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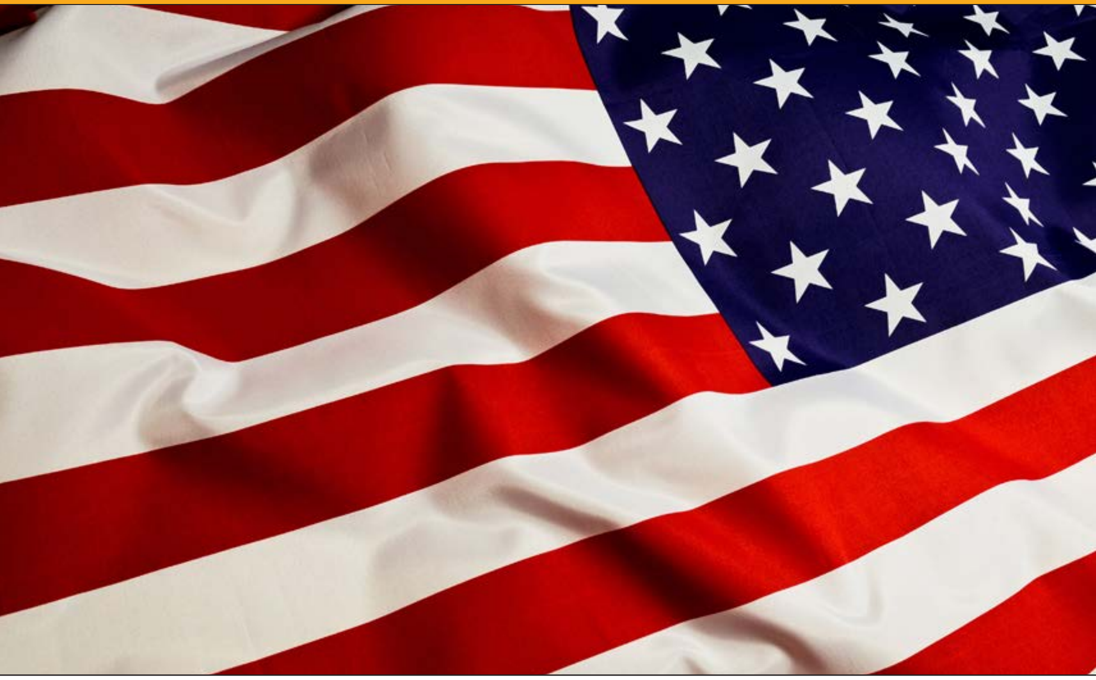

Congress bids to block FHLB ban

A bill has been introduced into US Congress that would stop the Federal Housing Finance Agency (FHFA) from moving forward with its rule to exclude captive insurance companies from being Federal Home Loan Banks (FHLB) members.

The HR 3808 Act, introduced by Representatives Blaine Luetkemeyer, Dennis Heck, Patrick McHenry and John Carney, would prevent the FHFA from excluding the captives of real estate investment trusts (REIT) from FHLB memberships.

Luetkemeyer said in a statement: “This system plays an important role in our economy, and while conversations around membership in the system are valuable, decisions should not be made in a vacuum. They should be made by Congress and based on public input and extensive analysis.”

The bill would also require the Government Accountability Office to study the impact that FHFA membership provisions would have on the FHLB and its members.

David Stevens, president of MBA, said in a statement supporting the bill: “Captive insurers facilitate substantial investment in the housing finance market, including by financing the origination and purchase of mortgages and mortgage-backed securities by REITs.”

“Mortgage REITs represent a growing and necessary segment of the housing finance market, and their access to the FHLB facilitates greater credit availability while simultaneously reducing financial risk to the taxpayer.”

The definition of ‘insurance company’, under the FHFA’s proposed rule, would mean a company that has as its primary business the underwriting of insurance for non-affiliated persons.

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

read**more p2**

JLT and VCIA praise RRG expansion

JLT Towner Insurance Management and the Vermont Captive Insurance Association have praised the proposed expansion of the Liability Risk Retention Act to allow certain risk retention groups (RRGs) to insure policyholders’ property risk.

The US Nonprofit Property Protection Act, which was introduced by Representatives Dennis Ross and Ed Perlmutter, will broadly expand the scope of the Liability Risk Rentention Act, allowing many RRGs to offer all lines of commercial insurance.

JLT Towner Insurance Management partner Len Crouse commented: “This bill gives the industry a foot in the door.”

“All of our RRG clients have property exposure, so eventual passage of this bill would be a positive development for them.”

In a statement issued to VCIA members, president Richard Smith explained: “The bill is a more limited extension to the LRRA in an attempt to move the property addition forward without raising opposition, which has stymied these efforts in the past.”

read**more p2**

Surgical Captive launches in Dallas

A new captive insurance service has launched that will focus exclusively on the healthcare industry.

Surgical Captive will form and manage captives on behalf of ambulatory surgery centres, surgical hospitals and other healthcare organisations.

read**more p2**

Congress introduces bill to block FHLB membership rule

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Addressing the Mortgage Bankers Association's Annual Convention and Expo on 19 October, FHFA director Melvin Watt confirmed that his agency is pressing ahead with the reform.

He declined to elaborate on the proposed rule would but confirmed that the 1,300-plus comments that the FHFA received during a consultation had been reviewed and the final rule will be issued by the end of 2015, or within Q1 2016 at the latest.

Watt said in a statement before a congressional financial services committee in January: "A captive insurance company provides benefits only for its parent company, which itself is often not eligible for FHLB membership. While captive insurers may in some cases be involved in housing finance, allowing them to have access to the FHLB system raises a number of policy issues that are discussed in the proposed rule."

The latest captive to join an FHLB is Arlington Asset Investment's wholly-owned captive insurance subsidiary.

The captive was approved as a member of the FHLB of Cincinnati during Q3, providing Arlington Asset Investment with diversification of funding sources at a reduced cost to traditional repurchase financing, the asset manager said in its latest financial results.

JLT and VCIA praise RRG expansion

Continued from page 1

"Specially, the measure would allow RRGs to write property coverages for policyholders that are non-profit organisations with tax-exempt status or educational institutions and educational-related institutions that are non-profit or government entities."

He added: "While VCIA continues to back the addition of property coverage for all RRGs, we think this is a necessary first step to move the issue forward."

