CIT
CAPTIVEINSURANCETIMES

ISSUE079
26.08.2015
WEDNESDAY
captiveinsurancetimes.com

US-licensed captives do not require broad regulation, says VCIA

The Vermont Captive Insurance Association (VCIA) believes that US captives do not need to be as broadly regulated as proposed by the International Association of Insurance Supervisors (IAIS).

The IAIS is updating its guidance to insurance supervisors on their application of regulation and supervision of captive insurers.

The association prepared and published a paper outlining its plans and sought public feedback, which was published in August.

The updates reflect the 2011 IAIS insurance core principles (ICPs) and highlight matters specifically relevant to captive supervision.

The VCIA said that as most captives in the US primarily insure the risks of their owners and/or affiliates and represent the lowest level of regulatory risk, it does not make sense to impose a burdensome supervisory scheme on them, particularly when their insureds can otherwise self-insure, without any regulatory authority being imposed.

The VCIA added that while it does not believe certain ICPs should apply to captives at all, its interpretation of the IAIS paper is that flexibility and discretion exist in applying them to captives.

The IAIS paper also initially recognises that the risks inherent in a captive insurer can vary substantially, according to the VICA, but it does not encourage supervisory approaches that match the inherent risk of the varying risks of the captives within the marketplace, and instead treats all captives as the same.

The paper should be modified to reflect that the regulation of captives must vary from captive to captive, argued the VCIA.

Guernsey licenses 45 new international insurers in H1

The Guernsey Financial Services Commission (GFSC) has licensed 45 new international insurers during the first six months of this year.

The 45 new insurers included six limited companies, two protected cell companies (PCCs), 30 PCC cells, one incorporated cell company (ICC), two ICC cells, and four life policy cells.

A total of 816 international insurers were licensed in Guernsey at the end of June 2015. These were made up of 244 limited companies 67 PCCs, 393 PCC cells, 13 ICCs, 40 ICC cells, and 59 life policy cells.

This is in comparison to 797 GFSC-licensed international insurers that were licensed at the end of December 2014, showing a net growth of 19.

readmore p2

Butler University creates student-run captive

The Butler University College of Business in Indiana is creating a student-run captive and aims to have it fully operational by the 2019-2020 academic year.

The insurance company will open using a $250,000 gift from MJ Insurance and its CEO, Michael Bill. The money will cover the minimum amount of capital that's needed to fund the captive. The college of business will also be soliciting gifts to fund operating costs.

The Butler captive will insure certain programmes, including the live mascot, Butler Blue III, and any physical damage to university vehicles.

readmore p2

Guernsey Finance licenses 45 new international insurers in H1

Continued from page 1

Dominic Wheatley, chief executive of Guernsey Finance, commtented: “These figures reinforce the fact that Guernsey is home to a vibrant international insurance centre and is able to provide solutions to meet a range of different risk management needs.”

He added: “The half-year figures are particularly impressive when you consider how they follow and maintain several years of strong performance in the sector.”

Further data on the new licences shows that their owners originate from a range of locations, including the UK, Cayman Islands, Finland and Switzerland, while the range of businesses written includes insurance-linked securities and insurance lines covering property, after-the-event legal expenses, and longevity risk.

Butler University creates student-run captive

Continued from page 1

The aim of the captive is to give students hands-on experience and prepare them for an industry that expects to need tens of thousands of new employees over the next seven years, according to Butler University College of Business dean Steve Standifird.

Zach Finn, clinical professor and director of the Davey Risk Management and Insurance Programme, who will supervise the students, commented: “This captive insurance company builds on Butler’s model of experiential learning.”

“We have students who manage a $2 million financial endowment, and many universities around the country do that. There’s no reason students with the proper setup couldn’t manage an insurance company.”

Finn added that the programme will give students the opportunity to look at risks faced by the university, assess the financial impacts, and determine whether the risks would be best retained and paid for with university assets as they occur, through traditional insurance markets, or through a captive .

Students will learn how to write insurance policies, what the coverage terms should be, how to finance the company, and more.

They will also be able to apply their risk management expertise in accounting, investments, and numerous other areas.

NAIC and Bermuda commit to closer ties

National Association of Insurance Commissioners (NAIC) president Monica Lindeen has signed a memorandum of understanding with Jeremy Cox, CEO of the Bermuda Monetary Authority.

The agreement, which was signed during the opening session of the 2015 NAIC Summer National Meeting, is designed to help insurance supervisors in the US and Bermuda coordinate on regulatory issues with the goal of efficient, fair, safe and stable insurance markets.

Lindeen, who also serves as the Montana commissioner of securities and insurance, commented: “Given the importance of Bermuda’s reinsurance community to US companies, we are very excited to sign this cooperative agreement with Bermuda.”

“The framework for collaboration allows for the exchange of information that will strengthen both of our insurance markets.”

Cox added: “It’s a testament to a long-standing relationship coming to fruition, and certainly a recognition of the trust we both have for our respective jurisdictions.”

“I think the work that was done just over a year ago on the qualified jurisdiction approach was very useful.”

The NAIC now has agreements in place with 15 individual and regional jurisdictions, representing

CITINBRIEF

Let AIG tailor a fronting program that's right for you.

For over 65 years, AIG has been providing innovative fronting solutions to help our clients retain risk throughout the world. Today, we're one of the leading global fronting providers. Our international network transacts billions of dollars of premiums and processes over 100,000 claims for captives every year. Whether you're looking for a fronting provider for a captive, a rent-a-captive, a fully funded or indemnity program, we have the resources and expertise you need. To learn more, go to **www.aig.com/captives**

AIG

Bring on tomorrow

34 countries. This includes signed agreements with Brazil, Egypt, Hong Kong, Iraq, South Korea, Thailand, Russia and the Association of Latin American Insurance Supervisors.

European captives focus on risk management

Many European captives have embraced Solvency II's increased regulatory requirements as an opportunity to focus more closely on risk management and refine their investment strategies, according to an A.M. Best report.

