and our goals are to draw upon our combined decades of insurance experience to provide significant resources and information—locally and without delay.

Most companies we talk with have little or no idea of the captive concept, and their brokers never broach the subject as their knowledge is lacking. Our role as facilitators and educators will undoubtedly assist those companies that have largely overlooked the captive concept.

Spense: There is no doubt that businesses are looking for an alternative solution, and while we appreciate we are enjoying a soft market currently, we all know that our industry is cyclical and, as a result, the establishment of a captive now will secure the benefit of time in levelling out the ups and downs of the insurance industry. It most certainly allows the client to have total control over all aspects of the insurance programme.

What have been some of the major challenges in establishing the company?

Mathers: The establishment of Captive Insurance Solutions (NZ) has been relatively straightforward: like-minded individuals with like-minded purposes and goals. The challenges, however, have been somewhat more interesting.

Most of the clients we have liaised with recently have programmes placed via one of the international broking firms such as Marsh, Aon, JLT, Willis and Crombie Lockwood. These firms will not accept the loss of a major account so our involvement has certainly created ripples in the market as a result.

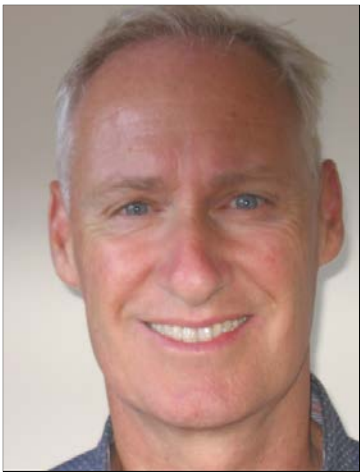
Why has it taken until now for a company like yours to emerge?

Spense: Legislation in New Zealand and Australia now discourages the formation of a locally-based captives. Furthermore, captives have been largely misunderstood or deliberately overlooked. Our determination is that the internationals have the ability to assist their clients with a captive, however, it is not in their interests to consider this form of risk transfer. Captive Insurance Solutions (NZ) is committed to focusing on our clients' requirements, ensuring total transparency is adopted with the entire process and establishment.

Are there any upcoming regulatory hurdles that could hinder growth?

Spense: No, the change to the Insurance (Prudential Supervision) Act of 2010 has been in force for a number of years now and as such, this piece of legislation has been firmly adopted by insurers and the public at large.

Although the Reserve Bank of New Zealand is considering a number of issues relating to how insurance is transacted in New Zealand currently, these, such as implementing additional transparency with fees charged and commission earned, have already played a part in our strategy and Captive Insurance Solutions (NZ) is one step ahead in this respect. **CIT**



Dean Spense
CEO
Captive Insurance Solutions (NZ)

Rodney Mathers
Managing director
Captive Insurance Solutions (NZ)

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Consistency conundrums

Uncertainty is constant in the capital markets, but as we move through 2015, with the potential for greater volatility than normal, the need for a disciplined and consistent investment approach is crucial, say James Walter and Sukhi Singh of Comerica Bank

Successful investment programmes, regardless of the type of investor, typically have a number of common characteristics. It is possible to achieve good results without them, of course. But consistent long-term results, whatever the specific investment objective, are most consistently realised when certain core principles are followed.

These principles are even more important for insurance company portfolios, where the impacts of uncertain capital market returns are compounded by the potential need to fund claims resulting from events in an equally, if not more, uncertain world.

Many investors are no doubt familiar with these principles, however newer pools may benefit from this discussion. Those with more experience may also find a refresher valuable to contemplate whether any changes or updates should be considered.

Where to begin?

The starting point is a clear understanding of the portfolio objectives. For insurance companies, this means providing ongoing funding for the potential liabilities the portfolio may have to support. The financial strength of the company and a strong premium flow are relevant, but the portfolio must be able to withstand on its own resources any demands from adverse claims. While shareholder capital may provide a back-stop, this is certainly an option whose exercise is not desired by any of the involved parties.

Once the degree to which the portfolio's funding level supports the anticipated liabilities has been determined, an appropriate asset allocation target can be established. To the extent a meaningful surplus exists, and subject to regulatory and beneficiary constraints, a more aggressive posture for the portfolio may be considered. The fundamental principles of risk and return indicate that increased returns are achievable, but only by accepting the potential for greater volatility.

In situations where the degree of funding is lower, a more conservative portfolio is required to minimise the probability that adverse market conditions may endanger the portfolio's ability to satisfy claims.

> “To the extent that dollar strength helps keep inflation under check, the Federal Reserve's timeframe for higher rates may be affected, creating additional uncertainty about when the much-anticipated increase in the fed funds rate may occur”

In this circumstance, taking on additional risk is obviously not appropriate. The end result of this process is the determination of the optimal asset-liability match that meets each pool's funding needs.

The targeted allocation as well as other information, such as any relevant portfolio constraints, specific asset and security restrictions, and asset quality and rating requirements, should all be documented to provide clarity for the asset managers as well as for boards, finance/investment committee members, and shareholders. This is most efficiently done through creating an Investment Policy Statement (IPS).

The IPS can also serve a valuable role in delineating the roles and responsibilities of the various parties charged with managing and overseeing the portfolio if this degree of specificity is desired.

An IPS need not be a lengthy document, however, so long as the key criteria relevant to the portfolio allocation, acceptable securities, and other constraints, ratings and quality requirements are noted.

A key consideration is the degree to which the IPS provides flexibility to allow the portfolio to adjust to shorter term market conditions. This can be done in a number of ways. Possible adjustments that may add value or reduce volatility would include altering the mix between the major asset classes for balanced portfolios with a blend of bonds and stocks. For fixed income-only portfolios, altering the allocations to different security types (for example, an increased or reduced emphasis on corporate issues versus treasury or agency securities) may be considered. The duration of the holdings can also be adjusted so long as it remains appropriate to the duration of the portfolio's liabilities, thus maintaining the asset-liability match that is the core consideration for insurance portfolios.

More sophisticated techniques based on specific market expectations may include altering the structure of the portfolio's fixed income assets along the yield curve to benefit from, or insulate against, anticipated shifts in interest rates for different maturities. For example, if shorter rates are expected to rise, shifting some holdings out somewhat longer to reduce exposure to the short end of the curve, while shortening as needed at the longer end to maintain the overall duration, may be an appropriate strategy. Each pool's managers should be consulted as to their market outlook and recommendations for adjustments such as these.

Rate headaches

This year poses some particularly thorny challenges for investors, and highlights the potential benefits of a flexible approach that allows portfolios to adjust for shorter term trends. Adjustments should be limited and tempered, of course, so that portfolios retain their long-term focus, but even minor shifts can potentially add value and reduce volatility.

We are seeing a divergence in global interest rate trends, with rates in the US expected to move to a more normalised level, while various foreign central banks are focusing on providing greater liquidity through their own versions of quantitative easing. Beyond the first-derivative implications of changes in the federal funds rate on fixed income portfolios, these changes will also impact currency exchange rates. Higher US rates would be expected to support a stronger dollar, which could create headwinds for large US multinational companies with a high degree of foreign sales as their exports become more expensive.

Beyond the impact on revenues, earnings could also be reduced through translating foreign earnings back into stronger US dollars. So, while US companies may see lower revenues and weaker earnings, moves to greater liquidity overseas may provide support for international equities, as they benefit from weaker currencies and lower interest rates. This has implications for what the appropriate mix between US and international stocks should be for investors who participate in both of those asset classes.

Another consideration is that higher US rates could attract foreign capital seeking higher yields versus those available in Europe or Asia. These capital flows will help to hold US yields down due to increased demand, and will also support a stronger dollar. To the extent that dollar strength helps keep inflation under check, the Federal Reserve's timeframe for higher rates may be affected, creating additional uncertainty about when the much-anticipated increase in the fed funds rate may occur.

Uncertainty is a constant in the capital markets, but as we move through 2015, with the potential for greater volatility than normal, the need for a disciplined and consistent investment approach is crucial. The guidance of a well-written IPS that provides a clear roadmap for the management of the portfolio under different market conditions, accompanied by realistic expectations and the ability to stay focused on longer term objectives despite shorter term swings, will serve investors well. CIT

James Walter
Vice president and senior investment strategist
Comerica Bank

Sukhi Singh
Vice president, wealth management
Comerica Bank

Are health networks going to Jurassic Park?

The removal of an unnecessary intermediary fee is good news for those interested in creating a more cost-effective healthcare delivery system, says Michael Schroeder of Roundstone

Charging a fee for access to a group of healthcare providers has been a fantastic business. Low investment in capital assets, minimal labour costs and bountiful cash flows attract the US's smartest investors. With margins above 60 percent, it is no surprise that the Goldman Sachs' of the world own networks. With any good deal, one must ask if it is too good to be true. Will it last? There are some evolving market forces that suggest the traditional notion of paying for access to a group of healthcare providers is coming to an end.

A health network is a group of physicians, hospitals, and other healthcare providers that agree to provide medical services at pre-negotiated prices and rates. Health networks generate income by leasing access to their group of providers for a fee. Network access fees range, on a per-employee, per-month basis, from under $10 a month to $20 a month. A payor entertains these access fees in the hope the network of providers will deliver healthcare services at a lower price than if the payor purchased the services directly.

