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FHFA finally issues captive ban

The Federal Housing Finance Agency (FHFA) has finally banned captives from being members of the Federal Home Loan Bank (FHLB) system, despite widespread hostility to the move.

The amended rule to the regulation on FHLB membership was issued on 12 January, after more than a year of debate and 1,300 comment letters from interested parties.

Under the amended membership regulation, the definition of "insurance company" has been changed to exclude captives because "an increasing number" of ineligible entities have been using them to "circumvent the membership eligibility requirements and gain access to low-cost FHLBank funding and other benefits", according to the FHFA.

The FHFA has given captive members that joined the FHLB system before the rule was proposed in 2014 up to five years to terminate their membership.

Those that joined after the rule was proposed have one year to end their membership.

The final rule becomes effective 30 days from publication in the Federal Register.

The FHFA moved to ban captives from being FHLB members after an increasing number of real estate investment trusts (REITs) set up captive subsidiaries as a means to access the system. Arlington Asset Investment's captive insurance subsidiary was approved as a member of the FHLB of Cincinnati in Q3 2015.

Captive insurance representatives widely criticised the FHFA's concerns. A bill was also introduced in US Congress last year that would have stopped the agency from moving forward with its rule change.

Despite the opposition to the ban, FHFA director Melvin Watt maintained that the agency had a duty to press ahead with the reform.

He said in a statement: "The FHFA has the authority and the duty to implement the statutory membership provisions of the Federal Home Loan Bank Act and by adopting the proposal to exclude captives from the definition of insurance company we are making sure that institutions can't frustrate the intent of Congress."

"Congress has amended the Federal Home Loan Bank Act in the past to allow additional entities to become members of an FHLB and it can certainly do so again if it wants some of these entities to be eligible for membership."

One REIT, Redwood Trust, assured investors on 13 January that the captive ban on FHLB system membership will not affect its ordinary course of business and operations.

The REIT's captive, RWT Financial, is a member of the FHLB of Chicago.

RWT Financial's borrowing capacity from the FHLB of Chicago stands at $2 billion. Its outstanding advances had reached that limit as of 12 January.

Redwood believes that the near-term impact of the FHFA's ban may be that RWT Financial may not be able to obtain additional advances or increases to its borrowing capacity from the FHLB of Chicago.

This could affect RWT Financial's ability to increase the size of its portfolio of residential mortgage loans, which would in turn impact on net interest income generated by the captive's portfolio held for investment loans.

Redwood also said the ban does not affect its ability to obtain and increase financing for held-for-investment loans through other subsidiaries and from other sources.

As Redwood's captive joined the FHLB of Chicago in June 2014, it has five years to terminate its membership.

David Stevens, president and CEO of the Mortgage Bankers Association (MBA), which supported the House of Representatives bill proposed in October, said the MBA was disappointed with the FHFA's decision to press ahead with the ban.

"The MBA is disappointed, to say the least, in the final rule on FHLB membership. When Congress established the FHLB membership framework, it didn't limit membership to only certain insurance companies. Today, without direction from Congress, the FHFA decided to narrow membership and exclude important members of the system."

"In particular, the FHFA's decision to disqualify captive insurance companies removes a vital component of the FHLB membership which provides liquidity for the real estate finance market."

"In today's marketplace, we need an FHLB system that serves the wide variety of lending institutions active in today's housing finance market, including captive insurance companies, REITs, independent mortgage bankers, and other entities, all of which provide major sources of liquidity and are core components in the 21st century FHLB system. We will continue to work with Congress on this issue to address the shortcomings of today's rule."

Contents

Global reinsurance remains challenging, says A.M. Best

The global reinsurance market remains challenging, although A.M. Best's global reinsurance composite is still expected to post reasonable results for 2015, according to the rating agency.

The reasonable results will be aided by the lack of large US catastrophe losses, continued capital management strategies, and favourable reserve releases, which are unsustainable over the long-term.

Conditions will remain competitive and challenging, as primary companies are expected to continue retaining more business and/or seek better terms and conditions for sharing their profitable business.

Margin compressions will likely continue, according to A.M. Best, but there is evidence that the pace of deterioration in rates, particularly in high layer US property catastrophe, has begun to slow.

Third-party capital continues to seek a larger segment, but the speed of capital market capacity entering the market seems to have slowed compared to the previous year, according to A.M. Best.

In addition, some collaterised markets have held capacity flat, unable to find suitable opportunities. This is a healthy response to the current market environment, according to A.M. Best.

For 2015, A.M. Best and Guy Carpenter estimated that dedicated reinsurance capacity, which includes $68 billion of convergence capacity, will likely remain in line with 2014 at $400 billion.

Cat bonds, collaterised reinsurance and convergence capital continued to enter the reinsurance market, although at a slowing pace. Cat bond issuance continued to grow strongly through year-end 2014 and lowered slightly in 2015.

Capital continued to flow into some collaterised reinsurance vehicles and sidecars, according to the report.

But traditional rated balance sheet capacity is estimated to decline marginally for 2015.

This marginal decline is seen as a strategic move as reinsurance organisations appear to be reducing their appetite for under-priced reinsurance business in favour of other more attractive business opportunities, A.M. Best has found.

Looking forward, A.M. Best said the reality for the reinsurance market will reflect an industry where returns are less impressive and underwriting will have to become a larger contributor to profits and returns, leading to a more cautious risk selection, more diversification of product offerings, a wider geographic reach and conservative loss picks.

A combination of this situation and the ability to take advantage of the new 'cheaper' capital coming into the market from investors that do not have the reinsurance and underwriting expertise could actually lead to significant success for some, although not everyone will be a winner, according to A.M. Best.

Solid players will be the ones that have been conservative in underwriting and reserving, that have been able to develop a book of business that will remain relevant for the market, and that will allow for quick shifts in and out of lines of business depending on market conditions.

Cyber ranks as major new threat

Businesses are increasingly worried about the impact of disruptive events, including cyber incidents, according to Allianz.

The Allianz Risk Barometer 2016 survey, published by Allianz Global Corporate & Specialty (AGCS), suggested that the risk landscape for businesses is changing substantially in 2016.

While businesses are less concerned about the impact of traditional risks, they now fear cyber incidents and competition in the market, said AGCS.

According to the survey, which featured 800 risk managers and insurance experts from more than 40 countries, cyber incidents are the most important long-term risk for companies in the next 10 years. Cyber incidents also ranked third among the top three corporate risks.

The survey revealed that business interruption remains the top risk for businesses globally for the fourth year running. Although companies are generally concerned that business interruption will be caused by property damage, the survey showed that businesses' concerns are also increasingly centred on cyber attacks, technical failure, or geo-political instability.