A.M. Best suggests that the European captives it rates are using the information they have gathered to meet Solvency II's qualitative and reporting requirements as an opportunity to also review their business models.

Solvency II has contributed to captives coming under greater pressure to justify their existence.

Parent companies have been reviewing the logics for operating more than one captive and A.M. Best has noted a realistic response to mitigating the cost and reporting strain.

For instance, parent companies with more than one captive have considered economic efficiencies by transferring risks to just one.

As Solvency II's capital requirements under the standard formula will often be demanding to insurers that do not generate a large level of diversification benefit in the calculation, parent companies have also been reviewing the acceptance of new risks in existing captives to increase diversification.

A captive that is able to accept different risks would ultimately be of increased importance to its parent.

A.M. Best notes that its rated captives mostly view the higher costs from upgrading risk management and governance as offset by the benefits that a better understanding of their risk profile provides.

Insurers on track with Solvency II implementation

Europe's insurers are making progress towards implementing Solvency II by the end of this year, according to an Insurance Europe survey.

The survey revealed that many insurers are concerned about the pressure they face due to additional last minute requirements that are being imposed in the run-up to the regime coming into force.

The survey, which covered companies that account for 90 percent of European insurance premiums, found that a clear majority are making good progress in implementing the first two pillars of Solvency II.

It also revealed that the majority of insurers feel that risk management and governance have already improved as a result of the introduction of the new regime.

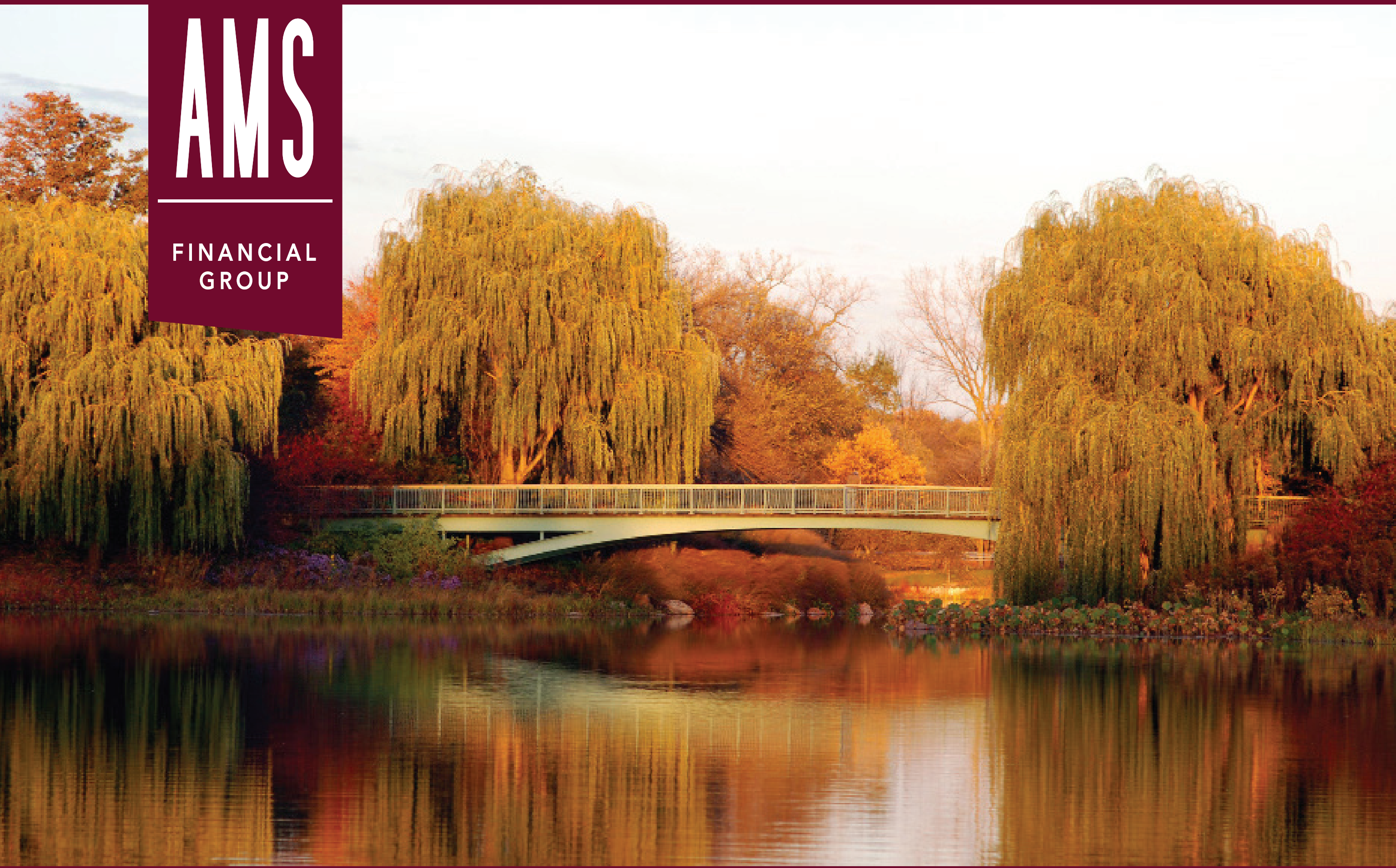
But many respondents are concerned that the final version of the quantitative reporting templates, which insurers need to comply with under the third pillar of Solvency II, will only be adopted by the European Commission in September, just four months ahead of when the new regime starts.

Igotz Aubin, head of prudential regulation at Insurance Europe, said: "It is encouraging to see that Europe's insurers have made such substantial progress in their journey towards implementing Solvency II, especially given that this task has been completed during a particularly challenging time for the industry."

"However, this survey has also revealed a number of serious issues that need to be acknowledged."

The concerns include that most national supervisors intend to fully comply with approximately 700 guidelines issued by the European Insurance and Occupational Pensions Authority (EIOPA), which often acts on its own initiative.

These guidelines add around 1,100 pages to Solvency II, substantially increasing the implementation burden.