Networks are the consummate middlemen, inserting themselves between buyers and sellers with arguments of price efficiency and convenience. To date, they have done a wonderful job of creating brands and other barriers for payors and providers to work more closely together. In fact, the mere suggestion of proceeding with a health benefit plan outside of a recognised network will cause many to predict financial ruin. Is this suggestion still accurate? Are traditional networks worth their price of admission? Is it possible to receive healthcare services at an equal or better price without paying $14 per employee per month?

The payors

A driving force behind the creation of health networks is their connection to payors. Insurance companies created groups of healthcare providers in an effort to manage the cost of care they were funding on behalf of their insured customers. The network's relationship with insurance companies created a double-edged sword where payors felt they needed a network to obtain the best price from healthcare providers and providers felt they needed to be in a network to gain access to funding from the payors. Network growth throughout the country exploded because of these symbiotic motivations. Take away either perception and the idea of paying a middleman for access to healthcare services may lose its appeal.

For a variety of reasons, not the least of which is healthcare reform, the makeup and characteristics of payors are changing. Self-insurance by employers is rising dramatically. The government is becoming an even larger market participant with Medicaid, Medicare, and individual market funding.

Traditional fixed-cost insurance companies are no longer confident in their monopolies. Mergers of the country's largest insurers are being negotiated as each tries to assert relevance in the new market. Turnkey insurance solutions such as the stop-loss group captive are created and controlled by groups of employers with far different motivations than for profit insurance companies. These pooled insurance solutions enable an entire community of employers to negotiate directly with that same community's providers. These community health plans can be delivered in a regulatory-compliant insurance solution in weeks.

All in, a healthcare provider is no longer beholden to the traditional insurance company as its only source of payment for services. No wonder the healthcare providers are now asking themselves whether network participation is the most attractive way to deliver their services. Could healthcare services be provided without the network middlemen?

Market Darwinism

The market is a tough critic and permits little to remain that is not contributing for the better. Like dinosaurs, health networks may be confined to an insurance-themed amusement park, sort of like Jurassic Park, if they cannot support their place in the healthcare delivery system.

Because payors are undergoing such a dramatic transformation, it is probably best to look at how the new payors are pushing out the old payors and their networks with them. Like many of nature's creatures, lethargy and softness creep into many a market participant's makeup. For insurance companies that control the US's largest networks, outsized overhead and substandard services are the signs of a long successful tenure atop the healthcare delivery system.

These characteristics do not bode well for survival in today's healthcare delivery environment, where cost and quality control the agenda.

The government has passed, or will be passing, laws that change how healthcare providers are being paid for the services delivered to beneficiaries of the Medicare, Medicaid and exchange systems. These changes limit what is paid based on a per patient amount or capitated fee. Excess overhead and services delivered without the latest technology cannot survive. Why would a seller engage an intermediary if that intermediary is not offering access to the highest payment available?

> “Why should a healthcare provider entertain a reduced fee from the traditional network payor when another payor in the form of a self-funded medical captive can offer a more reasonable payment because of its lower overhead and fixed expense insurance solution?”

This is especially relevant when the payment is capped. If the traditional fixed cost insurer is offering the healthcare provider 60 cents of a fixed capitated fee and the provider can deliver the services through a new payor with one fourth of the overhead, will the traditional network survive? Why settle for 60 cents of the capitated fee when 85 cents of the same fee is available from today's new payors?

This is just the government payor market. What about the commercial market? As mentioned, groups of self-funded employers are now pooling together through innovative funding mechanisms known as stop-loss group captives. These captives function perfectly as the chassis for a community health plan. Healthcare providers deliver their services to the community of employers directly and all participants of this variable cost insurance solution benefit when costs are reduced.

The medical captive facilitates healthcare services to the employees at a reduced cost through lower overhead and the latest technology. The symbiotic motivation of the healthcare providers and the traditional insurance companies has been interrupted. Providers no longer believe they need to be in a network to gain access to payment.

Why should a healthcare provider entertain a reduced fee from the traditional network payor when another payor in the form of a self-funded medical captive can offer a more reasonable payment because of its lower overhead and fixed expense insurance solution?

They shouldn't, and the provider market is developing these self-funded community health plans throughout the country.

The tipping point

Improved communication is a disruptive force in the market, no doubt. It serves to drive out redundant and inflated costs.

For networks that relied on claims of convenience and cheap access to a group of healthcare providers, many other payment platforms now compete and offer improved provider communication and access at a reduced cost.

Is $14 per employee per month still needed to gain cost-effective access and communication? Does the regulatory-compliant insurance solution need to be delivered at an overhead and profit cost of 40 cents of the premium dollar? Are healthcare providers realising there is a choice beyond the traditional network? No, no, and yes.

The removal of an unnecessary intermediary fee is good news for those interested in creating a more cost-effective healthcare delivery system. CIT

Michael Schroeder
President
Roundstone

Bending the trend: the effects on self-funded plans

Increased cost sharing to foster better consumerism, more efficient plan design, alternative treatment venues and greater use of technology and data can empower a self-insured health plan. Phillip Giles of QBE North America explains

One of the first things taught in Economics 101 is the diminishing effects that inflationary trend has on the value of a dollar. Nowhere can this be better illustrated than in the rising cost of healthcare in the US. Few industry segments are as vulnerable to these diminishing effects as self-funded health plans, which happen to be the most effective and frequently used form of alternative risk transfer. Even with the widespread familiarity of self-funding, the leveraging effects that medical inflationary trend has on self-funded plans is often overlooked.

For the past decade, the cost of healthcare in the US has been increasing at an average annual rate of nearly 10 percent—a trend rate steeper than most other US economic segments. The rate of medical trend is expected to decrease in 2016 (to 6.5 percent), however, it will still significantly outpace general economic inflation. The estimated per capita cost of healthcare for 2015 is approximately $12,500 and is projected to increase to $13,750 in 2016. It is important to note that this is the average cost of healthcare and not the cost of healthcare insurance. The cost of insurance, which is what most employers are more concerned with, is a direct reflection of the expected costs charged for healthcare. The only way to make health insurance more affordable is to make healthcare itself more affordable.

Why it's happening

There are a number of elements that drive inflationary trend relative to medical insurance. The root problems of healthcare pricing are much too complex to breakdown in this discussion and most of us, particularly those that self-fund their health plan, are already familiar with the more obvious cost drivers of healthcare. Now it's time to introduce a new round of cost drivers that self-insures need to and prepare for, that being large claims are getting larger.

New specialty drugs and therapies

Specialty drug approvals have surpassed traditional drugs over the past five years and this trend is expected continue for some time as the Food and Drug Administration (FDA) approval pipeline is full with new therapies for cancer, rheumatic diseases, hematology and other conditions.

A new drug treatment for Hepatitis C is estimated to have added a half percentage point to total employer medical cost increases and one-fifth percentage point to total medical costs in 2014. A recent Express Scripts report concluded that total national prescription drug spending increased 13.1 percent in 2014.

Unlimited lifetime maximums

One of the by-products of healthcare reform (the Affordable Care Act, or ACA) is the mandate for unlimited individual benefits. Prior to 1 January 2014, health plans could limit a participant's maximum lifetime benefit to $1 million. The ACA gradually increased that limit to $1 million annually and subsequently to an "unlimited" lifetime maximum. The new unlimited maximum has expanded the procedure coding and billing ability of healthcare providers and, for some, it has become an open chequebook. Many treatments, therapies, and procedures that used to cap out at well less than $1 million are now regularly exceeding that threshold.

Cyber security for private health information

The US Department of Health and Human Services reported that more than 90 healthcare providers experienced significant data breeches in 2014, and the large data breeches of Anthem and Humana earlier this year were well publicised.

Stolen health records are considered much more valuable than credit card information. Some of these breaches have resulted in multi-million dollar settlements and significant government fines.

The added cost of enhanced cyber security and liability insurance for providers as well as insurers will contribute significantly toward healthcare cost increases.

And why it affects self-funded plans more

Stop-loss carriers increase the risk charge for employers having lower specific deductibles. Since a lower specific deductible provides more insurance protection, the corresponding risk charge becomes a greater portion of the overall stop-loss premium in order to compensate for the increased coverage. Lower specific deductibles are also more exposed to the adverse effects of inflationary forces.

The Leveraged Trend is the effect of first-dollar medical inflation, which, as mentioned above, can average anywhere from 6 to 10 percent per year, on stop-loss reimbursements. A simple illustration: assume an employer with a self-insured health plan has stop-loss coverage with a $50,000 specific deductible. Incurring a $100,000 claim in 2014, the employer would receive a $50,000 reimbursement from the stop-loss carrier.

In 2015, assuming a 10-percent medical trend, that same medical claim would be valued at $110,000 and the employer would receive a $60,000 reimbursement from the stop-loss coverage. Even though the claim had only increased 10 percent from the previous year, the stop-loss reimbursement increased 20 percent.

This is sometimes referred to as deductible erosion and exemplifies the increased (leveraged) effects that inflationary trend has on self-insured plans. Assuming there are no significant changes or adjustments to the benefit plan or specific deductible from one year to the next, the stop-loss carrier should seek to increase premiums to compensate for what is actually an increase in covered exposure.