Natural catastrophes have dropped two positions to be the fourth biggest risk, which, according to AGCS, reflects the fact that in 2015, losses from natural disasters reached their lowest level since 2009.

Chris Fischer Hirs, CEO of AGCS, said: "The corporate risk landscape is changing as many industrial sectors are undergoing a fundamental transformation. New technologies, increasing digitalisation and the 'internet of things' are changing customer behaviour, industrial operations and business models, bringing a wealth of opportunities, but also raising awareness of the need for an enterprise-wide response to new challenges."

"As insurers we need to work together with our corporate clients to help them to address these new realities in a comprehensive manner."

Oklahoma licensed 26 captive insurers in 2015

Oklahoma experienced another strong year of growth with 26 new captive insurers being licensed in 2015.

The State of Oklahoma currently regulates 73 captive insurers, and 26 of those were issued last year.

John Doak, who is Oklahoma's insurance commissioner, said he has fought for regulatory and legislative reforms in recent years to attract new captive business.

"The success of Oklahoma's captive insurance industry is based in the value of the regulatory environment and the service that our department provides to captive owners."

"As new issues and ideas emerge at both the state and federal levels, I will continue to support the protection and progression of our authority to create a fair and efficient place to do business."

Oklahoma's captive insurance statutes and regulations have been updated during recent years to encompass modern trends, according to the Insurance Department.

Appetite increases for bulk annuity and longevity hedging

Bulk annuity and longevity hedging markets saw a quiet 2015 compared to the previous year, but appetite from both pension schemes and insurers picked up significantly towards Q4, according to Willis Towers Watson.

In Q4 2015, Willis Towers Watson secured £5 billion of liabilities with insurers, either via longevity hedges or bulk annuities.

In November and December 2015, the company helped clients secure eight separate bulk annuities, covering over £650 million of liabilities.

Willis Towers Watson believes that 2016 will be slow starting for the bulk annuity and longevity hedging markets, but predicted both would pick up around spring.

Shelly Beard, senior consultant in Willis Towers Watson's de-risking team, said: "While most insurers spent much of 2015 preparing for Solvency II, final sign-off on reserving requirements was not provided by the Prudential Regulation Authority until December 2015."

"This means that as insurers start to submit responses to quotation processes in early 2016, there will inevitably be a period of price discovery for both pension schemes and insurers, as the market looks to understand how different players have been affected by the new reserving rules."

Beard added: "Our current understanding is that, overall, there will be very little impact on buy-in pricing for pensioners, but pricing for non-pensioners could increase by up to 5 percent, although this will vary across insurers. However, we do not expect this to limit the growth of the market in 2016 as, to date, non-pensioners have only represented a small part of bulk annuities secured."

Willis Towers Watson estimates that there will be longevity hedging deals covering more than £20 billion of liabilities in 2016.

In the bulk annuity market, it will allow the bedding on Solvency II, which the company expects to continue throughout the year, with approximately £12 billion of liabilities transferring to insurers.

The trend will be supported by the unprecedented number of pension scheme clients currently aiming to secure and implement transactions, according to Willis Towers Watson.

Beard commented: "Two new insurers completed deals in H2 2015 in the small- to medium-sized transaction market and we expect there are several other companies closely monitoring the marketplace with a view to developing bulk-annuity propositions."

"In addition, there is currently significant interest in the UK bulk annuity market from potential suppliers of capital, which will allow both existing providers and new entrants to continue to write sizeable new business."

"This can only be a positive development from pension schemes' perspectives, with new entrants driving prices down and innovation up."

Strong 2015 for Vermont

Vermont licensed 33 new captive insurance companies in 2015, according to the Vermont Department of Financial Regulation.

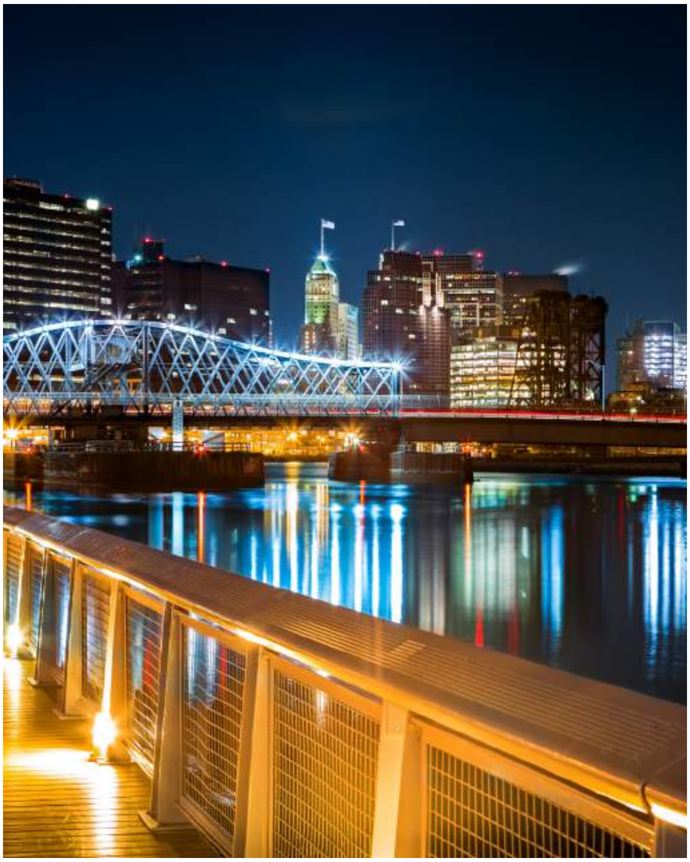
The new captives consisted of 12 pure captives, seven risk retention groups (RRGs), seven sponsored captives, four special purpose financial insurers, two industrial insured captives, and one association captive.

Vermont set a new record with the 11 redomestications, the largest number to ever occur in a single year in the state. The redomestications included three from South Carolina, three from Arizona, two from Bermuda, and one apiece from the Cayman Islands, Nevada and Kentucky.

Vermont governor Peter Shumlin commented: "2015 was another great year for captive insurance in Vermont. The record number of captives redomesticating to Vermont reinforces our 'gold standard' reputation."

There were 16 companies licensed in 2015, an increase over 2014, even though the industry is experiencing a prolonged soft market.

Dan Towle, Vermont's director of financial services, commented: "Vermont has always provided a consistent regulatory environment that is firm, fair, efficient and responsive. It is encouraging that a record number of captives have reinforced that this year by redomesticating."