AMS

FINANCIAL GROUP

Striking the Right Balance

For over two decades we have been at the forefront in the design and implementation of risk management solutions for a vast array of clients. We offer a comprehensive range of captive management services through our dedicated team of insurance professionals with over 80 years of experience.

From the feasibility study and business plan preparation, through the license application and company incorporation process to the ongoing daily management of the captive, we manage the process at each and every step to suit our clients' requirements.

Contact us to see how our approach can deliver the right outcome for your business.

Derek Lloyd
+284 494 4078
derek.lloyd@amsfinancial.com

Gus Frangi
+44 207 4882782
gus.frangi@amsfinancial.com

www.amsfinancial.com

Work to comply with further additional requirements set by member states is slowing down the implementation process.

Due to the volume of items that require approval from supervisors under Solvency II, a flurry of applications could be submitted at a time when supervisors' resources are already stretched.

Extensive documentation requirements are also delaying the approval of internal models, with nearly all respondents warning that supervisors' demands in this area are too burdensome.

A.M. Best affirms rating of energy captive

A.M. Best has affirmed the financial strength rating of "A (Excellent)" and the issuer credit rating "a" of Eni Insurance (EIL).

The ratings reflect EIL's strong underwriting profitability in recent years and excellent risk-adjusted capitalisation.

The ratings also take into consideration the captive's importance to the Eni Group, an energy company, as a risk management tool.

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

In addition, EIL has exposure to potentially substantial underwriting losses, due to its large maximum line size, although large losses will be moderated by comprehensive reinsurance.

EIL's risk adjusted capitalisation is expected to remain excellent.

Available capital surplus is likely to increase in 2015 due to a non-recurring return premium payment of €37 million to EIL from a reinsurance company, as well as good financial performance, subject to large loss experience the remainder of the year.

EIL reported a strong technical profit of €86.2 million in 2014, compared with €66.3 million in 2013, which equated a combined ratio of 52 percent, compared with 46 percent in 2013.

The reported pre-tax profit was €96.8 million, compared with €70 million in 2013.

Prospective performance is likely to remain volatile due to potential large losses from EIL's property account.

It will also hinge on unrealised gains/losses from EIL's peripheral European sovereign bond portfolio.

In 2014, EIL increased its retention on its main reinsurance programme covering fire and property risks to $100 million per event, from $50 million. The programme is placed with a strong panel of reinsurers, added A.M. Best.

Willis expands presence in Western Australia

Willis Australia has completed its acquisition of CKA Risk Solutions, expanding its presence in Western Australia.

CKA, based in Perth, has a strong focus on medium- to large-sized corporates, especially within mining and natural resources.

The acquisition expands Willis's pool of risk experts, who focus on the global natural resources, industrial and commercial sectors, and increases its client service capabilities.

Roger Wilkinson, CEO of Willis Australasia, commented: "This is the biggest change for Willis Australia in many years and gives us a leading position in the western region, where we see high growth potential, especially in natural resources."

"Willis and CKA have a firm foundation of shared values and a common culture. That will be critical in helping drive us forward as we develop our business together."

John Carrigg, one of CKA's founding directors, added: "We [are] keen to accelerate the expansion of our business nationally and internationally, along with strengthening our footprint in Western Australia."

"We are excited by the benefits and opportunities that this partnership will bring to our clients, prospective clients and staff."

The combined business will employ some 65 associates and the two teams will work together in the existing CKA office, and will initially trade as Willis CKA.

CKA director Stuart McLean will become Western Australia general manager for the newly combined business and will join the Willis Australasia operating committee.

ACE launches new website for employers' liability client

ACE has launched ACE Risk Manager, a website designed for its employers' liability clients in the UK and Ireland.

Advice on the site is designed to help companies improve the management of health and safety risks across their organisation and protect their reputation and reduce the risk of costly civil or regulatory action.

The new website provides access to a range of guidance handbooks, advice and ACE's health and safety newsletter.

Also available through the website are the details of recommendations made by ACE risk engineers during employers' liability surveys, the ability to upload documents and photographs to show how recommendations have been implemented, and the date effected.

In addition, employers' liability survey score upgrades will become available when recommendations are complete.

It also offers access to comprehensive health and safety information, including advice, and updates on and access to a range of general and industry-specific guidance on occupational health and safety.

Ohio licenses protective cell captive insurance company

Ohio has licensed protected cell captive insurance company Imprise Financial.

Through its protected cells, Imprise Financial will allow businesses to insure some of their own commercial risks, realise greater control of their risk-management programmes, and achieve long-term financial stability.

Imprise Financial's first protected cell will insure certain contractual liability risks of NWAN.

NWAN is a third-party administrator of service contracts and warranties for automobiles, recreational vehicles and motorcycles.

Ohio governor John Kasich signed legislation in June 2014 allowing businesses to form captives.

The state allows the formation of pure captives that can only insure the risks of their parents, protected cell captives, in which each cell has a separate legal identity, and special purpose financial captives, which assume life insurance risks.