The bill would apply to RRGs serving non-profit and educational organisations that have been in existence for at least 10 years and maintain capital and surplus of at least $10 million.

It would also allow property coverage up to any individual policyholder's total insured value of $50 million.

JLT Towner Insurance Management senior account manager Dustin Partlow added: "Our hope is that this bill is only the start, and legislators will strengthen the law and add other eligible insurance coverages each year."

The Independent Insurance Agents & Brokers of America (IIABA) has publically opposed the proposed expansion, with Charles Symington, senior vice president of external and federal government affairs, arguing that new bill is a classic case of a solution in search of a problem. He added: "We disagree with them on this issue."

Jen McPhillips, assistant vice president of federal government affairs at the IIABA, added: "Today, there is no marketplace need for this broad expansion which will needlessly leave consumers exposed without the protection of the state guaranty fund system, an important safety net."

Surgical Captive launches in Dallas

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Jeff Blankinship, Randy Bishop and Larry Anders jointly founded Surgical Captive.

Blankinship is also president and CEO of healthcare IT solutions firm Surgical Notes and founder of the Surgery Center Network, while Bishop is COO of Surgical Notes and a partner at VisionCap Investments.

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Anders, meanwhile is chairman and majority owner of Summit Alliance Companies, an independent financial services firm.

“Surgical Captive was formed as an answer to pressing insurance questions within the ambulatory surgery centre and broader healthcare industry,” said Blankinship.

“Captive insurance companies are an exciting and innovative way to minimise risk while accumulating wealth, and yet they are underutilised by healthcare organisations as the benefits are not easily understood or explained. With the proper guidance from Surgical Captive, the economic advantages of a captive programme will become readily apparent.”

Roundstone releases new voluntary benefits programme

Roundstone Management has launched a voluntary benefits captive insurance programme, the first of its kind in the insurance industry.

The programme allows consumers to choose the specific product and payout level that meets their needs. It will include four coverage plans, including a limited medical, accident, critical illness and cancer.

All of the plans in the programme are designed to help close the gap between a high deductible health plan and amounts owed to healthcare providers, which is a growing need in the benefit space, according to Roundstone.

In addition, the product offers improved efficiency to stakeholders, as well as improved participation, reduced enrolment costs and increased year-on-year profitability.

Mike Schroeder, founder and president of Roundstone, commented: “Roundstone is excited to bring these voluntary benefit products to the marketplace.”

“The demand for these consumer-focused coverages is growing and the captive offers the advisers the opportunity to increase their revenue stream without churning markets every couple years.”

China National Offshore Oil Corp captive is sound

The captive insurance company of the China National Offshore Oil Corporation (CNOOC) has received positive financial strength and issuer credit ratings from A.M. Best.

ICM Assurance, which is domiciled in Barbados, received a financial strength rating of “A- (Excellent)” and issuer credit rating of “a-” thanks to its strong risk-adjusted capitalisation, favourable performance record, and conservative balance sheet strategies.

The captive provides coverage for property damage, operators extra expense, pollution liability, business interruption and onshore and offshore liability, as well as property under construction, to CNOOC and affiliates and subsidiaries.

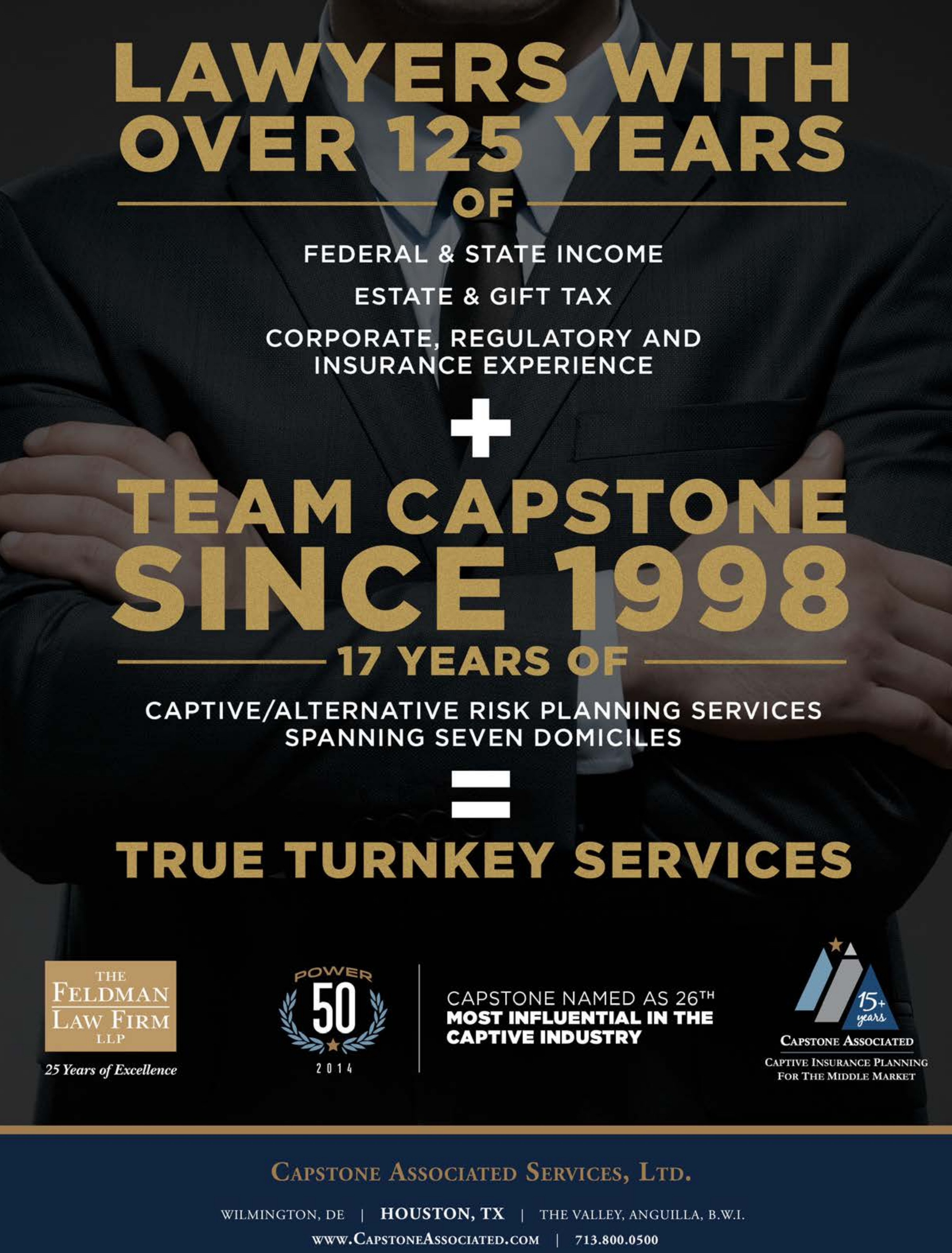
Partially offsetting these positive rating factors is ICM Assurance’s high gross loss, which according to A.M. Best, is potentially due to the nature of the insurance provided.