Seven new RRGs were licensed in Vermont in 2015, bringing the active total to 89. Vermont continues to hold a dominant market share with more than 60 percent of all RRGs' premium volume being written by Vermont companies.

Six of the 11 redomestications to Vermont were by RRGs. Provost explained: "We employ our own examiners which keeps exam costs reasonable for captives and RRGs. The expertise of our staff when it comes to analysis and examinations is a significant part of what makes Vermont so attractive."

The new licensed captives are in the insurance, healthcare, construction, real estate, professional services, education, transportation, agriculture and retail sectors.

Seven captives were licensed in the healthcare sector.

Towle added: "The continued formation of hospitals and doctors' groups setting up captives in Vermont has been a very positive trend that we expect to continue."

"Hospitals maintain a high interest in forming their captive on-shore and in Vermont."

Last year saw the State of Vermont bring its total licences to 1,062, with 588 active captive insurers.

The Vermont Department of Financial Regulation added that it has one captive already licensed for 2016 and three more applications currently being evaluated.

Roundstone Management to relocate HQ

Roundstone Management is moving its headquarters from Westlake to Lakewood in Ohio in July, subject to paperwork.

The new headquarters, located at the former First Church of Christ Scientist, offers associates a work environment with a training facility and numerous collaboration spaces, according to Michael Schroeder, president of Roundstone Management.

He added that the surrounding area includes green space, street level terraces and a variety of leisure activities within the neighbourhood.

He commented: "We are really excited for the added space of our new building, which is twice the size of our current location."

New Jersey approves new healthcare captive

The New Jersey Department of Banking and Insurance has approved a captive insurer formed by the Deborah Heart and Lung Center of Browns Mills.

The new captive will provide comprehensive general liability insurance coverage for the centre, as well as medical and hospital professional liability insurance for employees.

The captive is the twenty-first captive insurance company to be approved in New Jersey since 2011.

New Jersey Department of Banking and Insurance acting commissioner Richard Badolato said: "We welcome Deborah Heart and Lung Center's new captive insurance company to New Jersey's growing captive market."

He added: "The centre's decision to set up a captive insurer is a testament to the strength of our market and another indicator that captive insurance is an excellent risk management financing option."

The Deborah Heart and Lung Center focuses on cardiac, vascular and lung disease. It works with the Deborah Hospital Foundation to finance patient care.

SC secured 30 new captives

The South Carolina Insurance Department licensed 30 new captives in 2015.

The 2015 result puts the total number of new captives licensed in South Carolina at 295 since 2000.

The 30 captives licensed in 2015 included 12 pure captives, three risk retention groups, three special purpose captives, three sponsored captives and nine incorporated cells.

Megan Ogden, head of JLT Towner Insurance Management's South Carolina office, commented: "The state of the captive insurance industry in South Carolina has never been stronger, as evidenced by this growth."

"Because regulators understand captive insurance and legislators recognise the importance of the industry to the state, I expect this growth to continue in 2016."

Honeywell captive is affirmed

A.M. Best has affirmed the financial strength and issuer credit ratings of Cedar Court Indemnity Company.

The "A- (Excellent)" and "a-" ratings of the Honeywell International captive remain stable, but could be offset by relatively large reserves and incurred but not reported reserves, as well as volatile underwriting performance in recent years.

Factors that could lead to Cedar Court's ratings being upgraded include long-term, consistently strong operating performance.

Willis Towers Watson ratings upgraded to 'BBB'

Standard & Poor's (S&P) has raised its corporate credit and senior unsecured debt ratings on Willis Towers Watson from "BBB-" to "BBB".

S&P has also removed Willis Towers Watson from CreditWatch with developing implication, after the rating agency placed both companies on the list on 30 June 2015, following confirmation of the deal.

Laline Carvalho, credit analyst at S&P, commented: "The upgrade follows the closing of the merger on 4 January 2016, and our view that the merged group will benefit from a strong business risk profile reflecting a wider array of products, a strong global footprint, and larger market presence."

According to S&P, the stable outlook reflects its expectation that the group will capitalise on its increased product offerings and global footprint.

Guy Carpenter reports stable capital

Overall capital levels dedicated to reinsurance have stabilised, showing no growth for the first time in several years, according to Guy Carpenter's 2016 global January renewal report.

The report, The Reinsurance Market 2016: Innovation and Customization, also showed moderate loss experience kept capacity at abundant levels for the 2016 renewals.

The continued scarcity of costly catastrophe losses and more than adequate capacity led to reinsurance pricing reductions, although it was reported that there are signs the rate of descent is slowing, compared to 2015.

The report revealed that pricing declined for most lines of business and geographies but the rate of decline was reduced, particularly in US property catastrophe.

In 2015, global significant insured losses from catastrophes reached approximately $30.5 billion in 2015, compared to $32 billion in 2014, according to the report.

The most significant man-made disaster occurred in Q3 with the explosion at the Port of Tianjin in China in August. The event caused insured losses between $1.6 billion to $3.3 billion.

The report showed that in 2015 the industry experienced an estimated 2 to 3 percent

decline in the amount of capital dedicated to writing reinsurance by rated markets, while convergence capital continued to grow, though at a slower rate compared to previous years.

At year-end, total capital dedicated to reinsurance was approximately $400 billion, unchanged from the previous year.

Convergence capital, including catastrophe bonds, industry loss warranties, collateralised reinsurance and sidecars amounted to $68 billion, up 13 percent from year-end 2014.

The report also revealed that both the 144A cat bond and the private cat bond market continued to be active in 2015.

The 144A cat bond market had 23 primary issuance 144A property and casualty (P&C) catastrophe bonds successfully completed, totalling $5.9 billion in 144 P&C issuance.

According to the report, Q4 saw insurance-linked security (ILS) pricing conditions hold steady. It also revealed that pricing stabilisation in the ILS market was evident throughout 2015. Guy Carpenter predicted that looking to 2016, the industry would see the pricing environment show signs of stabilisation across both the ILS and traditional markets.

The company also believes that the capital markets are in a strong position to provide multi-year capacity and expects that 2016 will bring new opportunities in the ILS space for public sector entities, corporates, insurers and reinsurers.

David Priebe, vice chairman of Guy Carpenter, commented: “The reinsurance market has been challenged by a persistent low interest-rate environment, the continued inflow of new sources of capital, benefited from an extraordinarily long period of few major natural catastrophes, and record levels of merger and acquisition activity in 2015.”

He added: “As a result, reinsurance and insurance companies are evolving their operating strategies to embrace this complex environment.”

“We believe that alternative capital will be a consistent source of risk capital for reinsurance and insurance and corporates, and we expect to see sustained high growth continue in this sector.”