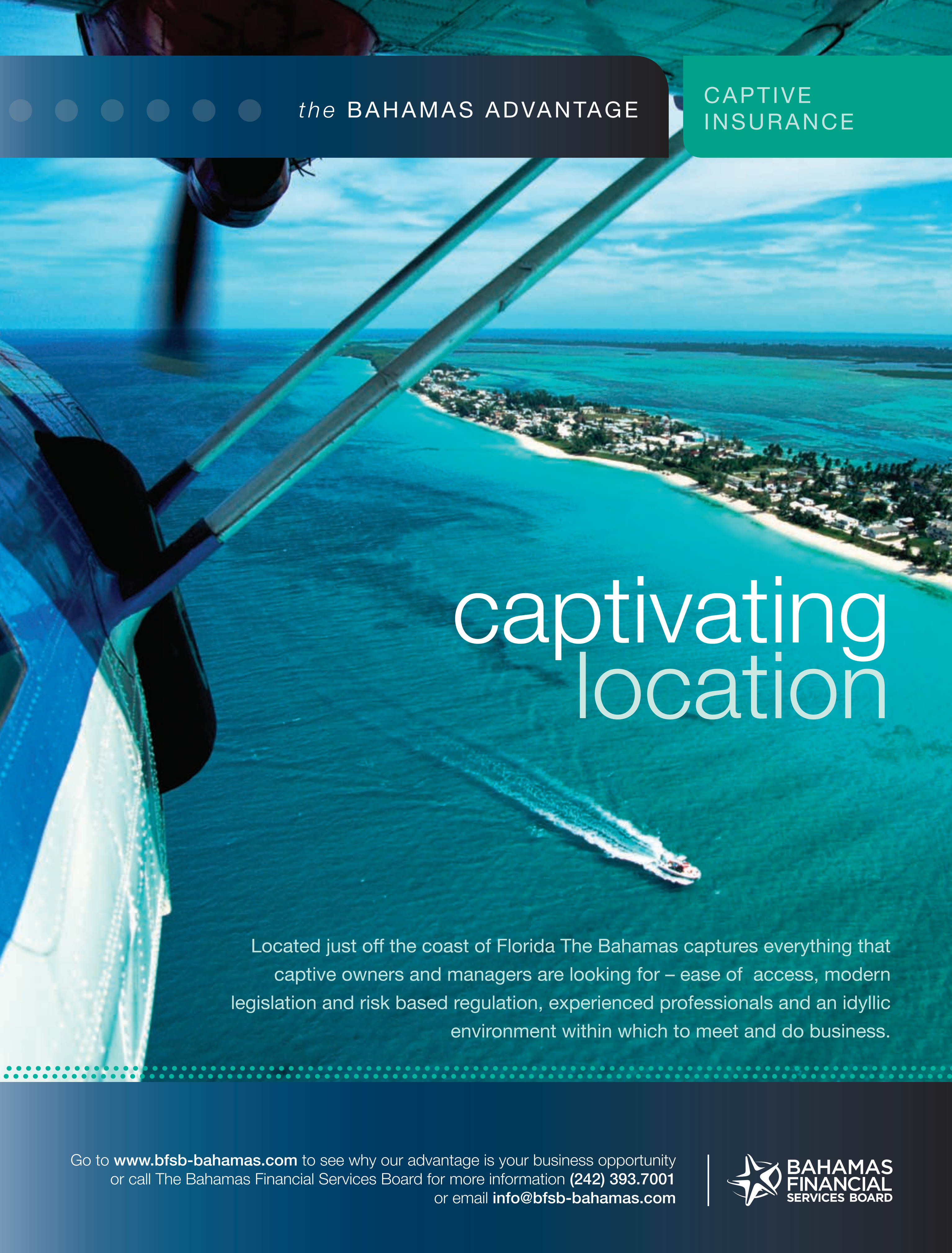
The protected cell captive insurance structure, in particular, eliminates market-entry barriers that companies typically face when considering a self-insurance programme.

Mary Taylor, director of the Ohio Department of Insurance, commented: "This is a momentous occasion for Ohio and more specifically, for Ohio businesses."

"Giving businesses the option to form a captive is another tool designed to help them thrive in Ohio."

David Neuenschwander, vice president and shareholder of NWAN, commented: "Establishing a captive insurance programme with Imprise Financial allows us to be more flexible in the services we offer our clients and makes our operation more efficient."

"We are already realising the benefits of our captive insurance programme and it has become an integral part of achieving our long-term goals."


the BAHAMAS ADVANTAGE
CAPTIVE INSURANCE
captivating location
Located just off the coast of Florida The Bahamas captures everything that captive owners and managers are looking for – ease of access, modern legislation and risk based regulation, experienced professionals and an idyllic environment within which to meet and do business.
Go to www.bfsb-bahamas.com to see why our advantage is your business opportunity or call The Bahamas Financial Services Board for more information (242) 393.7001 or email info@bfsb-bahamas.com
BAHAMAS FINANCIAL SERVICES BOARD

VCIA: risks and regulations run rife

Cyber risk, the tax treatment of 831(b) captives, the National Association of Insurance Commissioners and the Risk Retention Act were the hottest topics at this year's Vermont Captive Insurance Association Annual Conference

BECKY BUTCHER REPORTS

Dan Towle, director of financial services in Vermont, described the state's 2015 as strong so far during a panel discussion at the Vermont Captive Insurance Association (VCIA) Annual Conference.

He revealed that 14 new captives have been licensed, with three in healthcare and the rest in professional services, insurance, construction, education, manufacturing, real estate, not-for-profit, transportation and retail.

Of the 14 licensed, 11 have come from different captive managers. There have also been five redomestications.

On the same panel, David Provost, deputy commissioner of captive insurance at the Department of Financial Regulation, discussed the current hot topics in captive insurance.

Provost began by discussing healthcare stop-loss insurance.

He explained that it has been very active for several years, with new captives being formed for this purpose, or existing captives adding these lines.

Healthcare stop-loss has been a big line of insurance for pure captives and groups, according to Provost.

He added that his department has had to regulate them carefully. Provost said: "We have to work at it carefully because what we have seen is a different line of business compared with what most captives used to do, as money starts going out before it starts coming in."

Provost explained that other captives pay premiums for a few years before shelling out for losses, but for healthcare, losses have to be covered almost immediately.

Employee benefits is another hot topic, according to Provost, because more and more employers are adding it to their existing captives.

He expects the US Department of Labor to begin speeding up the approval process for importing these plans to captives.

Another popular topic was cyber risk. "In Vermont, we have had one captive join just for cyber purposes and a lot of other captives have added cyber to their programmes," said Provost.

He added that many captives have included cyber risk in their general liability lines rather than adopt separately.

Captive industry regular the 831(b) tax election also came up during Provost's talk, with many outside of the business criticising its use. Small insurance companies can elect 831(b) for taxes on their investment income if they write less than $1.2 million in premium. Vermont has approximately 30 captives that make the 831(b) election.