What can be done to bend the trend?

Because of their ability to preempt many ACA and individual state benefit mandates, self-funded plans maintain the greatest administrative control and latitude over plan design. The following are emerging plan design techniques being implemented to offset the effects of increasing medical trend.

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Prudent cost sharing

Another provision of the ACA is the looming 'Cadillac tax', which, beginning in 2018, will impose a 40 percent non-deductible tax on the value of employer-paid benefits exceeding a maximum threshold. This will spur more cost shifting to employees as a way to reduce the value of benefits provided to employees. Most of the shifting will be in the form of higher out-of-pocket maximums and greater use of high-deductible plans.

Assuming a greater portion of the financial responsibility will help foster better consumerism on the part of the employee, as long as the out-of-pocket maximum is not set to a point that it discourages employees from seek-needed or timely treatment.

Implement referenced-based pricing schedules

Reference-based pricing (RBP) is a benefit design in which the health plan defines the maximum amount it will cover for a particular healthcare service. RBP plans provide a more defined fee structure as provider reimbursements are tied to a specific reference point for the procedure or service.

This can either be Medicare Plus, the Medicare reimbursement point as a base plus a defined margin (for example, Medicare plus 50 percent), or a defined benefit schedule. This scheduled approach specifically defines the maximum dollar amount assigned by the benefit plan for each treatment or procedure. This would allow the benefit plan to isolate and contain specific 'cost drivers' within a benefit plan.

Alternative treatment venues

Many progressive benefit plans are encouraging employees to seek lower-cost alternatives to traditional treatment and care. 'Medical tourism', in which the benefit plan will pay for employees and a spouse to travel to other, lower cost locations (including different countries) for qualitatively comparable treatment, is gaining in popularity.

For instance, the cost for an orthopaedic procedure, such as a hip replacement, in a top-tier facility in Mexico or Panama will be fraction of comparable cost in the US. The benefit plan can cover travel, accommodation and treatment and still pay much less than the US treatment cost.

Virtual care and telemedicine are also quickly gaining in popularity as a way to reduce plan costs. New technology has allowed hospitals and physicians to consult and remotely monitor patients, especially those having chronic conditions, in order to improve observation, and reduce timely, more expensive office visits. Congress recently added several Medicare payment codes for telemedicine and also designated $26 million in funding for telemedicine programmes for rural communities. In short, increased use of telemedicine is expected to save billions of dollars across the US healthcare system over the next two decades.

The list keeps growing; increased cost sharing to foster better consumerism, more efficient plan design, alternative treatment venues and greater use of technology and data can empower a self-insured health plan with substantial ability to shave costs and bend the trend of medical inflation in their favour. CIT

Phillip Giles
Vice president of sales and marketing
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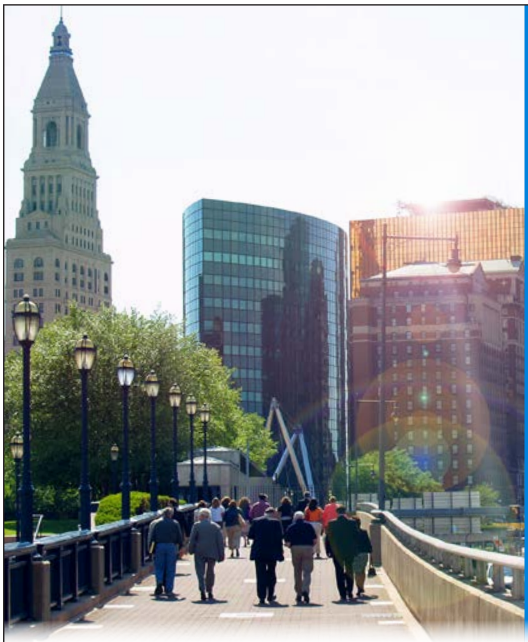

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Going beyond risk mitigation: exploring captive insurance

Risk mitigation and alternative risk management strategies equate to smart decision-making, say Megan Brooks and Lance McNeel of Capstone Associated Services

Business owners are in the driver's seat. For years, it has been the owner's sound decision-making that has developed their business into the force that it is today—profitable, resilient, competitive, progressive, and operational. But as anyone worth their salt can attest to, there is no such thing as relying on forward momentum when risks are involved.

Natural disasters, security or data breaches, loss of key employees, equipment breakdown, international risks and other perils can aggravate the proverbial squeaky wheels and loose bolts of the operations. Vulnerabilities exist that may lead to sometimes predictable, sometimes unforeseeable losses.

This is the narrative that every business owner laments over, as evaluating risk mitigation strategies becomes one of the primary responsibilities bestowed upon them. Risk mitigation's role in the business environment is essential to the survival of the company, focusing primarily on the reduction of the extent or even likelihood of a risk.

The tedious work of putting risks into perspective takes priority among the big make-or-break business decisions, such as securing capital, recruiting and employee retention, research and development, production, and the implementation of effective growth strategies.

In general, business owners assume a significant and active role within their company in efforts to protect the assets and investments. In risk mitigation, it is the assumption or acceptance of a particular risk, avoidance of that risk, implementing actions to minimise the impact of that risk, and the monitoring of environmental changes that may affect a business that have become part of the vernacular.

What is the reasoning behind the vital work of risk mitigation? Without the existence of sound decisions and continuous monitoring, the threat of business interruption or the complete failure of a business can become a palpable reality. However, what happens when one cannot effectively reduce the extent or likelihood of a risk within the company?

Enter captive insurance, a hybrid plan that essentially combines risk transfer and financing, once simply a novel approach to handling hazard risk, has evolved into an effective tool to reduce the overall cost of risk for a company.

Captive insurance is an alternative risk planning strategy that streamlines the risk management process by adding tailored coverages or filling in coverage gaps left by commercial insurance policies. The unique coverages written under the captive paired with conventional policies helps insurers mitigate the business and operational risks that often lead to dire financial repercussions.

Think Blue Bell ice cream and its need to lay off—so as to survive—more than 1,400 employees due to a deadly listeria outbreak. Blue Bell voluntarily recalled all of its frozen desserts in April after the US Centers for Disease Control and Prevention linked its ice cream to the outbreak that resulted in three deaths and additional illnesses in several states.

> **“Businesses integral to the supply chain are essentially domino pieces, lined up in perfect form, ready to do their part. If one of those dominoes falls, the rest of this formation becomes vulnerable”**

Business owners should look to their trusted advisors, such as certified public accountants (CPAs) or financial advisors, for strategic planning that is sound and efficient. Discussing all facets of the business can help them determine whether a complete risk transfer is the most appropriate course of action or if the addition of captive planning could be an alternative (given the completion of a detailed feasibility study).

Without this guidance, clients are unaware of the options, which may lead to the exposure of being underinsured or ultimately purchase coverages that don't fully address their specific risks. Moreover, the high costs of some coverage may prompt insureds to drop 'unnecessary' coverage over time, leading to financial vulnerabilities if the exposure occurs while uninsured.

Comprehensive risk coverage is no longer an option. Assessing risks and mitigating the potential effects requires a commitment from everyone involved in the business planning—forming a captive insurance company has become a viable option for clients. Captive insurance not only gives owners a plan of action for risk coverage for important operational components (such as the supply chain), but it also affords them the types of benefits that strengthen the organisations over time.

The strength of captives: protecting the supply chain

Businesses integral to the supply chain are essentially domino pieces, lined up in perfect form, ready to do their part. If one of those dominoes falls, the rest of this formation becomes vulnerable. Whether one provides services or products, the supply chain is critical to the health of every middle market business. As a result, risk mitigation and comprehensive coverage should be appropriated throughout to prevent or fund potential losses. The formation of a captive insurance company is one option to combat the risks that are created throughout the supply chain.

The types of coverages that can be underwritten by a captive become especially important for the supply chain, as the tailored, broader coverages could fund special or 'non-standard' risks. An example of these coverages could include the loss of a major supplier because of a tsunami in Japan or floods in Thailand—both of which have affected US businesses in the last three years or so—so that the insured is protected against ensuing business interruption or extra expense while the insured establishes a suitable replacement to resume normal business operations.

Trade disruption coverage, which provides business interruption and extra expense coverage, insures against an event or incident that causes an adverse impact on the insured's supply chain. These risks can include treacherous events, such as war, embargo, tariff spikes or trade restrictions. Companies that conduct business globally, working with suppliers overseas or have operations in multiple countries would benefit from coverages such as political risk, kidnapping or trade disruption. For example, Exxon's large exploration activity in the Russian Artic was disrupted by government imposed trade sanctions, stranding billions of dollars.

Further, hazard risks that stem from severe weather, causing damage to properties, equipment, vehicles, and more, are a threat to all businesses. Weather-related business interruption insurance would provide funding to cover business interruption losses and the extra expenses resulting from catastrophic events such as earthquake, tsunami, flood, hurricane, windstorm, tornado, or snow/hail storm. One of the main features of this type of coverage is that claims do not require a direct physical loss to the insureds' property.

Special risks, industry viewpoints

For some businesses, the added costs of specialised risk coverages become too much of a gamble, especially if there's been no history of claims or claim triggers. As the biggest advocate for the business's success, choosing the right risk mitigation strategy is paramount.