Reinsurance pricing floor remains elusive, says Willis Re

Despite the signs of pricing stabilisation in peak property catastrophe zones during the June/July 2015 renewals, the forecasts for a softening in reinsurance pricing have proved illusory, according to Willis.

According to the report, 1st View Renewals, rates have continued to decline across the majority of markets, with few examples of any slowdown in pricing deterioration.

One issue is that reinsurers have faced difficult renewal dynamics in the global specialty markets, especially within the aviation and energy sectors.

Large losses and reductions in original rates have yet to divert the inflow of additional capacity.

Casualty markets have not offered reinsurers any relief from further rate reductions, despite an increase in adverse results across a number of non-motor classes.

In addition, risk-adjusted rate reductions continue for property catastrophe pricing, although there has been a notable slowdown in rate reductions for high-layer US property catastrophe cover where the insurance-linked securities (ILS) markets have taken a more disciplined approach.

Underpinning these dynamics, despite signs that some insurers are utilising rate reductions to buy more reinsurance, a handful of larger firms continue to increase their reinsurance retentions.

The negative outlook for investment income also remains, with concern around the dislocation in the high yield bond market a potential precursor for further turmoil in bond markets as interest rates rise.

The mergers and acquisitions trend also continues unabated, with the increasing role of Asian-sourced capital helping to drive valuations, as is the role of buyers looking to buy scale and market relevance.

John Cavanagh, global CEO of Willis Re, said: “The January renewals have unfortunately confounded the hopes of commentators that the market was reaching a pricing floor.”

“However, as reinsurers look to close their 2015 accounts, most will likely report reasonable headline results.”

“But amidst the challenging environment, two positive developments stand out.”

He explained: “First, the recent announcement by Lloyd’s that it plans to launch a trading index to help stimulate the development of a secondary trading market and ‘attract the interest of the wider capital markets’.”

“Second, the announcement by Mark Carney, governor of the Bank of England and chairman of the Financial Stability Board, of an industry led task force.”

“Chaired by former New York City Mayor, Michael Bloomberg, it will develop company disclosures for investors to assess physical, liability and transitional risks from climate change and related policies.”

2016 will see increasing pressure on small captives

This year will see small captives come under increasing pressure as calls for tax reform grow and US Congress examines the controversial 831(b) election, according to Thomas Stokes, managing principal and US consulting practice leader for JLT Towner Insurance Management.

In 2016, the captive insurance industry will continue to see small captives attracting scrutiny, predicted Stokes.

The Internal Revenue Service previously gave notice that it would audit a handful of managers of small captives organised under Internal Revenue Code 831(b).

The audit may come to a head in Arizona later this year, where a tax court case will look at a micro captive formed in St Kitts.

A new bill was also proposed in December 2015 that could increase the premium limit of the 831(b) election from $1.2 million to $2.2 million.

The amendment to a Senate-proposed change to HR 34, introduced in the House of Representatives, would increase the premium limit and mean that a greater number of small insurance companies, including micro captives, would only pay income tax on their investment income.

But the new bill also seeks to prevent abuses of the IRC 831(b) election, proposing that no more than 20 percent of net written premiums for a tax year would be attributable to any one policyholder.

If enacted, it would also eliminate the ability of small insurance companies to meet the tax tests for risk distribution through risk pooling arrangements.

Stokes commented: “Our guess is that the provisions will be watered down or removed from the bill, as was the case in prior years, the courts will be left to continue fashioning the boundaries of IRC 831(b) captives.”

Stokes also predicted that the captive insurance industry will see an increase in the

use of captive insurance for less traditional risks, as well as interest rate hikes and escalating terrorism attacks.

The upcoming US presidential election will put pressure on interest rates, and could cause economic issues, according to Stokes.

He argued that regardless of the election results, captives will continue to thrive because of their ability to adapt to changing economic conditions.

Sudden or unexpected interest rate moves can negatively influence the economy, but the dynamics of captives generally improve as interest rates rise, according to Stokes.

He suggested that the impact on captives would be neutral to slightly positive if the rate increases are moderate. Stokes expects the industry to see new types of risk emerging in 2016, including cyber breaches and cyber crime, which will need resolving solutions. He believes that captives will play a part in those solutions.

"Captive owners can expect the industry to remain strong and continue to grow, providing business and industry with the ability to better manage risk in an increasingly complex and expensive world."

Natural disasters caused $35 billion of losses in 2015, says Aon Benfield

Three hundred separate global natural disasters occurred during 2015, causing a combined loss of $35 billion, according to Aon Benfield's Impact Forecast report.

The Annual Global Climate and Catastrophe Report noted that the loss was 31 percent below the 15-year average of $51 billion, and the lowest annual insured loss total since 2009.

The costliest event for insurers was a February winter storm that affected much of the eastern US and resulted in public and private payouts of more than $2.1 billion, according to the report.

It also revealed that global economic losses from natural catastrophes stood at $123 billion in 2015.

There were 14 multi-billion dollar economic loss events around the world, with the costliest being forest fires in Indonesia at $16.1 billion.

Last year also replaced 2014 as the warmest year since the recording of global land and ocean temperature began in 1880.

Stephen Mildenhall, chairman of Aon Analytics, commented: "Global insured property catastrophes in 2015 accounted for just 28 percent of economic losses, in-line with the 10-year average of 29 percent."

He added: "With its abundant capital and sophisticated risk management tools, the industry should drive its own growth by better delivering on its core mission of providing critical risk transfer products to enable stable economic development in all regions of the world."

Flood, severe thunderstorm and wildfire, the three costliest perils, accounted for 59 percent of all economic losses during 2015.

The deadliest event was an earthquake in Nepal during April and May, which hit a magnitude-7.8, killing more than 9,100 people and costing an estimated $8 billion in damage and reconstruction.

Steve Bowen, associate and meteorologist at Impact Forecasting, commented: "While a notable uptick in recorded natural disaster events did not directly translate to greater financial losses in 2015, the year was marked by 31 individual billion-dollar disasters, or 20 percent more than the long-term average."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"Asia once again incurred the greatest overall economic losses, representing 50 percent of the world total and four of the five costliest events."

"Despite 32 percent of global economic losses occurring in the US, it accounted for 60 percent of the insured loss and seven of the top 10 costliest insured events."

Bermuda licensed 22 new captive insurance companies in 2015

The Bermuda Monetary Authority (BMA) registered 64 new insurers and reinsurers in 2015, only one fewer than in 2014, and its captive registrations defied soft market conditions to achieve growth.

Out of the 64 new insurers and reinsurers, 22 were limited purpose insurers or captives, an increase from the 16 registered in 2014.