Provost explained that Vermont's position on the election is unchanged and stated: "We have always licensed captive insurance companies and we expect them to take full advantage of the tax code that suits them. It is not something that is a regulatory concern to us, but it is something that worries the captive industry."

There are changes being proposed to the 831(b) election, according to Provost, which could see the maximum premium being increased from $1.2 million to $2.2 million.

The Risk Retention Act is also still being considered for amendments, with risk retention groups (RRGs) wanting to be able to add property commercial coverage as a line of business. Provost said that the amendment has been narrowed down to RRGs that have been in existence for 10 years, have $5 million in capital, and are insuring certain entities that qualify.

There is still opposition to reforming the act despite the amendment being narrowed, although Provost hopes that it will still go through Congress.

Finally, Provost focused on the National Association of Insurance Commissioners (NAIC) and principal-based reserving for insurance companies. He explained that the new approach to determining policy reserves will become effective in 2017 and believes it will solve the 'captive problem' from an NAIC point of view.

Provost then moved on to the NAIC's accreditation programme and changes that could capture certain captive insurers and special purpose vehicles.

He commented: "It has been reworded to become much more acceptable than what it was. I hope it is specific on what type of captives are subject to accreditation, so only life insurance captives owned by life insurance companies to reinsure XXX and AXXX lines of business. And that if we comply with the new actuarial guideline before the deadline, then we are safe for accreditation."

He believes there are still open items with the application of accreditation and expects it to cover the insurance of long-term annuities or long-term care.

Technology

A hot topic throughout the conference was technology in the industry and the influence it could have over future trends in captive formations.

A panel discussed how technology could influence captive formations in the future, giving examples of how it could assist with day-to-day risk.

Mary Ellen Moriarty, vice president of property and casualty at Educational & Institutional Insurance Administrators, believes that technology has helped the formation business.

"If you go back in time, the whole data cycle was a gigantic investment of time and I think you have got to give yourself a good year to form a captive, but I think the transactional bits, getting the data back and fourth, is much easier."

She continued: "When it comes to a response in business plan changes and you want to add a line of coverage to your captive, you need to go to the regulators for approval. In 2002 it took weeks; now it really only takes a day or two. It really has become much more efficient than what it was 15 years ago."

Sandra Bigglestone, director of captive insurance at the Vermont Department of Financial Regulation, added that regulation needs to be as innovative as technology, both in terms of the law and adapting what captives need to be able to do, and the regulator it mandates, so that the regulator can move at the speed of business.

Anne Marie Towle, vice president of the North America captive consulting practice at Willis, spoke about how technology can influence the future of captive formations.

She gave the example of a contractor company overseeing a job: an app would let the contractor check on sub-contractors and track when they arrive at a job, how long they take, and when they check out.

When it comes to captives, the tracking ability would allow data to be gathered for workers' compensation coverage, she explained.

She believes with that data, immediate reporting and having the captive respond, it can assist with day-to-day risks, which would help to mitigate claims.

The same panel also discussed the importance of maintaining a captive and the best practices for doing so, with discipline being highlighted as the key.

Moriarty believes that captives fail because they get excited about the development of surplus and try to find ways to reduce premiums, or a way to return money to members.

She continued, saying that the key to maintaining captives is to be disciplined and price risk for what it is.

Leslie Ratley-Beach of the Land Trust Alliance, which oversees the Terrafirma Risk Retention Group in Vermont, said that for Terrafirma, members of the committee have an interest in ensuring the dual goal of keeping captives relevant and financially solvent for members, while maintaining stability.

Towle believes that a focus on, and analysis of, growth, to look at key drivers and how to interpret them, is equally important as companies continue to evolve and consider making potential changes to their captives.

She added that some tend to rely on their captive managers because "the captive manager acts like the quarterback" in discussions with everyone from the regulator to the advisory committee.

"Talk with your insurance consultant, and make sure everything is operating smoothly, according to the business plan and regulators." CIT

Captives: an alternative for managing cyber risk

Belen Navarro and Ross Connell of AIG discuss why insureds might consider utilising a captive insurance programme to address cyber risk

With data breaches, cyber security issues and privacy debates hitting the headlines, loss of personal and corporate data has far-reaching ramifications that could potentially change the way business is carried out all over the world.

Most high profile stories in the media today address the type of data loss that affects people on a personal level: credit card numbers, medical records, birth dates, ID/passport numbers, and other private personal information.

We should also be mindful of the impact from the loss of corporate data, intellectual property and proprietary information, which in the hands of a competitor, or even an extortionist, can severely disadvantage business.

In today's digital world, reliance on technology continues to grow at an incredible pace. Regardless of their size, most companies consider technologies such as email, cloud file-storage and social networking to be everyday tools—but not all might be aware of new and changing cyber-related threats, which can be just as devastating as standard physical threats such as fire, flood, wind, and so on.

Network security breaches are occurring with increased frequency, severity and sophistication. PwC's Global State of Information Security Survey 2015 noted that during 2014, the total number of security incidents detected by respondents climbed to 42.8 million, an increase of 48 percent over 2013.

Moreover, this survey suggests that insiders, namely current and former employees, represent the most cited culprits of cybercrime. Their motives are not necessarily malicious, but they may unwittingly compromise data through loss of mobile devices or targeted phishing schemes.

With Cisco forecasting that, within five years, there will be 50 billion interconnected devices—up from 12.5 billion in 2010—we are likely to see an ever increasing frequency of events. Experts agree that no company is safe, and the environment will continue to deteriorate with the increase in reliance on digitised data and the use of social media.

Companies, often with strong balance sheets and technical defenses, are concerned about catastrophic incidents, heightened regulatory scrutiny and reputational risk, and are seeking to manage the likely risk of a material cyber security incident.

Given the evolving nature of cyber risks, a captive programme can be an attractive and comprehensive risk management solution for addressing cyber and data protection issues.

Identifying cyber exposures

Cyber security is perhaps the single most important risk to the boards of directors of companies around the world. This is not a surprise considering the global economy has become highly networked and depends on continuous, secure and uninterrupted data flow. The highly networked environment presents tremendous opportunities for enterprising firms, but this opportunity brings risks.