Special risk coverage may or may not be available in the conventional markets. Typically, insureds are left to bite the bullet and pay higher premiums for coverages needed to cover their high-risk operations.

Industries such as manufacturing, construction, chemical transport, shipping, wholesale/retail, and agriculture inherently possess risks that could result in irreparable financial, operational, and even reputational damage. Companies that rely on or actively engage in the transport of materials, domestically or internationally, can opt for special cargo/transit coverages. This protects the insured against loss or damage to property in transit in owned or leased vehicles, common carriers or goods shipped by freight forwarders.

Other risks such as the repercussions from regulatory changes should also be taken into account. These coverages protect the insured against compliance expenses and the resulting business interruption from various regulatory changes that would adversely impact the insured's normal business operations. These coverages would also address any changes in regulatory authority and/or enforcement policies of existing regulations.

In focus: workers' compensation coverages

Workers' compensation insurance is a highly regulated component of the insurance industry, providing workers with medical and indemnity benefits for the treatment of work-related injuries and illnesses. Workers' compensation coverage also provides income, birth, and burial benefits. In general, workers' compensation coverage is commonly understood as a cost of doing business—a requirement in risk mitigation, especially for those working in high-risk industries.

Tailored risk coverages under a captive allow for business owners to underwrite workers' compensation coverage distinctively designed for their industry. By forming a captive insurance company, businesses can supplement their commercial workers' compensation insurance—the premiums paid to the captive insurer can cover reimbursement of large deductibles collected by their commercial insurer. Additionally, the premiums paid to the captive can be done on a tax-deductible basis under controlled loss conditions.

By way of example, here is how coverage for workers' compensation can be established: ABC Company expects to pay $3.5 million± combined for its workers' compensation and Longshore and Harbor Workers' Compensation Act policies.

To reduce its insurance costs, the company is soliciting quotes for a workers' compensation policy with a higher deductible of $500,000. ABC is prepared to pay the projected workers' compensation deductibles and cover those deductible losses, above a per claim threshold, through a captive insurance arrangement.

Loss experience for this line of coverage has been exceptionally good with a weighted average developed loss ratio of under 20 percent since 2012. This is partly due to the fact that premiums are calculated for a hazardous industry, although ABC has a loss control programme that is well documented and professionally managed, which has kept losses well below the average. To be sure, a catastrophic loss could occur at any time, or an unusually large number of claims could create high aggregate losses within a policy year.

Through pricing quotations from the commercial insurance market and additional loss analysis, the appropriate deductible level is determined and the ABC retention and stop-loss protection is set. In the example, the company's conventional workers' compensation coverage works in tandem with those provided by the captive. That is why the combination of a large deductible plan and a captive insurance programme provides a significant benefit for middle-market organisations.

Heading off labour disputes

Most organisations do a good job in adhering to labour laws and guidelines. However, there will always be some level of risk if the business is involved in a large operation—relationships with employees, vendors, suppliers and so on can create vulnerabilities. Labour disputes can ensue, leading to costly litigation in court. As such, business owners must consider any unforeseen situations that could call their business into question. Regarding labour disputes, captive insurers can provide potential gaps in coverage excluded by employment practices liability insurance.

Other risks: third-party exposures

For any business offering a line of credit (Net 30, Net 60), including those in private healthcare or retail organisations, collection rate insurance coverages protect the insured against an unexpected drop in its collections rate of at least two percentage points for services and/or products billed, where the drop in collections rate may be due to a variety of reasons outside the control of the insured party.

This brings us to third-party liability issues. Product tampering or the alleged or threatened wrongful alteration or contamination of the insured's products by any person, including employees, poses both legal and reputational risks for businesses operating in the retail sector (other industries could be affected by this as well). Product impairment coverage could fund losses stemming from these product risks. It can also address product extortion, which is the act of extorting money from the insured by threatening to commit product tampering on insured's products.

In general, risk mitigation and alternative risk planning strategies that include the execution of a well-executed captive insurance arrangement offers organisations the security needed to evolve, despite any losses resulting from unforeseen events. Ultimately, risk mitigation and alternative risk management strategies equate to smart decision-making. Choosing a reputable captive management company that offers the insurance, tax, and legal expertise needed to maintain the captive according to regulatory guidelines is paramount. No one can foresee the future—but everyone can prepare for it. CIT

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Risky misconceptions

Understanding the pitfalls is the first step in avoiding them, according to Matt Hayner and Paul Lefurgey of Madison Scottsdale

Earlier this year, I was gazing out my window on a calm, drizzling morning, when I was startled by a loud cracking sound. I looked up to see a mature tree tipping and dropping towards the ground, ending up crashing just short of our house. As I stared, a bit in shock, at the now prone expanse of leaves, I thought of an episode in Jared Diamond's recent book, The World Until Yesterday.

Diamond recounts one of his first trips to New Guinea. His choice for camp was an idyllic setting beneath a rugged old tree with water nearby. However, when it came time to bed down his indigenous guides refused to sleep at his campsite under the old tree, which although large, straight, and sturdy, had recently died. Diamond recalls thinking: "Their fears were absurdly exaggerated and verged on paranoia." Diamond slept under the tree, his guides out in the open.

Over the ensuing weeks, Diamond realised that each day he was in the New Guinean wilderness, he did, in fact, hear a tree fall somewhere in the forest. While the chances of any one of these trees hitting a person was small, the cumulative, lifetime risk of death or maiming by falling trees was substantial, and a well-established tragedy for the natives who lived every day of their lives in the forest. Diamond soon adopted the native ways when it came to avoiding large, dead trees.

Diamond's lesson and the native's behaviour strike me as a rich example of the way we address risk in our own lives, particularly as investors. Sometimes we are like Diamond, blithely unaware of the real risk hovering over our heads, and sometimes we're like the natives, hardened to our experiences. But sometimes the instincts that serve humans well in the forest may prove to be the very impulses that lead us astray when it comes to managing the complexities of market decisions.

In a YouTube video, Microsoft founder Bill Gates is seen on a tour of Africa with best-selling young-adult author John Green, whose The Fault in Our Stars became one of 2014's most successful movies. They're sitting on a bench in Ethiopia and Gates is calmly explaining why a visibly stressed Green

Figure 1: Effective Federal Funds Rate

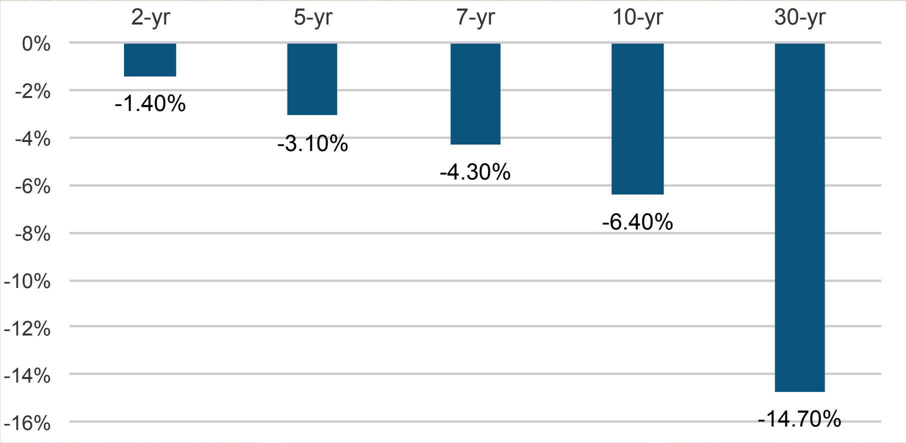
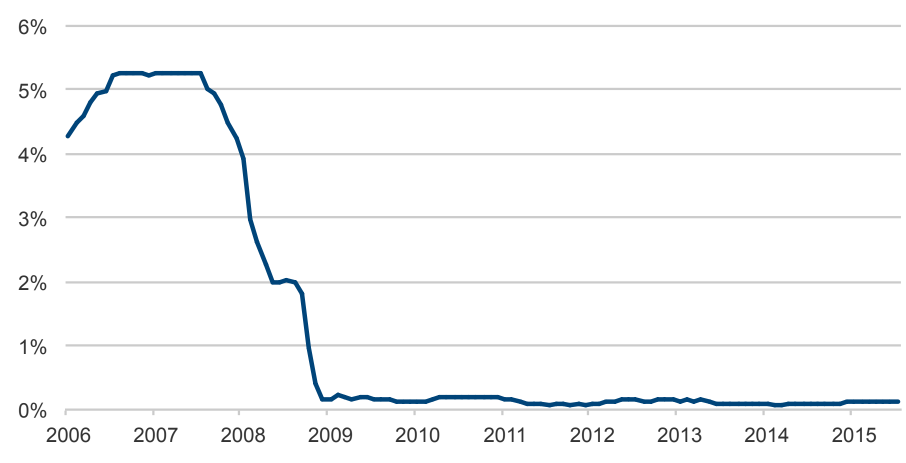


Figure 2: Impact of 1% Increase in US Treasury Rates



should not be frightened by the prospect of his first, impending helicopter ride.

He calmly explains to Green that the accidents per mile in well-maintained helicopters are extremely low, but does admit: “Its interesting how things we worry about are pretty different than the things that statistically you should worry about.” Perhaps these comments were soothing—Green took the ride.