Shelby Weldon, director of licensing and authorisations at the BMA, said: "Registration of captives is on the increase because they not only reduce insurance costs but are important components of the parent companies' burgeoning risk management programmes."

"Captives registered between July and December 2015 cover a diverse range of risks, from oil and natural gas drilling in Canada to drivers' insurance in Peru."

"It is encouraging to see continuing registrations from Canada and Latin America, as these regions have been targeted by Bermuda's business development efforts. However, the US remained by far the greatest source of Bermuda's captive formations during the H2 2015."

Bermuda's captives also remain out of scope of Solvency II supervisory requirements, which only apply to Bermuda's commercial reinsurers, insurers and insurance groups.

The BMA revealed it registered 13 new Class 3A, 3B and 4 reinsurers/insurers in 2015, compared with the 11 registered in 2014. During Q3 and Q4 2015, the BMA also registered a new Class 4 insurer, Qatar Reinsurance Company. The BMA also registered a total of 20 new special purpose insurers in 2015, compared with 28 special purpose insurers in 2014.

Tennessee nabbed 56 new captive insurers last year

The Tennessee Department of Commerce and Insurance has estimated that 2015 saw 56 new captives licensed in the state.

Michael Corbett, director of the captive insurance section at the TDCI, commented: "The count is not yet final; however, preliminary estimates are that 2015 saw 56 new captives licensed, which was a 37 percent increase over 2014 results. This will bring the total number of captives at calendar year-end 2015 to 126."

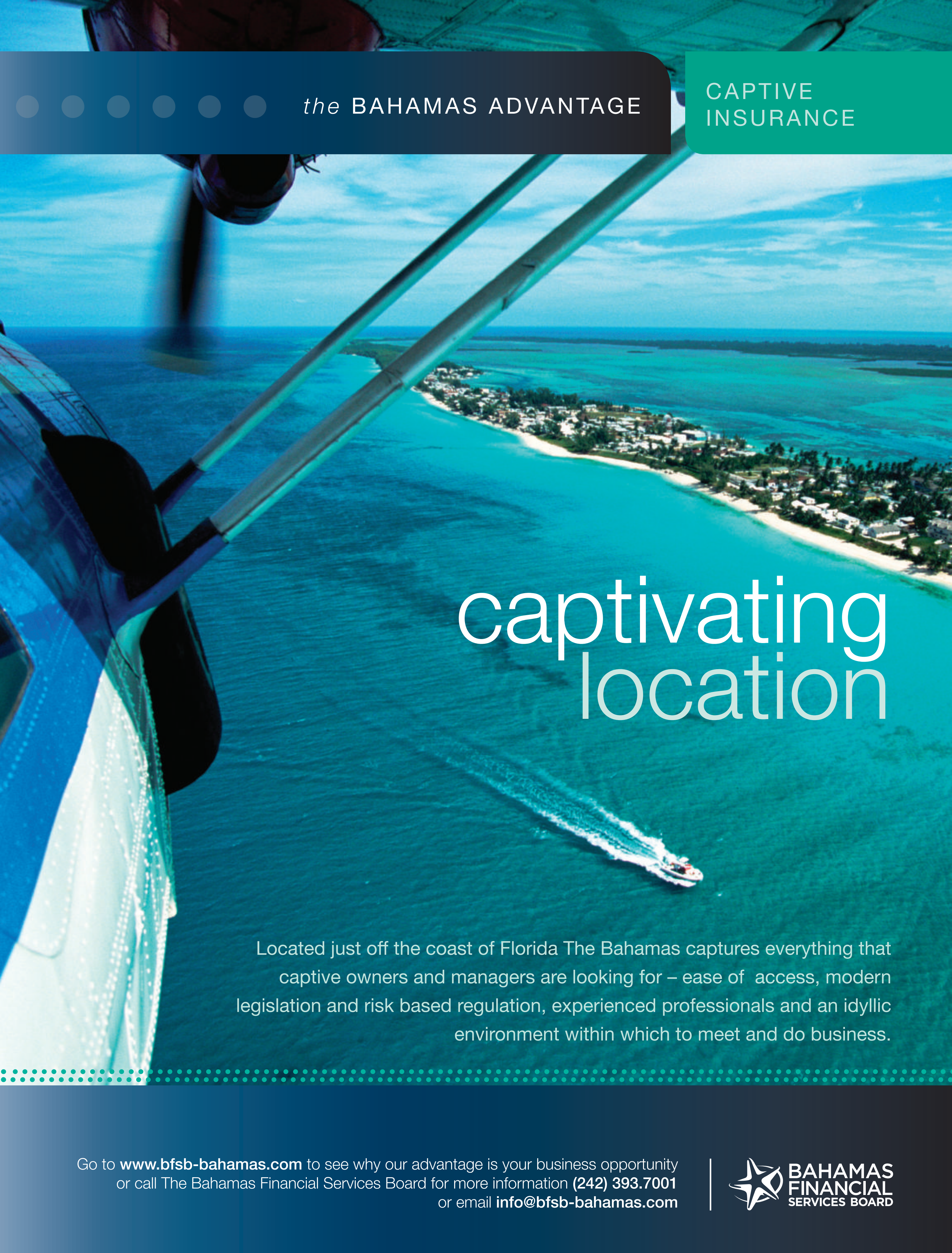
He added: "Cumulative risk bearing entities will close 2015 at 430, a 58 percent increase over cumulative calendar year 2014."

"These figures are comprised of six protected cell captives, including 102 new cell companies, 46 pure captives and four risk retention groups."

The TDCI recently announced the licensing of its 100th captive insurance company.

Iroquois Captive Services, which launched in Nashville in 2013, manages the 100th captive insurance company formed in Tennessee.

Governor of the TDCI, Bill Haslam, said at the time: "We've worked hard to make Tennessee an attractive place for businesses of all sizes. In 2011, we enhanced the state's captive insurance statute and that has resulted in huge growth for Tennessee's captive insurance market."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CICA's Dennis Harwick and Michael Bemi reveal what attendees can expect from the upcoming conference in Scottsdale, Arizona

How many attendees are you expecting for the 2016 CICA International Conference?

Dennis Harwick: Based on previous years, we expect around 600 registrants for the 2016 Captive Insurance Companies Association (CICA) International Conference in Scottsdale, Arizona. This location is always one of our attendees' favourite venues. The Westin Kierland in Scottsdale is a destination resort on the inside, with a high-end shopping and dining district right next door.

The biggest difference between CICA's registrants and those at the various domicile conferences is that the people attending CICA are almost exclusively the key decision makers in their captives, ie, there are very few captive board meetings going on, so CICA gets its registrants by ones and twos, not group registrations of an entire captive board.