The first, and most important step in assessing a company's exposure, is to proactively carry out standard systems hygiene. The Center for Internet Security suggested in April 2014 that following these five simple steps can prevent up to 80 percent of cyber attacks:

- Maintain an inventory of authorised and unauthorised devices;
- Maintain an inventory of authorised and unauthorised software;
- Develop and manage secure configurations for all devices;
- Conduct continuous, automated vulnerability assessments and remediation; and
- Actively manage and control the use of administrative privileges.

While standard hygiene is a start, it simply cannot prevent all attacks. Accordingly, many companies are moving beyond prevention and focusing on resilience. A 'cyber resilience plan' is best developed by a cross-functional working group of senior managers from sales/marketing, operations, technology, finance, legal, risk and human resources, as well as any other relevant functional areas. The group should meet regularly to discuss cyber security, monitor evolving internal/external threats, and model as well as analyse hypothetical attacks.

Resilience plans should detail roles and responsible parties that will assist and facilitate remediation, communication and crisis management plans as well as operating strategies for various types of events. Using a pre-agreed action plan has been shown to dramatically reduce the cost, recovery time, and reputational damage following a breach.

Cyber insurance

While investing in prevention is paramount, not all attacks can be fully mitigated. For these events, cyber insurance is critically important as it has a key role to play in improving the overall resilience of companies to cyber risk. Insurance is clearly a very useful tool in helping businesses to respond to these threats through risk transfer and providing specific capabilities to address the evolving cyber risks. Cyber insurance provides contingent capital and expert assistance in the event of a cyber attack or data breach. The insurance industry has tailored a suite of products that helps companies to quickly restore their operations and pay financial obligations. Some cyber policies also include risk management and loss prevention services, which can aid companies in assessing and mitigating their exposure to events before they occur.

In the rapidly changing landscape of cyber risk, AIG provides clients with CyberEdge, an end-to-end risk management solution to help them stay ahead of the curve. CyberEdge provides clients access to innovative protection to help safeguard against sensitive data breaches, computer hacking, dumpster diving, computer viruses, employee sabotage or error, pilferage of information, and identity theft.

CyberEdge responds to both the liability, as well as the first-party direct costs associated with a cyber event. Some examples of first-party costs include forensic expenses, notification costs, credit or identity monitoring, and loss of income from a network interruption. From a liability perspective, it may also respond to regulatory and administrative actions, including fines and penalties arising out of the event. The insurance policy can be customised, and coverage offerings can be added or removed based on the company's risk profile.

Increasingly, companies are reviewing their property, casualty and business interruption coverage to ensure that they understand where there may be coverage or a potential gap. Many conventional insurance products exclude or restrict damage caused by a cyber security failure. Companies should consider a standalone cyber policy or supplemental coverage.

AIG has taken proactive steps to bridge this issue with CyberEdge PC. As a first-of-its kind umbrella product, CyberEdge PC fills these gaps with excess and drop-down cover for multiple lines of business (property, casualty, aerospace, marine, environmental, healthcare, errors and omissions, directors and officers, cyber, or fidelity insurance policies). This additional layer of protection helps companies to manage the risk of physical damage posed by cyber attacks.

The demand for cyber insurance has grown, and growth is expected to continue during 2015 and beyond. The number of clients buying cyber insurance rose by 32 percent in 2014, as compared to 2013, according to Marsh's Benchmarking Trends: As Cyber Concerns Broaden, Insurance Purchases Rise report. The cyber insurance limits purchased in 2014 by companies with revenues exceeding $1 billion were on average 22 percent higher than the previous year. Financial institutions purchased the highest average limits, closely followed by the energy, communication, media and technology industries.

At AIG, we are now seeing small- and medium-sized companies expressing a growing interest in the product. Reasons given for purchasing cyber coverage vary, from board mandates protecting reputations to mitigating potential revenue loss from cyber-induced interruptions of operations.

Insuring cyber using a captive

Cyber coverage represents a great opportunity for a captive to diversify its risk portfolio and/or for a client to transfer to a captive an exposure that is either currently uninsured or not covered by a traditional insurer. When commercial insurance coverage for cyber risk is unavailable or prohibitively expensive, a captive can be used to build a statistical base, which can make securing excess coverage at acceptable terms and pricing easier.

The captive can also be used to provide coverage that might not be readily available in the market, such as future lost revenue or first-party loss of inventory due to technology failure. It is also possible for the captive to cover highly correlated risks, such as cyber and reputation, which may not be packaged in the commercial market.

The use of a captive as part of a cyber programme provides flexibility in design, retention, coverage and the cyber risk transfer structure. Where the insurance market can provide adequate cyber first-party loss, third-party liability and crisis expenses cover, the captive can provide the ability to retain specific covers not so readily available in the market, such as:

- Future lost revenue or earnings;
- Dependent system failure business interruption;
- Physical damage or bodily injury resulting from cyber peril (excess/difference in conditions above other applicable insurance);
- First-party loss of inventory due to technology failure; and
- Loss of value of intangible assets.

There is no doubt that cyber risks will continue to increase as the capabilities of hackers outpace available technologies that would otherwise provide security to companies against an attack. Companies that have identified, assessed and planned for an attack are advanced in their goals to ensure protection against their risks.

Those companies with a wholly owned captive might consider expanding the available coverage within their retention, to address individual risks not available from traditional insurance carriers. Small- and medium-sized enterprises interested in such an approach, but without access to wholly owned captive, might consider a 'rent-a-captive' solution such as participating in AIG's own captive cell facilities in Vermont and Bermuda. A rent-a-captive provides many of the benefits of a captive, including features that allow the insured to retain a certain proportion of the risks and better manage the associated costs, without the full operating costs of a standalone captive. A blended approach, including risk retention via a captive and excess risk transfer using AIG CyberEdge, provides clients with broad cyber protection. Many of our clients are choosing this structure for their cyber insurance programmes.