“This is also partially tempered by the extensive loss control and group-wide safety programmes provided by its ultimate parent, which helps to mitigate losses arising from its parent’s ordinary course of business,” according to A.M. Best.

Isle of Man consolidates its regulators

The Isle of Man has combined the functions of the Insurance and Pensions Authority (IPA) and the Financial Supervision Commission (FSC) under a single a regulator.

The Isle of Man’s Financial Services Authority will take on the roles of the IPA and the FSC from 1 November. They will subsequently be dissolved.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The chief executive for the newly combined regulatory authority, Karen Badgerow, was appointed on 5 August and will take up her position on 1 November.

The Isle of Man's parliament approved the treasury's appointment of the board of the new authority this month.

The merger of the IPA and FSC has been coordinated by a steering committee comprising members of the existing IPA and FSC boards in order to achieve a successful handover to the new organisation.

Key operational issues have been addressed prior to the transfer of function, in order to minimise the impact on those regulated, according to an FSC statement.

Once the new chief executive and members of the authority are in place, work can begin on developing the new organisation to achieve resources and processes to meet regulatory objectives.

The steering committee and existing IPA and FSC boards have confirmed that there will be no significant changes to the current regulatory environment.

The boards believe that achieving effective integration between existing IPA and FSC functions is a long term objective that will need to be approached with due consideration by the new chief executive and members of the authority.

Aon's Impact Forecasting enhances US flood model

Aon Benfield's Impact Forecasting has enhanced its US riverine flood model to quantify flood risk at a much higher resolution.

The new enhancements, which will be launched at the 2015 PCI Annual Meeting in Florida, will enable insurers to better understand the peril and apply insights to underwriting decisions and reinsurance purchases through improved data and the latest research.

Inland flooding has accounted for approximately two-thirds of all disaster declarations in the past 50 years with economic costs reaching $34 billion in 1993, according to Aon Benfield.

In 2015, floods affecting Texas, Oklahoma and South Carolina have caused billions of dollars of new damage and losses and have reinforced the need for advanced inland flood risk models.

The new flood model features key enhancements, including three times the length of the modelled river; advanced hydraulic-based modelling; modelling of off-flood plain flash flood risk; a high resolution digital elevation model; and more than 56,000 kilometres of government maintained levee systems and new damage functions for bridges, dams and flood resistant structures.

The model also includes scenarios for the 2015 floods affecting Texas, Oklahoma and South Carolina, the Colorado Frontal Range Flood of 2013, the Lower Mississippi Flood of 2011, the California Central Valley Flood of 1997 and the Midwest Flood of 2008.

Narathip Sutchiewcharn, senior scientist at Impact Forecasting, commented: "With only 35 percent of eligible properties within FEMA designated flood plains having flood insurance, the new model opens doors for insurers to better understand their risk and strategically write new business."

"Our updated model incorporates improved spatial resolution, detailed river network data and extensive validation to deliver more precise flood risk quantification."

Kelly Smith, president of Aon Benfield US, added: "The enhanced US flood model plays a critical role as we help insurers and homeowners alike to quantify the risk of flood and prepare for its damaging consequences."

"The model adds value to our clients by enabling them to set the most appropriate

premiums, purchase effective reinsurance and notably gives them the confidence to underwrite more business, supporting homeowners across the US to protect their properties against this hazard."

Willis Re enhances approach to cat risk modelling

Willis Re has unveiled an enhanced approach to catastrophe risk modelling that enables insurers to more accurately measure, mitigate and articulate their catastrophe risk exposure for all major perils and territories globally.

The need for the approach comes as insurers are under increasing pressure from regulators and rating agencies to demonstrate a full, independent understanding and more reasoned quantification of their own catastrophe risk exposure, according to Willis Re.

This isn't always straightforward given the multiple cat models in existence, each with their own unique methodology and perspective.

Willis Re takes a 'best of both worlds' approach, for perils and regions covered by vendor models, Willis Re enhances and validates these models, where no vendor models exist, it builds new proprietary models.

In both aspects of the approach, the Willis Re View of Catastrophe Risk draws directly on the broader external academic resources of the Willis Research Network.

Willis Re has global licences for all the main third-party commercial vendor catastrophe models to help reinsurers and insurers work through a range of models and complex scientific views currently available.

John Cavanagh, global CEO of Willis Re, commented: "Risk quantification and risk management are high priorities within the boardrooms of insurers across the globe, and analytics plays a vital role in supporting these activities."

"The integrated approach through the Willis Re View of cat risk methodology helps clients to establish their own objective view, using what is best for individual needs, not what is simply available off-the-shelf."

Marsh finds Europe lacking in cyber understanding

Almost half of organisations only have a basic understanding of exposure to cyber risk, according to Marsh.

Marsh's European 2015 Cyber Survey found that organisations across Europe are growing increasingly concerned about the likelihood and impact of cyber attacks, but only 49 percent have a basic understanding of exposure, while 26 percent have a limited understanding and 4 percent have no understanding.

Only 21 percent of organisations have a complete understanding, according to Marsh's survey. The figures put organisations in a poor position to prioritise their risk mitigation efforts and risk transfer strategies, according to Marsh.

The survey also revealed that 25 percent of organisations do not consider cyber risk to be material enough to even get on the risk register, while 30 percent place the risk outside of the top 10.

These organisations should undertake a re-evaluation of cyber risk, to understand how exactly it poses a threat to them and their operations, according to Marsh.