The other key difference is that CICA is domicile neutral, so the CICA International Conference is a level playing field for owners of captives, prospective captive owners, service providers, captive regulators, and domicile representatives throughout the world.

What can delegates expect from this year's conference?

Harwick: CICA's conference is always one of the premier gatherings of the captive industry. It is unique in that it hosts both the captive domicile association's leaders and the captive domicile regulators.

The Captive Association Leadership Council is a group consisting of the leaders of all the captive domiciles who have the unique opportunity to meet face to face during the CICA conference to discuss challenges and opportunities for the captive industry.

The captive regulators also hold a meeting at CICA exclusively for captive regulators, so they can talk candidly about the issues they face.

Registrants can expect a lively blend of networking and education. There are three lavish receptions, including the opening reception on Sunday evening (6 March), the Monday night (7 March) reception, and the closing reception on Tuesday evening (8 March), which create vibrant opportunities to network, meet new connections, and mingle with both captive owners and service providers.

The conference theme, 'Think Big', was designed to allow for provocative sessions challenging captive owners and service providers to expand their thinking.

The keynote speaker, Peter Navarro, will be presenting a big picture macroeconomic analysis of the business environment and financial markets for investors and corporate executives.

Cyber features in the conference schedule. What are CICA members' main issues with cyber risk right now? What will the conference give them in terms of advice?

Harwick: CICA members may be unconsciously retaining risk, because while most of them likely employ anti-malware measures

> The industry has struggled with how to differentiate between micro captives that are being formed for legitimate insurance purposes versus those that are being promoted strictly for tax purposes without clear insurance risk shifting and risk distribution

Dennis Harwick, President, Captive Insurance Companies Association

to safeguard their systems from intrusion, few of them likely employ the appropriate internal monitoring measures to identify and respond quickly to breaches that may have occurred. The conference will address this and other cyber-related issues, such as establishing proper coverage for cyber events.

What other hot topics will be the main focus at this year's conference?

Michael Bemi: Critically important topics such as employing analytics, utilising reinsurance most effectively, attracting new and much needed talent to the industry, auditing, accounting and taxation updates, and the implications of international regulatory initiatives, will all be addressed by experts in those fields.

What sessions are you most looking forward to?

Bemi: It is hard to pick favourite sessions because there is a different answer for every one of our hundreds of attendees. The CICA programme committee has worked hard to offer sessions designed for a wide range of experience with valuable content in so many topical areas, all presented by industry experts.

In the later part of 2015, CICA gave advice to its members on micro captives. Do you feel this was well received?

Harwick: The response has been universally well received. The captive industry has struggled with how to differentiate between micro captives that are being formed for legitimate insurance purposes versus those that are being promoted strictly for tax purposes without clear insurance risk shifting and risk distribution.

The CICA information statement was specifically designed to be read in conjunction with CICA's other best practices guidelines. We hope that the Internal Revenue Service will recognise that CICA's information statement provides those utilising micro captives for legitimate purposes with a road map for forming legitimate risk transfer captives.

What other education initiatives are you planning in 2016?

Harwick: Obviously, the CICA International Conference is the 'crown jewel' of CICA's educational offerings. In addition, CICA has always offered a fall webinar on a hot topic in the captive industry. Recently, the CICA board of directors asked that we expand our webinar offerings throughout the year to respond to our members' needs.

The 2016 CICA Market Study, which will be unveiled at the 2016 CICA International Conference, confirmed that CICA members want regular webinars on both hot topics and issues that were covered during the CICA International Conference.

Repackaging the international conference content in regular webinars will allow those who couldn't attend the conference, or those who couldn't attend a specific session, to get the benefit of conference programming. CIT

> The CICA programme committee has worked hard to offer sessions designed for a wide range of experience with valuable content in so many topical areas, all presented by industry experts

Michael Bemi, Vice chair of the board and chair of the conference programme committee, Captive Insurance Companies Association

MaineSense, an employer-owned healthcare group captive, is closing its doors, but as Justin Ward of its administrator Patient Advocates explains, steps can be taken to ensure that claims do not become excessive

What are the reasons for MaineSense closing down?

They had a really bad run of claims over the past 18 months after getting off to a tough start back in 2011. They started having issues and then approached us, Patient Advocates, to administer their advocacy programme to help patients navigate the healthcare system in order to provide additional benefits and effectively manage their claims. They then decided that they wanted to move the entire administration of the medical plan itself over to us.

We had some good runs, unfortunately though, there was a striking number of large claims on a capita basis compared to the rest of our book. They had significantly higher medical loss ratios with more individual claims between $50,000 and $100,000 than some of our traditional clients.

When MaineSense approached us, there were 50 employers in the captive and during the overhaul of claims, some of them started to migrate out of the captive. The employers met with the board and decided to close down the Maine Wellness Association.

Why are health insurance claims so hard to predict?

I don't know if they are. With effective underwriting, companies should be able to have a general expectation of what their claim experience will be. There will be some peaks and valleys, but for the most part, the underwriting and actuarial tables are accurate, especially when an organisation partners with an advocacy firm that is close to the patient experience.

A challenge employers face is that they are paying for claims on spouses and children, and they have less control over the lifestyles and habits of dependents than they do on employees inside of a work setting.

What should employers be doing?

First off, there needs to be a type of wellness programme inside of the organisation because health insurance costs are typically, for most companies, the first or second largest expense outside of payroll, and maybe raw materials, depending on the nature of the business.

Companies should really be taking a proactive approach by putting in to effect wellness programmes with biometric screenings and offering a type of incentive based on the results of the programme for individuals. In addition, they should also implement a chronic condition management programme with incentives based on the participation in those programmes. As part of the wellness programme, I think one of the things that companies should be doing, and a lot of our clients do this, and some of the MaineSense groups that have moved on with us or by themselves in other captives are doing this, is to introduce a standard rate for payroll contributions and then offer a discount for people that do not use tobacco. What we recommend is that they apply that entire discount to the household and not just to the individual.

It goes back to your first question. You have a lot more control over the healthcare cost on employees than you do on dependents. Some companies have decided that they will not cover spouses. I am not in favour of that, and none of our clients have gone that way, but some companies are doing that, as the number is difficult to predict.

Several clients of ours have three sets of payroll contributions for health insurance. There is the standard rate, a discounted rate for those whose households are tobacco free, and then another discounted rate for plan participants who are participating in a company-sponsored wellness programme.

Implementing chronic condition management programmes for obesity, tobacco usage, diabetes, coronary artery disease and depression are helpful, as cancers and other related illnesses can spike claims for a company.