As a closing thought, former FBI director Robert Mueller has said that there are only two types of companies: those that have been hacked, and those that will be. This remains as true today. How prepared is your company? CIT

Belen Navarro
Professional liability and cyber regional manager, Latin America and the Caribbean
AIG

Ross Connell
Multinational underwriter
AIG

Greetings FROM MISSOURI

Everything the captive needs

Angling to find the right domicile? Try Missouri, says Maria Sheffield, who is the captive programme manager at the state's insurance department

Missouri's captive insurance programme offers real opportunities for business success to companies interested in maximising efficiency and controlling expenses. Located in the heartland of America and bordered by eight states, and with 20 states close enough to be called neighbours, Missouri is conveniently located.

In fact, 40 percent of the largest publically traded companies are located within a 500-mile radius of Missouri, and nearly half of the manufacturing plants in our country and more than 50 percent of the US population are both within a 600-mile radius.

A competitive economy helps spur company innovation. Missouri continues to remain in the Pollina Corporate Real Estate's top 10 pro-business states and has the third most diversified economy in the US, with a GDP exceeding $258 billion. Given these advantages, more business owners are seeking the peace of mind that comes from locating their captive in an established, business-friendly Midwestern domicile such as Missouri.

Missouri is a leader in the alternative risk transfer market, dedicated to a regulatory environment where businesses can grow and prosper. Captive laws in Missouri are similar to most active domiciles and were enacted to benefit the state and those companies that would prefer to keep their captive closer to their base of operations. Missouri captives currently include Fortune 500 companies as well as small-business owners writing compensation deductibles, property and casualty lines, professional and general liability, life reinsurance, and much more.

Experience

Steady growth and sustainability are the keys to a successful captive programme. In Missouri, the focus is on the overall health of the state's captive industry rather than the number of captives licensed each year. As a result, Missouri has a diverse mix of captives seeking licensure.

The goal of Missouri's captive insurance programme is to be the domicile of choice for businesses large and small, a goal the state is well on its way to achieving. Missouri's law, coupled with its experience in working with companies that use a variety of different methods to manage risk, benefits captives of all shapes and sizes. Missouri captives are subsidiaries of some very noteworthy industry leaders and generate billions of dollars of premium volume, and write anywhere from one to 20 lines of coverage.

Missouri captives are formed to mitigate exposure to a wide range of risks. Practically every risk underwritten by a commercial insurer can be provided by a Missouri captive. The majority of the state's captives provide mainstream property/casualty insurance coverage such as general liability, product liability, workers' compensation deductible, director and officer liability, errors and omissions liability, auto liability, and professional liability. Some of our captives also provide specialised coverage for unusual or hard-to-insure risks.

The captive programme in Missouri is structured in such a way to strictly avoid focusing on or favouring any specific type of captive structure or lines of business. Every captive applicant is reviewed on the merits of its application, so as to ensure a strong environment capable of being tailored to a company's specific needs. Furthermore, the Missouri captive programme is designed to be a pro-business platform that includes a simplified and efficient application review process with review costs stated up front.

Missouri is strategically focused on creating a sound and solid captive regulatory environment that serves as an asset to companies doing business in the state. You will find that the captive programme is both responsible and responsive to the needs of the business community and the captive industry. In Missouri, the focus is not on the number of captives, but rather the quality of the captives doing business in the state. The state's laws are competitive with other captive domiciles, however, it is not the law that makes Missouri a top domicile, but the way in which the law is administered by an experienced team that is both knowledgeable and accessible. The goal is to provide prudent and balanced regulatory oversight of each Missouri-licensed captive for the most favourable long-term effect on the captive industry.

Missouri

As the popularity of captives grows, so have the complexities of the transactions. It remains incumbent upon Missouri to continue to evolve its captive programme to keep pace with the ever-changing risks, which is something the state demonstrates in its commitment to continue to offer a highly competitive captive programme.

One of the unique features of Missouri's captive law is the credit allowed each year, which reduces premium taxes by the full amount of renewal fees. In essence, small captives that write less than $2 million per year in premium would only pay a fee and not be subject to additional premium taxes. Large captives also benefit from a reduction in the premium tax and cap of $200,000 on taxes and fees. This feature is a hybrid between pure fee states and tax-and-fee states, and it makes Missouri an attractive domicile to captives of all sizes.

“Choosing the right captive insurance domicile is important for the ongoing success of a captive and Missouri is confident that its efficient and effective programme will continue to make it a domicile of choice”

Additionally, the actuarial review fee paid to the insurance department's consulting firm cannot exceed the maximum stated cost, no matter how complex. Exams are conducted efficiently and via experienced in-house examiners, thereby minimising cost and time. Missouri is a fee-based state, so the fees paid by captives pay for their regulation, and all fees collected remain in the Missouri Insurance Department to ensure that adequate staff provides responsive and effective regulation.

Missouri continues significant outreach to the captive industry and the state is always interested in hearing proposals and ideas as it works with those in the captive industry to develop new solutions. Missouri also continues to focus on solvency modernisation initiatives important to both the captive industry and the insurance industry at large.

The regulatory knowledge and experience of Missouri's captive insurance staff and the state's commitment to a strong and sustainable captive programme provide the state with the ability to grow and prosper as a domicile.

Missouri insurance regulators are among the best in the country, with a reputation of being professional, flexible and fair. The Missouri Insurance Department has a solid programme to license quality captives with sound business plans and good corporate governance, and, as a result, Missouri is now a thriving medium-sized domicile based on the number of captives that it regulates.

Missouri is committed to maintaining high standards in the captive industry nationwide. The reputation of Missouri and the state's service providers is exemplary and keeps Missouri on the competitive edge of the global captive insurance stage.

The right domicile

This is an exciting time in the captive insurance industry, and Missouri welcomes the opportunity to work with both current and prospective captive owners, service providers and industry leaders as it grows the captive industry within its state.