Marsh added that it is reasonable to assume that, because cyber risk is low down on, or completely absent from, these organisations' risk registers, it is not going to receive the level of investigation required to map and quantify the risk to the business.

This will restrict efforts to mitigate the threat posed by cyber risk. It will make ascertaining the value, and therefore suitability, of available risk transfer options all the more problematic, said Marsh.

Insurance-linked securities growth stabilises

ILS assets under management continue to grow but at a slower rate than the record breaking pace of recent years, according to the latest ILS report from Willis Capital Markets and Advisory (WCMA).

The report also showed that $650 million of non-life Rule 144A catastrophe bond capacity was issued across three transactions in Q3 2015, taking the total market issuance for the first nine months of 2015 to $4.8 billion, down 19 percent from 2014.

Bill Dubinsky, head of ILS at WCMA, explained: "The insurance-linked securities market is at an inflection point. Despite the continued downward pressure on reinsurance rates, investor appetite remains strong and we've seen net new capital come into the re/insurance arena during 2015."

"However, the proportion of Rule 144A catastrophe bonds issued compared to other forms of ILS is down as investors have shifted towards more illiquid products, such as private cat bonds and collateralised reinsurance."

Willis suggested the report questions if this development signals a structural shift of just a 'head fake'.

Dubinsky said: "There are arguments for and against. To an extent, the shift illustrates increased investor confidence as the market matures. Over time, investors have become more comfortable and knowledgeable about reinsurance risk and are now more receptive to move into more illiquid products with greater confidence."

"However, this shift is also a sign of more immediate changes within the industry as the recent flurry of M&A activity, coupled with changing program design, has put reinsurance needs in a state of flux. "

He added: "Whether or not the shift away from 144A catastrophe bonds is permanent or temporary, competitive tension continues to provide ceding companies and investors with ample product choice, both to cede risk and invest."

The report also highlights the emergence of Bermuda as the predominant domicile for new ILS vehicles. In 2011, Bermuda represented 18 percent of the market compared to the current 67 percent.

"This is a structural change. Since the start of the market the Cayman Islands has been the leading domicile for cat bonds. Roughly 90 percent of all cat bonds issued since the mid-1990s to 2012 were domiciled in Cayman. However, despite Cayman's new Insurance Law in 2013, Bermuda is emerging as the preferred domicile for new ILS vehicles."

He concluded: "We wait and see how this will change with the UK Treasury's stated intention to make London a primary centre for the issuance of cat bonds and other ILS products as well as the initiatives in other jurisdictions."

Hedgers of longevity risk should look to captives

Using a captive to hedge longevity risk can provide alower cost base and guarantee a 'principal-to-principal' approach between the pension scheme and the reinsurance market, according to pensions funding expert Ian Aley.

Aley, who leads the transactions team at Towers Watson and specialises in advising pension funds and sponsors on insurance-based transactions for de-risking purposes, spoke on a panel session on longevity risk and captives at an event hosted by Guernsey Finance in London.

He told the audience of pension fund trustees and asset managers that a captive is an efficient means of dealing with the risks associated with large pension schemes.

He explained that while cost is a key factor behind using a captive, the fact that a captive allows pension schemes to maintain control by facilitating a 'principal to principal' approach with the removal of third parties in transactions is equally important.

"The appetite for longevity is in the reinsurance market, so you could use an insurer to take the risk and then pass it on, but they will have to apply capital to that risk, even though they are not writing the risk. If you use a captive offshore, such as Guernsey, the capital regime is different and there is a greater level of relief for reinsurance."

"The capital that is applied to the captive you can think of in terms of a liquidity issue rather than paying someone else capital. So you still own the captive; you still own that capital. You're not going to be able to use it for many years, but it's still there. So, there's a reason of cost."

Aley added that traditional insurance companies acting as intermediaries would have other product lines, potential future business and business they have written in the past to consider.

Malcolm Cutts-Watson moderated the panel, which also featured Aley, John Dunford of the Guernsey Financial Services Commission, Phillip Jarvis of Allen & Overy, Paul Kiston of PwC and Andy AcAleese of Pacific Life Re.

Kitson said that the potential impact of life expectancy risk on pension fund deficits and balance sheets was a 'big driver' in why companies were looking to hedge longevity risk. He suggested that over the last 10 years there had been approximately £200 billion added to the liabilities of UK pension funds.

"Some of that of course, is catching up, perhaps, and putting more forward-looking modelling around what's going to happen in the future and future improvements, but clearly one of the reasons why this risk is now regarded as one of the big risks is the fact that it has contributed significantly to liabilities in the past."

He added: "What's going to happen in the future? We're certainly seeing pension funds and their corporate sponsors put a lot more analytics and analysis into thinking about how longevity risk could change and how it could make deficits go both up and down in the future."

GCC is the fastest growing insurance market

The Gulf Cooperation Council (GCC) remains the fastest growing insurance region, outpacing all other markets with top line growth of close to 15 percent in 2014, according to a Moody's Investors Service report.

The GCC is made up of six countries, including, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

The report, GCC Insurance Industry: Growing Economy Will Drive Further Market Growth Over Next Two Years, found that the GCC insurance industry has more than tripled between 2006 and 2014, with insurance premiums increasing to $22.2 billion from $6.4 billion.

This increase represents a compound annual growth rate (CAGR) of 16.8 percent over the period, although growth in each market varies, ranging from 20.7 percent CAGR in Qatar to 6.4 percent CAGR in Kuwait.

Mohammed Ali Londe, Moody's assistant vice president and analyst, commented: "The positive growth outlook on the region will continue to attract insurers—both domestic and foreign—to invest in the GCC markets, but this is likely to increase competition and put even further pressure in what is already a weak-to-average profitability in the sector."

"However insurers in the region are generally strongly capitalised and possible future pressure on profitability is unlikely to reduce the credit strength of the sector in the medium term."

Moody's expects that the GCC will continue to grow at the same strong rates over the next two years and believes that the growth will be driven by increased economic wealth in the region, together with increased insurance penetration.

Aon expands its model coverage for Asia floods

Aon Benfield's Impact Forecasting has developed catastrophe models for Malaysia and Jakarta floods to help insurers and reinsurers better underwrite and manage their exposures in Asia.