What will happen to insureds once MaineSense has closed?

I think they will move on to the commercial market, move on to a self-funded product, or move on to another captive. Many employers have already done that: they have either gone self-funded on their own, gone into the traditional insurance in the commercial market, or we have seen some that have gone to other captives and continue to participate with Patient Advocates that way. CIT

> **“Companies should really be taking a proactive approach by putting in to effect wellness programmes with biometric screenings and offering a type of incentive based on the results of the programme for individuals”**

Justin Ward
Executive vice president
Patient Advocates

THE 100 CLUB

Tennessee is the latest US domicile to pass a licensing milestone. Michael Corbett of the Department of Commerce & Insurance reveals the key to the state's success. Becky Butcher reports

When signing the revised Captive Statute, which made the state's existing captive insurance laws more effective, balanced, and flexible, did you expect it to be such a success?

We went in with one expectation: if we build a best-in-class captive regulatory department, sensitive to the needs of owners, managers and service providers, we will increase employment and investment in the State of Tennessee.

How has Tennessee changed as a domicile since 2011?

We have witnessed a significant evolution from four years ago. Starting with a staff of one, we have developed into a 12-member team of trained and experienced professional staff dedicated to the growth and development of Tennessee captives.

After reaching 100 licensed captives, what has been the key to Tennessee's success?

Several factors come to mind, including: timely responsiveness to the needs of captive owners and service providers; both governor Bill Haslam and commissioner Julie Mix McPeak providing consistent support for improving and modernising the Captive Statute; and the strong geographic attractiveness of Nashville.

Was 2015 a good year for Tennessee? How many captives did you license and what types of captives did you sign up?

The count is not yet final, however, preliminary estimates are that 2015 saw 56 new captives licensed, which was a 37 percent increase over 2014 results. This will bring the total number of captives at calendar year-end 2015 to 126. Cumulative risk bearing entities will close 2015 at 430, a 58 percent increase over cumulative calendar year 2014.

These figures are comprised of six protected cell captives, including 102 new cell companies, 46 pure captives and four risk retention groups.

Being located in a highly competitive market for captive insurance, what separates Tennessee from competitors?

There are many great domiciles to choose from both domestically and internationally. Tennessee has great geographic location, top-draw regulatory staff, and an engaged and committed governor and commissioner. That combination offers a superior choice for anyone starting or moving a captive insurance company.

Looking to 2016, what plans do you have to ensure the growth of Tennessee continues?

We plan to ensure that staffing needs are adequate to meet the needs of the market. We will also work with the Tennessee Captive Insurance Association to coordinate the legislative packages that keep the statute up to date, and continue to communicate to the ever-growing captive insurance community that Tennessee is a great place to do business. CIT

> "Starting with a staff of one, we have developed into a 12-member team of trained and experienced professional staff dedicated to the growth and development of Tennessee captives"

Michael Corbett, Captive director, Tennessee Department of Commerce & Insurance

Slow and steady sets the pace

The future for captives looks fantastic—not only in Utah but around the world, according to the insurance department's David Snowball

Was 2015 a good year for captive insurance in Utah?

It is always a good year in Utah for captive insurance companies. Captives are good for business and Utah endeavours to provide the best regulation possible to help captives meet the goals of the captive owner. If we accomplish that, it is a good year for captives in Utah.

Many of the captives in Utah are in the enterprise risk captive bracket and 2015 was a difficult year for some of them as they contemplated how the US Internal Revenue Service (IRS) stance on captives will develop. There have been some dissolutions as businesses decided not to take the risk of IRS scrutiny, or the parent company business plan changed, yet there are many new formations. Utah has had a net increase of 45 captives for the year. But this is smaller than the 26 percent year-over-year increases that we have had over the last eight years.

The industry has become more careful and spent more time doing analysis, which is a very good thing. Captives are good for business and we as an industry need to be prudent in how we meet the needs of the future, considering the regulatory environment that exists today. The federal government and the National Association of Insurance Commissioners are flexing more muscle in the captive industry.

Why did Utah recently open an online application process for prospective captive owners?

The captive application is a part of the ongoing process of being green and improving processes for the industry working with Utah. Four years ago it was determined that the captive division would go green.

We created a tracking system for the work being done for all captives and then started scanning all of the files for electronic storage. We found this was not only a space saver but far more efficient for finding files. It also improved our processes.

Next, we started a project for online annual reporting. Our annual statement and statement of economic benefit were created in an online format, which is easy to use and efficient for storage and transmission of documents.

The captive managers and others using the system appreciated the ease of use, and that it will store the information for comparison. Along with the advantages to the industry, we have found that it has also created some efficiencies for the department.

The most recent online process that has been developed is the captive application. As with any new process we have had to work out a few kinks, but it appears to be working very well.

Captive mangers have indicated their appreciation for the process and the ease of use. There is always an adjustment period in trying a different process, but the format is very similar to the prior form and thus easy to follow and use.

We have also added an important side benefit. A secure portal has been added with the application, and separately for the submission of documents. It has always been problematic to transmit some documents securely and in today's world of cyber attacks, this is an excellent addition.

The secure portal may be used for any documents, including transmitting annual audits, business plan changes, financial statements and net worth statements.

Have you seen any captive owners use the online application so far?

There have been several applications submitted through the online process and so far it has worked very well. There were a couple of minor cosmetic changes but the system has worked. The problems that have come up are in incomplete applications, but the system does allow for fixing and resubmission, so it has not been a problem.

In addition to online applications, are there any other plans in place for 2016?

This will be a year of finalising some of the changes that we wanted but did not have time to get implemented for other projects. These changes for 2016 will have little effect on anyone except those within the captive division and the state. We are creating reports for department use, accumulation of internal statistics, and organisation of records for more proficiency so we can get information more quickly to respond to the needs of the individual captives.

How are things looking for the future of captive insurance in Utah?

We in Utah have great expectations for the captive industry. We have seen tremendous growth in the past several years and anticipate that the future will be good. When talking with captive managers and others in the industry, we see a slowing down of new formations, due to the IRS scrutiny of the captive industry, which is mostly targeted at the small captives using the 831(b) election. What the IRS is doing is an interesting phenomenon and it runs in cycles as to what it attacks. What captives have done is not inappropriate or illegal, but the fact that the IRS is looking more closely has got some businesses taking more time and researching whether it really works for them, and that is a good thing.