The key point that Gates makes is the way our attention towards risk is often misdirected. When people estimate the probability of something bad happening, they consistently rate the odds for everyone else worse than the odds that it will occur to them.

One of the ways that we rationalise this optimism is by the illusion of control. Drivers underestimate their risks in a car while airline passengers overestimate the risk of flying because of the control factor.

Research has shown that lottery players are willing to pay more for the privilege of choosing their numbers rather than having them randomly generated, which is clearly an irrational impulse.

While optimism can be a wonderful thing, it can be trouble for an investor who miscalculates the actual risks of an investment or strategy.

In a famous experiment, subjects were set in front of a monitor that showed a completely random wave pattern and told, falsely, that a controller could influence the pattern. In fact, the controller wasn’t even hooked up to anything. Nevertheless, after a period of useless clicking a high percentage of subjects were convinced they were getting better at controlling the random wave. For an investor, this can mean putting too much emphasis on a recent trend that may turn out to be short lived. Or it could result in misidentifying the reasons for previous success, which could be no more than random chance.

In an example of what behavioural economists call confirmation bias, people pay more attention to automobile adverts for the brand they just purchased than while they were shopping. This reflects our ingrained tendency to seek information, which confirms actions or beliefs and in turn, tends to build confidence in those beliefs or decisions as evidence accumulates.

Worse yet, research shows that the more evidence that is gathered, the more confident the resulting decision, even when there is demonstrable lack of correlation between the amount of evidence and accuracy. In other words, if an investor watches four talking heads on TV touting the same speculative stock, he or she will exhibit quite a bit more confidence in making that investment, even if the chances of success are no better than listening to just one of them, or flipping a coin, for that matter.

In another experiment individuals were asked questions with obvious answers. The twist was that they were in a group of experiment collaborators who all answered the question purposely incorrectly. Three out of four people could not resist the urge to go with the pack.

In another psychological experiment, subjects were asked to guess the weight of a person by looking at a photograph. The subjects were given a panel of 'experts' (actually confederates) to help with the answer. The expert who was loudest and most confident proved to be the champion at exerting influence, even long after it was demonstrated that other panellists were more accurate and reliable.

It can be tough to buck the consensus, whether it be from colleagues, talking heads on TV or the results of a survey. The excess influence of the overly confident is another hazard. We know of this danger in investment bubbles, where there is no shortage of a consensus and always plenty of loud boosters. Or more accurately, we know it to be so, probably painfully, after the bubble bursts.

Investors should learn from these examples that instincts and 'gut calls' are often wrong for reasons that can be demonstrated. In order to avoid the common behavioural, psychological and innate forces that create misperceptions of risk, individual investors need to be aware of the many impulses that can result in bad decisions. At Madison Scottsdale, we have a long-standing process for our buying and selling disciplines, and we find that enforcing these standards helps moderate the emotions that can colour decisions.

We actively address the subject of possible biases in our decisions. We recognise that avoiding the common pitfalls requires an ongoing openness to evidence that contradicts an established opinion. It requires the willingness to be a contrarian to both consensus opinion as well as one's own optimistic instincts. As Warren Buffett puts it, a successful investment manager has to have “the temperament to control the urges that get other people into trouble”. Behavioural economics has been a tremendous boon in helping us understand and potentially circumvent these urges.

That is the $64,000 dollar question, or perhaps we should be speaking in terms trillions when one considers the total global value of stimulus by the Federal Reserve, the European Central Bank, the Bank of China, and the Bank of Japan. For the moment, let's just think domestically.

Interest rates

While the fluctuation of interest rates may seem far afield from everyday life for many people except when financing the purchase of a home, the effects on insurance companies are substantial and ever-present. When rates rise, the impact on insurers is likely to be much more substantial and at the forefront of management's mind.

Shifting rates have a direct and predictable effect on the value of bonds. When rates drop, higher-yielding, existing bonds look more attractive than the newly issued bonds, and their value increases. But when rates rise, bonds are issued at higher interest rates than existing bonds, which makes lower-yielding bonds less attractive in comparison and results in their values declining.

Interest rate movements do not affect all bonds alike however. In general, the longer the bond (the further away the date of the bond's maturity), the more the bond is likely to move in response to interest rates (see Figures 1 and 2).

At Madison Scottsdale, we practice active duration management for the majority of our clients. What this means is rather than stick with a predetermined mix of bonds likely tied to besting a benchmark, we will shift towards shorter maturity bonds when it appears the risk of rising rates is high. Conversely, we will shift to longer bonds when the market appears to be entering a period of falling rates.

In the US, the Federal Reserve is the country's central banking system and has enormous influence over the state of interest rates. The Federal Reserve is charged with two main objectives: maximum employment and stable prices (control of inflation). Since the financial crisis of 2008 and 2009, the Federal Reserve has been doing all it can to stimulate the economy to improve employment. The Federal Reserve's primary tool is the Federal Fund Rate, a short-term interest rate for inter-bank lending. This rate, in turn, influences the rates of mortgages and the yields of certificates of deposits and money markets.

By keeping this rate close to zero since late 2008, the Federal Reserve has been using the full power of the rate for economic stimulus. For the past six years we've been living with the lowest fed funds rate in US history.

The Federal Reserve also began massive quantitative easing (QE) programmes in December of 2008. An article in The Economist on 9 March 2014, entitled 'What is quantitative easing?', effectively summed up the practice by saying: “Central banks create money by buying securities, such as government bonds, from banks, with electronic cash that did not exist before.” By October of 2014, the Federal Reserve had had purchased more than $3.5 trillion in bonds, or roughly about $11 million for every single person in the US. Personally, we wish they had simply written us a cheque for our share.

Now the rest of the world is doing the same thing. Everyone is 'printing money' in an attempt to stimulate their economies, devalue their currencies and increase their prospects for exports. Well, not Greece, but that is another story, entirely.

Does quantitative easing work? There is no universal agreement on that point. Again, according to the article: “Studies suggest that [quantitative easing] did raise economic activity a bit. But, some worry that the flood of cash has encouraged reckless financial behaviour and directed a fire hose of money to emerging economies that cannot manage the cash. Others fear that when central banks sell the assets they have accumulated, interest rates will soar, choking off the recovery.”

Given that the federal funds rate is virtually zero, the Federal Reserve's next move is likely to be an increase in rates. The question is when this will happen and what might be the result. We anticipate continued economic growth over the next year, which we believe will create an environment where the Federal Reserve will begin to raise rates later this year, or perhaps early in 2016, although no one knows the exact timing or extent of such increases. As a result, we remain cautious with the overall maturity of bonds in our portfolios, since rising rates can produce a loss in bond values, especially longer maturity bonds. It is our goal to moderate bond losses should rates begin to spike upwards, with the plan of rotating to higher-yielding bonds in the future.

Risk is a given. Perceiving it rationally and planning to manage it is what active money management is all about. CIT

Matt Hayner
Vice president and portfolio manager
Madison Scottsdale

Paul Lefurgey
Executive director and head of fixed income
Madison Scottsdale

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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.

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Within the European Union Single Market

Emerging risks with a twist

Gus Frangi of the AMS Insurance Division takes a look at the issues of the day with his colleague, Derek Lloyd. Between them, they have more than 60 years' professional insurance experience. Here, they dispel some common myths

Over the last 12 months the captive media has repeatedly drawn attention to the US Internal Revenue Service's (IRS) current focus on 831(b) captives structures, or micro captives, as they are alternatively called.

At first glance, the main source of interest appears to be the jurisdictional choice, be it the traditional election of an offshore domicile vis-à-vis the increasing availability of US states that have enacted suitable captive insurance legislation.

As part of this conceptual exercise, many are being presented to an eager and increasing audience. These range from questions on the valid business purpose underpinning the establishment of the insurance entity in through to sufficient risk shifting and risk distribution within any given captive to meet the criteria defined in previous revenue rulings. Put another way, whether the captive insurance company writes a diverse enough portfolio to a sufficiently wide range of policyholders to meet those criteria. Other issues being drawn in to the discussion relate to claims activity occurring within the captive to mirror a conventional insurer, whether the availability and pricing of 'equivalent' cover in the conventional market has been obtained, whether the risks underwritten by the captive can be deemed bona fide insurance risks, and so the list goes on.

For sure, these are all legitimate questions and many have been asked and answered in technical detail over the last year and will no doubt continue to be so.

Derek Lloyd, director of the AMS Insurance Division, believes that, whatever the answers to those varied questions may be, in themselves, these would not suffice to determine, per se, whether any given licensed captive entity is a legitimate insurance vehicle. To reach an impartial conclusion, it is important to put all findings in context with the activities and exposures of the operating companies and the policyholders within any captive structure, rather than dismissing a captive proposition at face value, just because it does not mirror the profile of a conventional insurer.

Lloyd favours a more lighthearted approach while looking at csome of those issues along with a stroll down memory lane to reflect on some of those 'emerging risks' now being underwritten by captives that have in reality been around for decades. He goes on to add: "We will leave it to better equipped industry colleagues to comment on the tax conformity within those questions but, as a time-served insurance professional with over 30 years of underwriting, broking and captive management experience under my belt, it is interesting to see some of the ill-informed arguments in circulation from a pure insurance perspective."