The new models were launched at the Singapore International Reinsurance Conference.

On average, Malaysia experiences a major flood once every three years though major insurance losses have been less frequent. Due to increased exposure concentrations and evolving urban environments, these historical events are poor indicators of future loss potential.

According to Impact Forecasting, large accumulations from high value commercial and industrial properties in the floor plains. The data from the field studies was used as the basis for the new model.

In Asian mega cities, it is a challenge to accurately assess insured flood risk due to large concentrations of risk. Jakarta demonstrated the need for a flood model to fully understand possibly financial implications.

Impact Forecasting worked with the Jakarta City government to take into account land subsidence and recent mitigation works when developing the probabilistic tool.

Both models have the ability to analyse portfolios with residential, commercial and industrial estate lines of business and are available on the elements loss calculation platform. This enables insurers to achieve more accurate results by customising the components based on loss history, according to Impact Forecasting.

Adityam Krovvidi, head of Impact Forecasting in Asia, said: "Ever since the Thai floods of 2011, the reinsurance and insurance industry has been keen to grasp the implications of this peril throughout the Asia region."

"Now, coupled with other factors such as increased urbanisation and detariffication in Malaysia, we have addressed these challenges with models that can fulfill regulatory and rating agency requirements—in addition to the more traditional use of driving accurate reinsurance purchase."

Brad Weir, head of Aon Benfield Analytics for Asia, added: "Malaysia's costliest economic loss of $580 million came from the December 2014 flood while an event in January 2013 left Jakarta with economic damages around $3.4 billion. Having a robust solution to understand and remove the uncertainty of its potential is crucial in supporting risk management decisions."

R&Q bags contracts from Dublin captive

R&Q Insurance in Malta has completed the novation of liability contracts from an unnamed captive in Dublin.

Ken Randall, chairman and CEO of R&Q, explained: "We are delighted to complete this novation. This deal continues to show our market leading position in providing captive exit solutions using our European consolidator subsidiary in Malta."

It has been a busy year for R&Q, whose EU run-off consolidator in Malta completed a similar deal with Norwegian captive Aker Insurance.

The total consideration of that transfer, which was the first of its kind for R&Q in Malta, was NOK 22.3 million ($2.9 million), with transferring current liabilities totalling NOK 14.3 million ($1.8 million).

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Learn the way to buy

Madison Scottsdale is encouraging captive decision makers to shift to a more balanced focus when it comes to investment decisions through education and well-conceived policies. Jeffrey Matthias explains

BECKY BUTCHER REPORTS

What is the current status of financial markets?

During Q3, investment markets reacted abruptly to reports of slowing global growth, lower commodity prices and China's self-imposed currency devaluation. The ensuing market volatility caused the Federal Reserve enough concern to further delay a shift in monetary policy despite improved domestic economic conditions. As a result, US treasury yields continued to be swayed by technical factors rather than economic fundamentals. In contrast to the prevailing low yields within safe havens, riskier fixed income valuations adjusted to underlying credit metrics and issuer-specific event risk. Global equity markets also experienced lower returns amid an environment of heightened volatility due to the growing concerns about deteriorating global economic conditions.

The prolonged period of global uncertainty has led to increased bouts of market volatility as investors weigh the long-term ramifications of economic and financial developments. Even though heightened volatility may suggest otherwise, the US economy continues to trudge forward with vastly improved employment conditions, favourable housing trends and progressing business conditions. Of course, this could all change as slower global growth combined with a strong US dollar reduced exports and negatively affects the manufacturing sector.

China's unexpected devaluation of its currency in August triggered a selloff in lower quality assets throughout the world. Investors interpreted the efforts to increase exports as evidence the Chinese economy continues to struggle. Lower growth would likely further pressure commodity prices, thereby threatening both developed and emerging market economies. The European Central Bank (ECB) expressed concern about how persistently low commodity prices may impede the eurozone's efforts to increase inflation to more desirable levels.

The Federal Reserve also cited foreign economic and financial developments as a primary consideration in its decision to leave short-term rates unchanged for the fifty-fifth consecutive meeting. This is despite notable improvements in the US economy, which is approaching full employment and price stability, although inflation remains slightly below the Federal Reserve's preferred level of 2 percent. Chair Janet Yellen continued to suggest that the central bank's policy decisions are data dependent, although the relevant economic and financial dataset has seemingly expanded beyond domestic activity and now includes international happenings.

We believe the US economy will continue to grow moderately in the coming quarters with lower energy prices offsetting a challenging export and inventory environment. Our gradual growth trajectory resides in the nation's consumer-based economy, which should persist since the country is near full employment, wages are showing signs of acceleration and consumer confidence is high for a variety of reasons. The health of small- and medium-sized US businesses continues to advance and is likely to be a source of growth as additional higher quality jobs are posted and filled.

We remain concerned about the Federal Reserve's prolonged maintenance of its low interest rate policy. Some economists have suggested the Federal Reserve's recent decisions may be restraining growth prospects, especially as it relates to banks' willingness to extend credit. We think investors are beginning to lose confidence in the central bank's data dependent rhetoric, especially given that the Federal Reserve's focus on mandate specific data elements seems to have recently shifted to broader, more global-oriented factors. We believe the risk of policy error has risen in recent months and is likely to disrupt markets once the Federal Reserve does begin to increase rates.

How are captives' assets faring in the current financial climate?

A majority of captive insurers subscribe to a fairly conservative investment policy with the primary objectives being safety of principal and income generation. A secondary objective may be capital appreciation for the purpose of long-term surplus growth. Most maintain a portfolio including an appropriate allocation to very liquid securities to cover unanticipated operating needs, a predominate weight to high-quality fixed income securities and a small allocation to equity securities to increase financial stability over time. Since the financial crisis, many captive portfolios have generated historically low amounts of interest income although capital appreciation associated with lower yields has resulted in higher portfolio market values.

The recent market volatility has been advantageous for high quality fixed income portfolios, especially for those heavily weighted toward US government bonds, the most liquid sector of the market. Even portfolios with exposure to corporate bonds rated -A or higher have fared well since the risk premiums on these bonds have increased much less than lower quality paper.