The department has offices in St. Louis, Kansas City and Jefferson City and uses those offices to ease the burden for out-of-state travellers. Department staff will meet you in the location most convenient for you. These cities also have the added benefit of offering easy access to some of the state's best amenities, as well as a multitude of insurance and captive insurance experts. The service providers necessary to operate captive insurance companies in Missouri are also readily available.

Choosing the right captive insurance domicile is important for the ongoing success of a captive and Missouri is confident that its efficient and effective programme will continue to make it a domicile of choice. The state's full-time team, dedicated solely to the captive industry, is ready to assist you with all of your captive insurance needs. Missouri appreciates the opportunities for economic development within the captive industry and dedicates the resources necessary to support its success. **CIT**

Maria Sheffield
Captive programme manager
Missouri Insurance Department

Industry Events

16th Annual SCCIA Executive Educational Conference

Location: South Carolina
Date: 21-23 September 2015
www.sccia.org

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
www.siia.org

SIIA's National Educational Conference & Expo is the world's largest event dedicated exclusively to the self-insurance/alternative risk transfer industry. Registrants will enjoy a cutting-edge educational program combined with unique networking opportunities, and a world-class tradeshow of industry product and service providers guaranteed to provide exceptional value in three fastpaced, activity-packed days.

Industry appointments

Beecher Carlson Insurance has promoted **Suzanne Flynn** to managing director and leader of national casualty claims.

Flynn will lead the claims team while providing claim processing, claim advocacy, loss analysis and case management referrals to clients.

Working with the risk services team, she will develop and implement solutions to manage loss costs and help achieve risk management goals.

She will be based in the office in Atlanta, Georgia, and report to Scott Davis, president of property and casualty.

Flynn most recently served in a vice president role, focusing on originating new client opportunities.

Steve Denton, CEO of Beecher Carlson, commented: “We are proud to recognise talent from within the company, it is a testament to our depth of experience to have someone of Flynn’s talent lead our casualty claims team.”

Willis Re has made several leadership appointments to its global executive committee.

Paddy Jago has been appointed global chairman, in addition to his role as chairman for Willis Re North America and **Mark Hvidsten** has been appointed deputy chairman, alongside current deputy chairman, Chris Clark.

James Kent and **Andrew Newman** have been appointed co-presidents to succeed Jago in his previous role as president of Willis Re, in addition to their respective roles as president of Willis Re North America and global head of casualty.

Jago has been a member of the leadership team for more than a decade. He has served as president of Willis Re since 2010.

He will continue to lead the global sales and growth efforts, produce business and maintain key client relationships in the US, the London market, and internationally.

Hvidsten most recently served as Willis Re’s director of strategy and transformation.

He will continue to lead strategy and transformation while maintaining and developing client relationships globally.

Kent joined Willis Re in Bermuda in 2004 as executive vice president and was appointed as president in 2010.

He will remain based in the US and will continue to work closely with Willis Re North America CEO Jim Bradshaw and the North America team.

Newman joined Willis from specialty reinsurance broker RK Carvill in 2009, where he was a director in London.

He will continue in his role as global head of casualty in addition to serving clients and maintaining growth for the business worldwide alongside Kent.

Commenting on the announcement, John Cavanagh, global CEO of Willis Re, said: “The Willis Re leadership team has decades of experience within the reinsurance industry, serving clients with distinction and driving global sales and growth efforts across our international, North America and specialty platforms.”

“Jago, Hvidsten, Kent and Newman are very strong market figures and they are role models for future Willis Re leaders.”

Dominic Casserley, CEO of Willis Group, added: “The performance of Willis Re in recent years has been outstanding. Today’s announcement reflects the deep strength of the Willis Re leadership team under Cavanagh.”

Long-term ACE employee **Ghassan Wazen** is set to take the helm as ACE’s head of North Africa.

Ghassan, formally ACE’s regional business development manager for Middle East and North Africa (MENA), will now oversee the performance, future development and strategy of ACE’s North Africa operations.

He will report to Mojgan Khoshabi, regional managing director for ACE in MENA.

Ihab ElAwady, country president for Egypt and Kamal Kaabi, general manager for Tunisia will now report to Ghassan.

The appointment highlights ACE Group’s increased focus on building its within Eurasia and Africa, its newest geographical business region.

Giles Ward, ACE’s regional president, Eurasia and Africa, said: “Despite the current uncertainties in North Africa, we believe that the market offers considerable long-term opportunity for ACE.”

Ghassan joined ACE in France in 1986 and moved to MENA in July 2007 as country president for ACE in Egypt and regional manager for accident and health for MENA.

David Marino has joined Marsh to lead its US construction practice, which serves more than 1,200 clients. He will be based in New York.

In his new role, Marino will be responsible for ensuring that Marsh delivers risk advisory and transactional services to clients across the construction industry.

He brings more than 20 years of insurance and construction industry experience. He joins the firm from Aon, where he previously served as regional managing director of the greater New York area.

Marino will report to Don Bailey, head of global sales and US industries.

Bailey commented: “I’m thrilled that Marino is joining the firm and leading this important industry segment.”

Marino added: “In today’s US construction market where margins are tight, contractors are seeking to partner with an adviser that can help assess their risks and opportunities and uncover ways to use working capital more efficiently. I look forward to leading this dynamic team and growing the business.” **CIT**

CIT CAPTIVEINSURANCETIMES

Editor: Mark Dugdale
markdugdale@captiveinsurancetimes.com
Tel: +44 (0)203 750 6022

Reporter: Becky Butcher
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)203 750 6019

Account manager: Joe Farrell
joefarrell@captiveinsurancetimes.com
Tel: +44 (0)203 750 6027

Publisher: Justin Lawson
justinlawson@captiveinsurancetimes.com
Tel: +44 (0)203 750 6021

Marketing Executive: Amber Harty
amberharty@blackknightmedialtd.com
Tel: +44 (0)203 750 6020

Designer/Business development:
John Savage
johnsavage@captiveinsurancetimes.com
Tel: +44 (0)208 663 9648

Marketing director: Steven Lafferty

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

Company reg: 0719464