Two of the key factors underpinning the motivation for establishing a captive are the comparable cover in the conventional market and the claims activity.

Conventional market cover

Even before the financial crisis of 2008, the world economy was sent into a tailspin, the conventional insurance market had a well-earned reputation for abandoning distressed risks. If underwriters did not believe that a particular class of business or a given industry sector were considered profitable enough, they would either cut loose previously loyal policyholders or impose punitive rating increases along with onerous policy terms, conditions and exclusions.

> "Captive solutions have the potential to help the affected parties eliminate those disadvantages while delivering suitably tailored package covers supported by independent actuarial ratings"

Contrary to the above, captive solutions have the potential to help the affected parties eliminate those disadvantages while delivering suitably tailored package covers supported by independent actuarial ratings. Consequently, the discerning captive owner is not subject to the same constraints as the conventional market carrier would be with regard to policy terms, conditions and, in particular, exclusions.

As a result, there cannot be a true direct comparison between what the traditional insurer offers to the policyholder vis-à-vis what a captive can.

Claims activity

It is stating the obvious that in broad terms, traditional insurers will seek to write profitable books of business, including certain policyholders with claims and others who perhaps would proudly boast to have either "never had a claim" or "been claim free for the last 25 years", or whatever that statement may be that we have all heard from clients on numerous occasions over the years.

Lloyd comments: "When I first entered the insurance industry 30 years ago as an insurance broker in the UK, we used to preach loyalty and consistency to clients with their selection of insurers. That was perceived to be a superior medium- to long-term strategy aimed at shielding clients from the extremes of the typical 'hard-soft-hard' cycles that are a recurrent feature of the conventional market, while further endeavouring to ensure a more equitable treatment in the settlement of claims that could be open to interpretation, but times have changed."

The fundamental concept of loyalty to an insurer has been devalued over time, as international insurers appear to have adopted a business strategy that relies heavily on accounting guidelines and to the detriment of traditional underwriting principles. A captive, on the other hand, is able to 'select against' from its own perspective and why shouldn't it benefit from a claim-free record of 25 years, as opposed to lining somebody else's pockets with its underwriting profit, or to effectively subsidise a less fortunate fellow policyholder that has had claims with the same insurer, in line with the age-old principle that 'the many pay for the losses of the few'?

Are those two scenarios not more unjust than a captive being fortunate enough to have little or no claims activity? Does anybody tell a conventional insurer that it has too much 'claim-free' business on its books and must therefore stop underwriting? It is of course nonsense but it does serve to illustrate the potential ignorance of the initial question being asked in certain instances.

The reverse scenario also applies to those policyholders with a volume of smaller, attritional losses. Ultimately, a traditional insurer will not allow an insured 'to win' in the long run in a money swapping exercise. It is therefore self-evident that bringing either the claim-free business or the volume of smaller losses into a captive has the potential to deliver tangible financial and practical risk management benefits to the operating companies.

In a world where once-in-a-lifetime natural disasters now occur on a quarterly basis, is it not a further prudent risk management position to reserve for the catastrophic loss?

Emerging risks

Equally, there has been much hype in the industry press about the so-called 'emerging risks' coverages that encompass the likes of cyber liability, regulatory change and hourly-wage, to name but three, with well documented and tangible evidence of the associated risks and the impact they have on the operating business.

However, Lloyd elects to look at a few examples of 'emerging risks' that, to the captive sector, are perhaps not quite so new but which are seemingly becoming far more widely acknowledged these days as a result of deficiencies in the mainstream market.

Casting his mind back more years then he cares to remember, Lloyd recalls that there used to be a perpetual joke with clients looking for 'credit/bad debt insurance' in the direct marketplace, and that the cover could only be secured if insurers were convinced that there was no risk whatsoever. Even then, the traditional insurers wanted all kinds of personal guarantees and/or corporate collateral to cover their own exposure, along with heavy premiums to issue the requisite policies.

If there was the slightest hint of exposure to the insurer, then all bets were off and no cover was provided. Whereas, this is maybe somewhat of a skewed recollection, it serves to portray the reality and inequity of the situation. Again, at that point in time no one would have dared lecture a conventional insurer on the fact that it that it provided this 'insurance' cover fully collateralised and with a premium on top, nor that it was not 'real insurance', and of course, losses did arise even under the most stringent of underwriting criteria.

However, the trade credit market has reduced further in numbers, capacity and risk appetite in the intervening years, so why shouldn't the prudent business owner seek to put such risks into a captive insurance company?

Lloyd also recalls the ostensible change in the perception of consequential loss/business interruption exposures that were grossly neglected back in the 1980s, despite being key to any sizeable insurance portfolio.

However, since then there has been a substantial re-assessment of these exposures along with their criticality to the continuity of any business.

On account of the potential for catastrophic losses, attention has increasingly been drawn to issues such as the adequacy of the indemnity periods available under the cover to make allowance for the rebuilding of the operating premises, maintain employees on the payroll, sub-contract manufacturing to other locations or manufacturers if feasible, and, to regain former customers if the business was unable to provide goods or services for an extended period of time.

It goes without saying that the majority of business operations these days have a degree of dependency on either customers or suppliers, be it manufacturing with purpose-built, state-of-the-art premises relying on a single third-party supplier for a specific component that is critical to the production, or in the services industry, with a percentage of revenue derived from one or more key customers. It seems prudent risk management and well within economic reason for captive owners to seek to protect their business interests at the operating company level far wider than before.

On account of the ever changing and increasing complexity of modern business dynamics, it seems incongruous to invoke the rigid and inflexible guidelines of the traditional market in comparison to the purposeful flexibility and non-conformity available with a captive insurance solution. CIT

Gus Frangi
Business development manager
AMS Insurance Division

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Entrepreneurial thinking: the profit centre captive

An increasing number of small and large businesses are looking at profit centre captives as a means of profiting from risk, says Brian Flinchum of Atlas Insurance Management

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There are few financial vehicles available to businesses, that when compared to a captive insurance company, provide greater opportunity to diversify revenue streams. The ability to create a flexible and operationally efficient 'subsidiary' can be a powerful tool for a business that is not only seeking to maximise revenue but is focused on creating brand strength and customer loyalty.

For years, large companies, such as, Verizon, Wal-Mart and BestBuy, have been selling insurance, such as warranties and equipment protection, to their customer base, realising new profits. Historically, it was thought that only large companies could form a captive to provide warranties, guaranties and service contracts. However, small and medium-sized companies can now effectively manage risk and receive all of the financial benefits of an insurance transaction.

In addition, this development has the potential to provide a better spread of risk, source of revenue, and profit. This new niche of the captive marketplace known as a 'profit centre captive' focuses on risks that a business sells to its customers or premiums received from a controlled unaffiliated party.

To illustrate the potential benefit of a profit centre captive, Verizon Wireless offers its customers extended warranty protection on cell phones. The annual warranty cost is $60 per device. A $600 iPhone costs Apple approximately $200 to manufacture, while Verizon spends $300 to purchase from Apple. It is common for warranty programmes to have loss ratios in the 20 to 30 percent range, so each equipment plan sold may profit Verizon $42 to $48 annually. With millions of phones sold each year, the high margin warranty protection plans become as important as their core business service.

Note that some of the margin may be considered commission and not considered insurance. The breakdown between commission and insurance is determined via an independent actuary who calculates the premium and loss reserves.

These third-party or unrelated risks can be converted into new cash flows when the premiums are paid into a profit centre captive. The retained risk can now be addressed through the pre-tax fund, which will be almost twice the amount that would have been established without the use of a captive. This large loss-reserve nest egg will enhance solvency should adverse claims activity occur. In the event of favourable claims development, the captive will generate a new source of revenue to use for funding future risks, or as distributions at potential favorable tax rates.

Smaller profit centre captives may be able to make the Internal Revenue Code 831(b) election available to small property and casualty insurance companies writing annual premiums less than $1.2 million.

The underlying theme of a profit centre captive is that a third party pays the premium. The third party could be an independent contractor, tenant, supplier or customer.

If the risk covers a controlled unaffiliated party, then the captive owner must have contractual authority over the insured (for example, franchises, joint ventures and business partners) and the captive owner must be able to enforce loss control measures.

In addition to the inherent financial benefits mentioned above, there are intangible benefits to the captive owner. In an increasingly competitive environment this type of affinity programme can create good will, improve customer experience, fend off competition and overall cement the relationship with consumers.

Additionally, the risk management expertise required to form a captive will strengthen a company's intellectual property and increase business valuation. The profit centre captive can even integrate sales and operations to give a customer an improved experience.

What product lines can form the basis of a profitable programme?

Traditionally, most profit centre captives insured warranty risk, but these captives have the flexibility to insure a host of other risks. The typical profit centre captive's extended warranty provides a customer with protection against economic loss for the replacement or repair related to specific parts not covered by the manufacturer's warranty for a specified duration.

The following represents an overview of a number of programme examples for profit centre captives.

Equipment distributor: extended warranties, providing cover for product replacement beyond the original equipment manufacturers embedded warranty period.