However, concerns about liquidity and issuer-specific event risk is intensifying as some companies continue to use the low rate environment as a means to carry out bondholder-unfriendly activities such as share buybacks, dividend increases and merger and acquisition activity. A recent example is Dell's acquisition of EMC, a deal that may cause EMC's credit rating to fall from -A towards Dell's below investment grade rating of -BB. Thus far, equity market volatility has not significantly affected captive balance sheets since most captive have limited exposure to this asset class.

What effect would an interest rate hike have on their portfolios?

We anticipate interest rates will increase over time as US economic fundamentals improve and the Federal Reserve shifts towards tighter monetary policy. The potential impact on captive portfolios in a rising rate environment will depend on the degree of interest rate sensitivity residing within a captive's portfolio and the speed and magnitude at which interest rates increase. Portfolios with shorter average maturities would likely experience lesser market value declines than those with longer average maturities. In addition, a slow, gradual rate increase would likely result in interest income largely offsetting any market value decline, whereas an abrupt spike in interest rates could cause a significant decline in market values, particularly in portfolios with longer average maturities.

In general terms, rising rates may cause stock valuations to adjust downward as investors increase the discount rate used to value future cash flows. If conditions prevail and equity markets selloff then active managers with an emphasis on protecting capital and dividend income may outperform market indices.

How attractive are equities proving to captives?

We have found the amount of captive equity exposure is mainly related to four factors:

operational objectives, size in terms of annual premiums written and/or assets, capacity and tolerance for risk, and investment knowledge among the key decision makers.

Equity exposure can be very beneficial for captives wishing to grow surplus over time for purposes of increasing financial stability and flexibility as well as underwriting capacity. However, emotional biases often enter into investment decision making during the most inopportune times, such as elevated periods of volatility, which can disrupt an investment plan and lead to investment behaviours such as buying high and selling low.

Captives that are contemplating adding equity exposure at this time may be well served by crafting an asset allocation policy that is suitable for a minimum five-to-seven year period. Next, a captive must decide which investment strategy or strategies are most appropriate for achieving return objectives within its stated risk preference. A captive must then determine how best to implement these strategies in terms of passive versus active and separately managed account versus a commingled fund, for example, a mutual fund or exchange-traded fund.

Lastly, an investment implementation schedule should be formulated that clearly specifies how quickly the assets slated for the equity market are deployed—all at once or averaged into the market over time. Captives that take the time to devise a suitable investment policy statement stand to reap the benefits associated with owning equity securities over the long term.

However, board members must be willing to endure short-term equity market volatility in order to avoid making emotional decisions in stressful market environments.

Given that they're risk averse entities, are they capable of using making the most of equity assets?

In general, we view the primary function of insurance companies to be risk mitigation and management. The concept of risk may be meaningfully different among captives given differences among the insurers in terms of risks underwritten, loss experience, financial soundness and overall risk preferences.

Herein lies the challenge—captives are faced with managing two interrelated components within their business, namely insurance and investments. Arguably, the insurance business deserves, and frankly 'gets', the vast majority of the focus and attention. Although important, the investment portfolio is often an afterthought when it comes to maximising its effectiveness within the overall business. For many captives, maintaining an abundance of liquidity to guard against sudden unanticipated claims is much more important than generating investment return, whether it be interest income or capital appreciation.

We are encouraging captive decision makers to shift to a more balanced focus by providing base level investment education and working with them on creating and implementing well-conceived investment policies. CIT

Jeffrey Matthias
Vice president/portfolio manager
Madison Scottsdale, a division of Madison Investment Advisors

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Finger on the pulse

Value-based plan design, reference-based pricing, community health plans and population health management were all hot topics at Roundstone's first Medical Captive Forum. Michael Schroeder explains

BECKY BUTCHER REPORTS

What were the main trends discussed at Roundstone's first Medical Captive Forum?

Numerous industry trends focused on Roundstone's medical captive solution were discussed, including value-based plan design, reference-based pricing, community health plans and population health management. All are made possible by the captive solution's delivery on its promise of transparency. Now that the employers know what is happening to their healthcare spend, all of these ideas found a receptive audience.

What are the best ways to optimise the pharmacy spend in a stop loss captive?

The cost savings offered by a carved out pharmacy benefit manager (PBM) presented a compelling alternative to the traditional health plan offering. Rebates from the drug manufacturers are significant and growing now that the pharmacies spend is increasing as a percentage of the total healthcare spend. Making sure these rebates are quantified in a transparent environment so the employer can receive 100 percent of their benefit is important. A PBM carve out seemed to offer the best opportunity for realising a savings.

Plan designs structured to encourage the efficient use of medication from a generic and prescription quantity perspective also caught the employer's attention as a wise approach to the pharmacy spend. Specialty drugs and their increased use also added to the importance of a focused effort on pharmacy.

What are the best ways to navigate ERISA and HIPAA in a captive?

Most of the third-party administrators offered comprehensive compliance solutions for these regulatory areas. The processes and documents of the stop-loss captive programme address both laws in an efficient and turnkey solution.

As discussed at the forum, which cost-cutting strategies would be best? And where should companies focus their energy when reducing the healthcare spend?

Cost-cutting strategies that work best depend on each employer's data. One firm may find a pharmacy carve out is most effective, while another employer may find the strongest cost containment comes from an incentive-based wellness programme or chronic disease management programme. Another employer may find it is value-based plan designs, or some employers may be attracted to the use of reference-based pricing or a provider sponsored network because the rental networks in their area are less than adequate.

"Employers should focus their energy on the cost drivers that are exposed via data analytics made available from the transparency of the medical stop-loss captive"

Employers should focus their energy on the cost drivers that are exposed via data analytics made available from the transparency of the medical stop-loss captive. Regardless of one approach or many, you need data to determine the most effective cost cutting strategies.

What issues do medical captive insurance companies face?

A medical captive or stop-loss captive is built on a self-funded framework. Because of the recent predominance of fully insured carriers in this middle market space, the number of advisors knowledgeable and accepting of self-funding is limited. Bringing the advisor marketplace up to speed on the differences and advantages offered by not only self-funding, but a captive, is a sizable challenge.

Employers are eager for new ideas that respond to the ever increasing cost of the health benefit spend, but fully insured markets such as Blue Cross Blue Shield, United Healthcare and Anthem introduce myriad obstacles for employers interested in considering a new health insurance approach.