General contractors: sub-contractor default risk provides coverages to subs that may not be able to obtain bonding from the commercial marketplace. General contractors may offer only to preferred sub-contractors to avoid adverse selection.

Professional services: service contracts cover the repair or maintenance of a product that has been installed or sold to a customer (excluding product replacement). Common industries that provide service contracts include: HVAC installers; roofers; swimming pool contractors; home appliance sales and services; and electronics retailers.

Real estate: security deposit insurance is offered by residential property managers or owners to their tenants covering damage to property and reducing the cash requirement for new tenants and so increasing occupancy. Renters' liability is offered by apartment property managers or owners to tenants and covers injuries suffered in an apartment unit for things such as slip and falls. In addition, it covers a tenant in the event they are sued and held liable by a landlord for damages to the apartment caused by a tenant's negligence.

Deductible buy down may be offered by managers or owners of offices, industrial premises, strip malls and other commercial properties to tenants. Typical buy downs include property and general liability deductibles passed onto tenants via triple net leases. Contents insurance is offered by apartment owners or storage company owners to customers, which covers personal property and contents due to theft, water damage or fire, but generally excluding weather-related disasters.

Remediation: guarantee insurance, provides recourse for a business to cover pollution clean-up costs to contractually agreed levels.

Banks: have historically reinsured customer credit risk (unemployment, life) and force-placed homeowners insurance.

Rental: loss damage waiver (LDW) covers damage to a rented product. Specifically, an LDW releases the renter from liability for physical damage to the equipment in exchange for a fee, subject to the rental agreement or a state statute should one exist. LDWs are commonly sold in the car rental sector, but other businesses renting equipment may qualify.

Transportation: auto physical damage and bobtail liability (non-trucking liability) may be sold to drivers with independent contractor status. In addition, auto liability and cargo deductible costs can also be passed onto these drivers.

Vehicle service contracts and extended warranties: the auto-dealership market segment has been taking advantage of these types of arrangements for the past several decades. Several large warranty carriers in the mid-1980s set up captives to share extended warranty vehicle risk.

These warranty carriers' efforts were very successful and this saw the formation of hundreds of low cost offshore captives. Most auto-dealers capable of setting up warranty captives have already done so.

Highly sophisticated software is needed to price each vehicle's VIN number, which is beyond the capabilities of captive managers. Auto-dealers interested in forming an extended warranty captive should contact an auto warranty carrier. The auto-dealerships provide an example of an entire industry embracing the profit centre captive concept.

Product replacement: these programmes, commonly covering such things as cell phones and eye glasses or contact lenses, not only generate underwriting profit, they also ensure that the customer returns to your business for replacements rather than going to a competitor.

Regulatory environment

It is worth noting that some insurance products may be regulated by state insurance laws in the US whereby a profit centre captive cannot directly write this coverage. However, most profit centre risks are not regulated by state law, but can be considered insurance for federal law. It is recommended that when considering a programme of this nature an attorney is engaged to evaluate the laws of states where the business resides, including those states where the programme will be offered, to ensure that the profit centre captive programme satisfies local requirements.

As for domiciling profit centre captives, the majority of onshore domiciles have traditionally prohibited direct underwriting of unrelated risks, but this trend is changing, so long as the risk is not considered a personal lines coverage. Occasionally, onshore domiciles and US states where the risk is sold may require a 'fronting' arrangement whereby the profit centre captive assumes its risk from an admitted rated carrier. Offshore domiciles tend to be more flexible and permit the underwriting of unrelated risk, but remember the captive domicile does not give you authority to write a risk where it is sold.

Besides US state law, profit centre captives must be compliant with Internal Revenue Service (IRS) rules for the captive to be treated as an insurance company for tax purposes. To ensure premium deductibility and insurance tax treatment, 50 percent or more of the profit centre captive's annual premium must come from unrelated risk.

In order for the risk to be deemed unrelated and for risk shifting to occur, then the third party should ideally pay the captive directly (ie, the captive does not indemnify the affiliated business).

The unrelated party must have the option to purchase coverage from the business and can also choose to purchase the coverage from a different company. Force placed insurance typically does not meet the IRS definition of third-party risk.

Businesses considering writing these types of third-party risks in their captive may, initially, have some reservations. After all, the traditional use for a captive, with which management will be most familiar, is the funding of some part of the business's own risk and taking on third-party risk may appear hazardous.

However, it is usually in the nature of the risks under consideration that they are low severity risks, the cost of which are, to some extent at least, within the control of the captive owner and they tend also to be risks for which ample data is available.

For these reasons, an increasing number of businesses large and small are looking at profit centre captives as a means for turning risk to profit. CIT

Brian Flinchum
Business development manager
Atlas Insurance Management

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Leaders and followers

While the current regulatory environment in Europe means it is not ideally suited to innovation, Marsh's Lorraine Stack says the first steps have already been taken towards a more sophisticated future for captives

STEPHEN DURHAM REPORTS

What are the current trends for onshore captive domiciles?

Although captive growth was limited in the aftermath of the economic crisis, the good news is that it is starting to take off. New captives were added in Dublin, Malta, Luxembourg and Sweden in 2014, and we expect this trend to continue.

We have seen year-on-year captive growth globally in spite of the continued soft insurance market. The captive engine is now being adapted for use in more innovative ways and some non-traditional lines of coverage such as, cyber, trade credit, environmental risk, and employee benefits, are gaining in popularity.

Generally, we are seeing onshore domiciles increase the sophistication of their captives as everyone heads towards Solvency II implementation. Capital requirements are generally higher in these domiciles and calculation under Solvency II is becoming more complex. Most European captives were already well capitalised prior to emergence of Solvency II, so many were already sufficiently capitalised. Those that did see a rise in capital requirements had enough time to manage capital deployment in an efficient way. With complexity under Solvency II also comes the large positive of flexibility in terms of investment and capital, a flexibility that is driving an increase in sophistication.

As well as external pressures, captives are also coming under scrutiny internally as a more diverse list of stakeholders are becoming involved in the management of captives. Captives are not just within the remit of risk managers anymore, as treasury, finance and human resources involvement in captive operations is becoming more prominent.

How are your clients achieving this level of sophistication?

Many are looking to achieve this through organic growth by adding additional lines such as cyber, trade credit, and employee benefits. The beauty of employee benefits such as life, disability and personal accident is that, unlike property or liability losses that have catastrophic potential, the claims follow a high frequency, low severity pattern. In short, they are less volatile and easier to forecast.

While the popular method for insuring employee benefits is currently through risk transfer, it is less likely to be efficient at a group level. Many of our corporate clients are exploring the possibility of financing employee benefits via a captive structure, which will allow them to capture financial efficiency at group level while still maintaining a local administration structure through a fronting company.

On the captive side, the diversification in lines of business can mitigate volatility on its balance sheet. For example, an energy company that is running property and liability coverage through their captive could potentially experience quite 'lumpy' exposure—introducing employee benefits into the mix can act to mitigate that volatility on the captive balance sheet.

So what kinds of employee benefits are being put through captives?

Well, so far, implementation numbers have been on the risk benefits side such as life, disability and personal accident. However, another innovation we are seeing is the use of captives in pension financing.

While most defined benefit plans are closed, companies are facing significant challenges around legacy obligations, with huge balances that need to be managed for a very long time. So they are understandably looking for solutions.

We are seeing two areas of interest. Firstly, centred on the corporate objective—getting

control of assets. This is basically an investment strategy under the control of local trustees.

Outside of the group there may be multiple plans across multiple jurisdictions, and different forms of governance in place, so corporates are trying to control assets, or even access surplus, by structuring a financing arrangement around a captive.

Usually, these are structured around a buy-in arrangement whereby the transfer of investment assets and management functions are made to a captive via an insurance contract. Essentially, the corporate convinces the trustee to purchase an annuity contract from a fronting insurer and that is then reinsured to a captive, which is how the funds are moved back.

The main feature of this pension arrangement in this captive structure is that it is very different from a traditional property and casualty captive. Customarily, the capital requirements would be linked to losses so you know if you have had a loss, as volatility is linked to physical assets or liability. On a pension arrangement the capital requirements are linked to investments and that is a far more dynamic control and monitoring that is absolutely key. The arrangements themselves are quite lumpy and difficult to control, and this is why surplus so important.

Only a small number of corporates have implemented such arrangements, largely due to challenges in terms of resources and capital outlay. However, interest is growing and we do expect to see further innovation in this area, particularly if interest rates improve.

The second form of pension financing, which is rapidly gaining popularity, is when the captive is used as a synthetic fronting structure to reduce costs in a longevity swap arrangement. So far, the activity around this has been offshore, particularly in Guernsey where a number of high profile transactions have recently been announced. We expect more activity in this. In short, longevity risk is the risk that pensioners will live longer than expected, a risk that is often transferred out of schemes via a hedging arrangement involving a longevity swap.

The counterparty in such a longevity swap is typically an investment bank or life insurance company, which in turn reinsures the risk, and the reinsurance market (the ultimate risk-takers themselves) are driving the market terms and price.

From an efficiency perspective, it makes sense to cut out the fronting carrier altogether and substitute a captive as a counterparty in the arrangement. This potentially enables pension schemes to lower costs, increase flexibility and helps avoid transaction size limits driven by fronted credit and concentration constraints, as well as increasing price transparency. So far, UK companies are the early adopters for this structure, but we expect to see more in the future.

Have these arrangements developed organically within each particular domicile or has inspiration been gained from looking at other domiciles such as the US?

I think it is a bit of both really. It is inevitable that innovative notions will trickle down to boards from publications, events and reports, and these kinds of companies are sure to take note when they are in search of alternative solutions to complex problems.

Also driving activity are human resources and treasury personnel who are looking for improvements in efficiencies around employee benefit financing. They are looking to captives because the arrangements are well established and out there already for all to see, and as an added bonus, they happen to tick a number of the boxes that human resources routinely request.

Although not all domiciles will be affected directly by Solvency II, what are EU regulators' attitudes towards these new lines of business?

On the multinational employee benefits side at least, as it is now becoming routine in many jurisdictions, we are seeing a great deal of acceptance. Two authorisations were sought in Ireland, where the regulator essentially looked at the applications through a Solvency II lens, yet both situations were straightforward. The first was a pension arrangement and the other was established for multinational risk benefits coverage.

In each case, despite Solvency I being in force legally, Solvency II capital calculations had to be submitted as part of the application. All the governance and supporting material in terms of the structure were in line with Solvency II principles, and both applications were successful. While we didn't expect any difficulties at the outset, precedence has effectively been set making these coverages relatively routine from a regulatory perspective. **CIT**

Lorraine Stack
Senior vice president of the captive solutions practice
Marsh

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Save the date for the 16th Annual SCCIA Conference, returning to downtown Charleston September 21-23 2015. The event features presentations by the top players in the industry, continuing education opportunities, networking and fun.

35th Annual National Educational Conference & Expo

Location: Washington DC
Date: 18-20 October 2015
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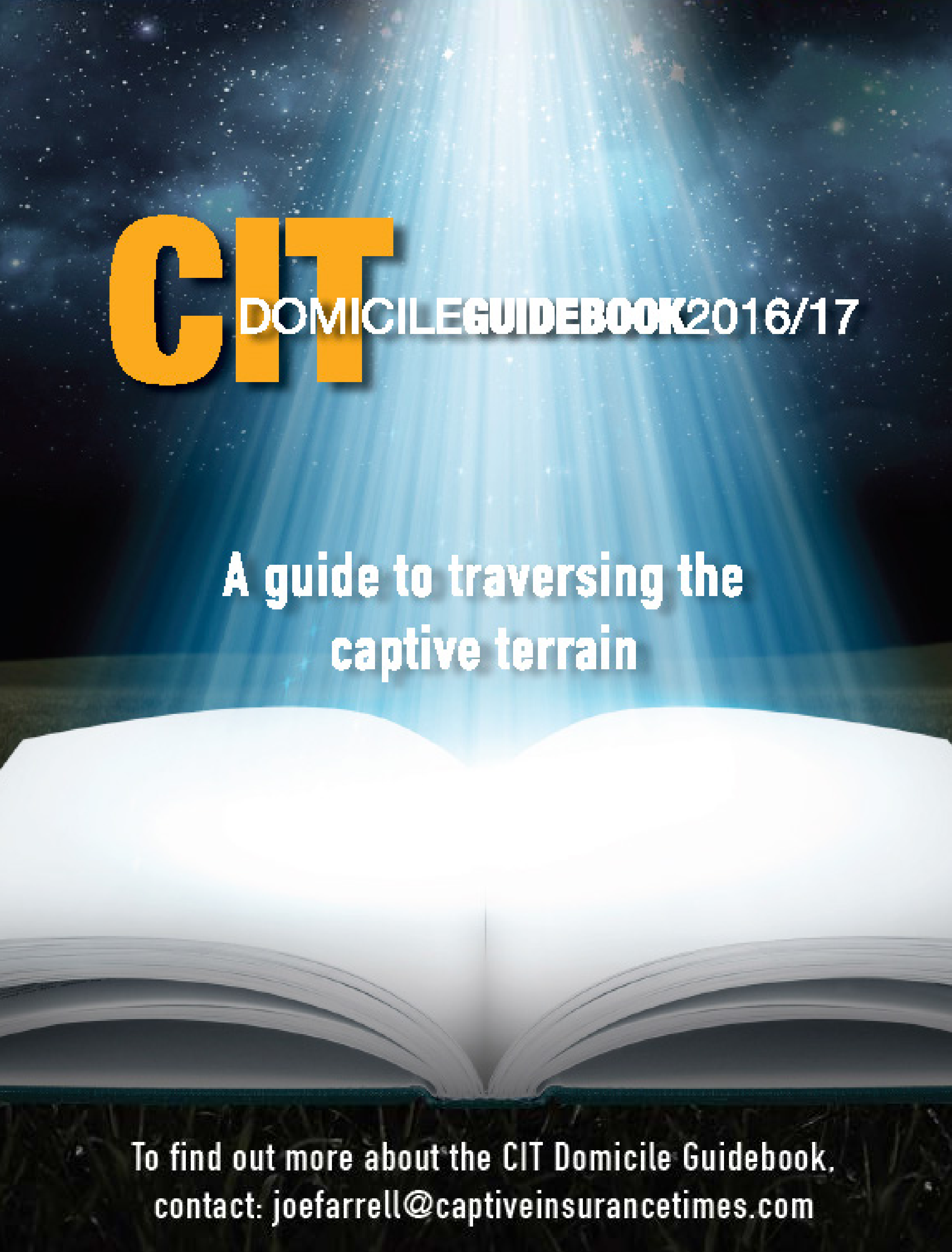

CIT DOMICILEGUIDEBOOK2016/17

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Industry appointments

Ronald F. Holehouse Agency has joined Regions Insurance to boost its personal and business insurance capabilities.

Founder **Ron Holehouse** and **Jake Holeand** and their team have joined Regions Insurance in Florida.

The Holehouse Agency team have served as consultants to help develop private placement flood products for Bankers Insurance Group and Homeowners Choice.

Curren Coco, CEO of Regions Insurance, commented: "We are pleased to expand our personal and business insurance capabilities, as well as our presence in Florida through the addition of the Holehouse Agency."

"Holehouse and his team have extensive experience meeting insurance needs of individuals and businesses in coastal markets, particularly in the flood insurance space."

Regions Insurance opened its first office in Florida at the end of 2014 and over the past 18 months has expanded opening offices in Dallas, Texas, New Orleans and Athens.

The insurance broker also opened its captive insurance practice at the end of 2014, following the recruitment of five principals and 29 associates from A.I. Insurance Group in Athens, Georgia.

Regions Insurance has also expanded its employee benefits practices in Memphis, Tennessee; Jackson, Mississippi; and Nashville, Tennessee.

Willis Group Holdings has appointed **Brian Shea** as head of Europe for Willis Capital Markets & Advisory (WCMA), the firm's insurance investment banking division.

Reporting to WCMA co-CEOs, Rafal Walkiewicz and Michael Guo, Shea will join WCMA on 24 August 2015 and will be based in London.

Shea brings more than 20 years of experience working with insurance companies within a capital markets context. He joins WCMA from global reinsurer, SCOR, where he was chief corporate strategy officer reporting to the chairman of the board and CEO.

Prior to SCOR, Shea was managing director and head of the European insurance equity research team for Bank of America Merrill Lynch.

WCMA advises clients in the insurance and reinsurance industry on merger and acquisitions, capital markets transactions and insurance-linked securities.

Its European division has recently advised on more than €5 billion of transactions including the sale of Brit PLC to Fairfax Financial Holdings Limited and the sale of Cathedral Capital Limited to Lancashire Holdings Limited.

Walkiewicz commented: "We are thrilled that [Shea] is joining WCMA to lead our European team. WCMA's investment banking value proposition is based on our superior understanding of the insurance industry and our clients expect us to combine top quality execution with world-class strategic advice."

Shea added: "Willis's positioning as the analytical broker is a strong attraction to me, as is WCMA's deep expertise in both capital markets and insurance. I look forward to working with my new colleagues to provide value-added advice and solutions to Willis's clients."

JLT Re has appointed **Tom Phelan** as senior vice president in North America.

He will be based in Atlanta, Georgia, where he will be establishing a presence for JLT Re.

Phelan will be part of the speciality reinsurance brokerage unit, focusing on the professional liability and speciality casualty areas.

He joins with 25 years of reinsurance experience and was most recently senior vice president at Willis Re. His range of experience includes senior roles at Carvill America and Aon Re.

Ed Hochberg, CEO of JLT Re in North America, commented: "We are pleased to welcome Phelan to the JLT Re team. [He] is a natural fit, bringing a client-first attitude and the ability to create and maintain long standing relationships."

Midwest Employers Casualty (MECC), a W.R. Berkley Company, has appointed **David Anderson** as underwriting director for its recently formed workers' compensation captive practice.

Anderson has held underwriting management positions at several large insurance companies.

Andrew Cartwright, vice president of assumer reinsurance at MECC, commented: "Anderson's underwriting background in group captives, combined with his market relationships, is an excellent fit for our new initiative."

"He will bring MECC's expertise and breadth of resources in workers' compensation to the captive marketplace." **CIT**

Got a hire, promotion or new office to shout about? Let us know:

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