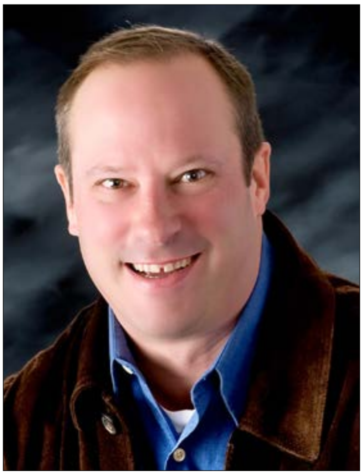
Commission structures offered by these fully insured markets sometimes make it difficult for employers to be presented with the benefits of Roundstone's medical captive. When given the chance, however, the medical captive's transparency and ability to mitigate year-over-year health benefit cost increases, making Roundstone's medical captive an ever-increasing choice for the middle market.

Is there anything new in the pipeline for Roundstone's medial captive insurance business?

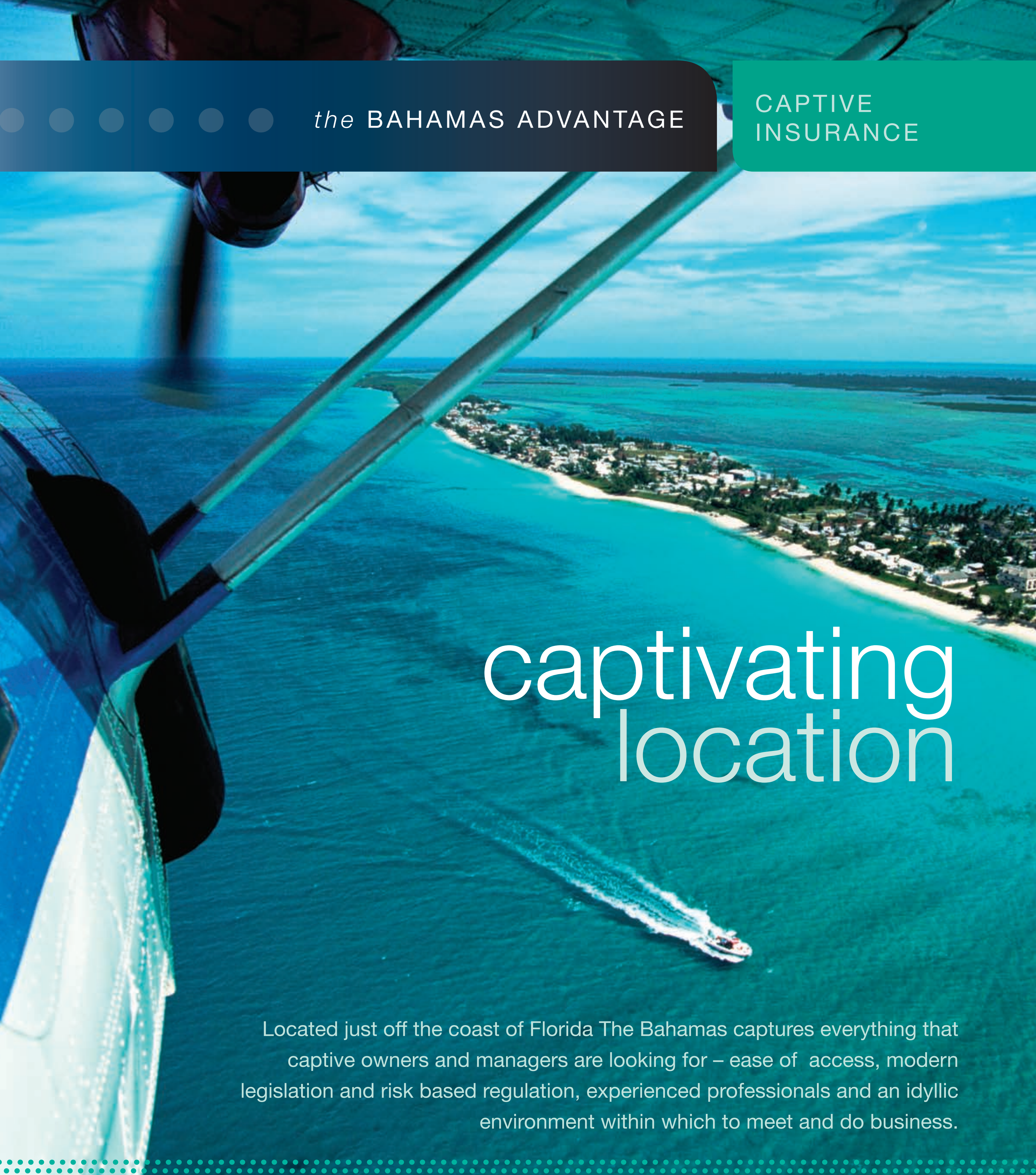
Some new and evolving ideas for Roundstone's medical captive programme include a voluntary benefits offering that fits well with the plan designs many of the employers are utilising today. We also introduced a large employer captive solution for medical stop-loss exposures.

This programme, known as Large Market Med, offers reinsurance savings through direct access from a captive to the reinsurance market.

Lastly, community health plans with features including reference-based pricing are seeing an increased level of adoption with the Roundstone medical captive serving as the underlying turnkey insurance solution. CIT



Michael Schroeder
President
Roundstone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Industry Events

Cayman Captive Forum

Location: Cayman Islands
Date: 1-3 December 2015
www.imac.ky

Over 1,400 specialists, including captive directors, CFOs, risk managers, service providers and captive managers, from around the world will converge in the Cayman Islands to discuss the issues most pressing to the captive insurance industry. This is the event to connect, learn and share insights and best practices of the captive insurance industry.

Industry appointments

Flood Re has appointed **Michael Bartholomeusz** as chief risk officer.

Bartholomeusz is responsible for overseeing, coordinating and facilitating the scheme's risk management framework as well as leading the governance of risk management practices across the organisation.

Bartholomeusz, who is a member of Flood Re's executive committee, will report to Brendan McCafferty, CEO of Flood Re.

In his new role, he will play a key part in establishing the scheme, which will provide access to affordable flood insurance for homes at risk of flooding.

He brings with him 30 years of experience in insurance, lending and risk consulting, having served at organisations including AIG, Prudential, KPMG and Abbey National.

McCafferty commented: "We are delighted to welcome Bartholomeusz as the chief risk officer of Flood Re. The wealth of experience he will bring to the team, through overseeing and coordinating Flood Re's risk framework, will be invaluable."

Aon Benfield has appointed **Sergio Rivera Jiménez** as CEO of Aon Benfield Columbia, with immediate effect.

Jiménez, who will report to Alejandro Galizia, CEO of Aon Benfield Latin America, brings extensive reinsurance and insurance industry experience to his new role.

In a career spanning more than 25 years, he most recently served at executive managing director of Mapfre Assistance in Americas, Europe, Asia, and the Asia Pacific.

Prior to his new role, he was employed in several high profile roles at Mapfre Columbia and Latin America.

Galizia, commented: "Jiménez is committed to our goals, and we are confident that he is bringing [a] combination of skills and talent to our team, which will allow us to continue to provide optimum transactional and advisory services to clients."

"His international experience, as well as his deep knowledge of the Colombian market, is a great match for Aon's client promise agenda."

Willis Group has appointed **Mary O'Connor** as the CEO of financial lines for Willis GB, with immediate effect.

In her new role, O'Connor will join the executive committee of Willis GB, the operating segment that includes Willis's specialty, facultative and retail insurance business in the UK.

She will retain her role as global head of Willis's financial institutions industry practice.

Prior to her new role, O'Connor held senior positions in government in the UK and the US.

She joined Willis from the UK Financial Services Authority where she served as head of approved persons, with responsibility for overseeing regulation of executives and client-facing staff working in financial services in the UK.

Nicolas Aubert, CEO of Willis GB, commented: "I look forward to working closely with O'Connor as she joins Willis GB's executive committee. I'm extremely confident that she will continue to drive forward our financial and executive risks business."

Stefan Spohr, global head of industry for Willis Group, added: "In addition to her new role, O'Connor will continue to oversee the development of Willis' strategy and value proposition for financial institutions globally."

Websure has appointed **Steve Perkins** as head of implementation.

Prior to his new role, Perkins served in various senior IT roles, including head of IT for Tokio Millennium Re, IT manager at Cox Insurance, service assurance manager at COLT, programme manager at Novae, and most recently, managing a diverse range of projects at Hiscox.

Websure provides software from its base in the London underwriting centre, working with captive managers, brokers and insurers.

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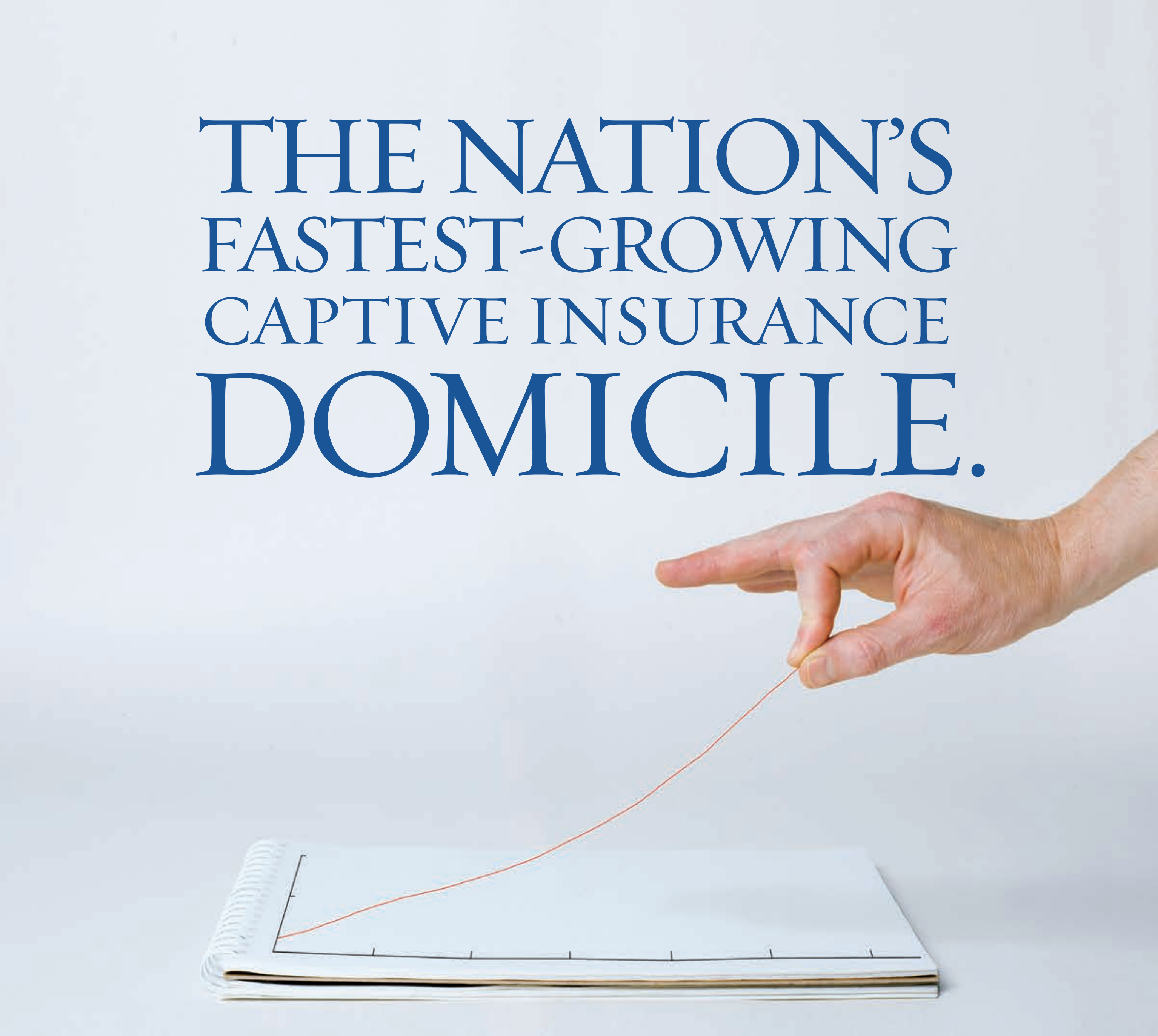

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