Utah did not have as many new captive formations in 2015 as we have had in the last few years, but the captive industry is still a growing, vibrant market and still has plenty of room for growth for Utah and other domiciles. The slowing down is not negative because it allows everyone some time to re-evaluate processes and be more prepared for what is to come. The fact that the IRS is putting the industry under additional scrutiny isn't all bad because it helps us to improve our processes and be better prepared for the future. Captives are not made for taxes, but taxes have been made to assist small insurance companies to grow and build more business. The future for captives looks fantastic—not only in Utah but around the world. CIT

“ The fact that the IRS is looking more closely has got some businesses taking more time and researching whether captives really work for them, and that is a good thing ”

David Snowball, Captive division director, Utah Insurance Department

Anything you can do a captive can do better

The soft insurance market has reportedly slowed captive growth in Guernsey, but the domicile continues to innovate to keep ahead

Guernsey, the largest captive domicile in Europe, has a reputation for putting solid infrastructure in place to support its captive business, and for innovation when it comes to captive solutions. But, according to experts, the captive market in Guernsey saw slow growth during 2015.

In recent years, soft insurance markets have slowed the growth of traditional captive business, according to Martin Best, managing director of the Willis captive management business in Guernsey, but the domicile continues to develop new and innovative captive solutions to compensate.

Mark Helyar, partner of Bedell Cristin, adds: “Captives have been maintaining numbers by new additions matching run-offs in recent times, but this is more a reflection of a soft market.” He argues that captives and other types of risk transfer and self-insurance will always have strategic benefits.

Best explains that the insurance-linked securities (ILS) business in Guernsey continues to thrive, and the domicile is developing a reputation as a centre for reinsurance. The development of pensions longevity business presents an exciting opportunity, he adds.

In October 2015, Guernsey was named as a go-to jurisdiction for longevity risk transactions. John Coles, head of operations for the BT Pension Scheme, explained that Guernsey was used for BT’s £16 billion longevity risk transfer because it “has a good legal framework and a good regulatory environment”.

Guernsey’s utilisation of the incorporated cell company structure was also the most appropriate and practical way of meeting the needs of the transaction, according to Coles.

He said: “The regulator and all of the companies in Guernsey recognise the business activity. They understand the risks and that is very helpful. Guernsey is open for quality business.”

Ian Aley, a pensions funding expert, explained that using a captive to hedge longevity risk can provide a lower cost base and guarantee a ‘principal to principal’ approach between the pension scheme and the reinsurance market.

He said: “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.”

Best adds on the topic: “This is a very conventional use of captives to access reinsurance markets, which represents a win-win for captive owners, in this case, pension fund trustees, and reinsurers, typically life reinsurers”.

Peter Child, director of Artex Risk Solutions in Guernsey, says that pure captive growth has been fairly static over the last few years due to a combination of the ongoing soft market and the maturity of the UK captive market, which he says is Guernsey's primary source of captive business. He argues: "The captive concept remains sound, and given a change of conditions, there is every reason to believe that the captive market can grow again."

Although 2015 has seen slow captive growth, Ian Morris, partner and head of insurance services at BWCI Group, believes that the Guernsey market is likely to see progress in 2016 and suggests that there will be growth as some entities move out of the reach of Solvency II, which came into effect at the beginning of the year. He reaffirms that new areas, such as captives being used for longevity swaps for pension schemes, will also help to increase growth in the Guernsey market.

Helyar says that while the exact statistics have not yet been released by the regulator, Bedell Cristin's 2015 suggests that business in Guernsey has been good thanks to these new areas. He says: "Our own involvement in the market would suggest another substantial increase in assets under management, premiums and number of licensees in 2015."

Despite being outside of the constraints of Solvency II, Guernsey has moved to strengthen its own solvency and capital framework. Helyar says: "The most significant development has been the introduction of Guernsey's new solvency and capital regime, which is more flexible and better suited towards captives." He explains that the framework was developed in combination with the industry and has been welcomed and adopted without any significant difficulty. Morris adds that the new solvency rules were introduced in 2015 to move to a more risk-based approach.

In addition to the new solvency and capital regime, Helyar revealed that a new corporate governance regime is to be introduced during 2016, which is slightly less prescriptive than in previous years. He says: "The new regime will bring Guernsey's insurance sector in line with other sectors, such as banking."

Best says: "This will strengthen the existing corporate governance requirement, but it is not expected to have a significant impact on captives which are already well managed and governed."

"Guernsey regulation will be very much in line with International Association of Insurance Supervisors core principles, once the new governance code is introduced, so I do not expect any changes in the current regulatory regime."

He also expects pension longevity business to grow significantly in 2016. "The gestation period for this business is long, but there are a number of deals under discussion now which should come to fruition in 2016."

In addition to regulation, Guernsey also expects to see further migrations of business from competitor jurisdictions. Helyar explains: "This is due to a combination of factors but also the development of new products, including investment funds, which can be licensed as insurers, but also in the way in which captives interact with the growing commercial reinsurance market. We also expect to see significant growth in collateralised reinsurance." **CIT**

Finally, practical guidelines for the supervision of captives

The new IAIS paper recognises and describes the unique nature and risks of various types of captives, says Alice Kane of Duane Morris

Although the EU's Solvency II Directive covers captive insurance and reinsurance, it fails to make evident the unique nature of captives and captive reinsurers beyond providing the general requirement that captives should be regulated. Supervisors are told to take into account the captive's business model and risk and then apply the principles of proportionality in relation to the nature, scale and complexity.

On the other hand, the International Association of Insurance Supervisors's (IAIS) Application Paper on the Regulation and Supervision of Captive Insurers, which was released in November 2015, takes a very different approach. The paper updates guidance for insurance supervisors on the application of all aspects of regulation and supervision that are specifically relevant to captive insurers or reinsurers. It recognises and describes the unique nature and risks of various types of captives. The paper provides detailed supervisory guidance tied to the IAIS Insurance Core Principles (ICPs) on how supervisors should regulate these entities and highlights those matters specifically applicable to captive supervision.

Solvency II required the European Insurance and Occupational Pensions Authority (EIOPA) to draft regulatory technical standards including captive insurance and reinsurance undertakings. EIOPA also recognised the unique business model associated with captives and provided numerous simplifications in its guidelines. However, the IAIS application paper is more comprehensive and

> ICPs do not apply to insurance managers or other outsourcers but to the insurers for which they act, necessitating a requirement to formalise the outsourced arrangements among captive owners, directors and insurance managers

Alice Kane, Partner, Duane Morris LLP

provides a practical approach allowing supervisors more latitude as they address the varying degrees of risk presented by the different business models of captive insurance and reinsurance.

The IAIS paper presents the following classifications that supervisors tend to use for captives:

- Pure captives: “single parent companies writing only the risks of their owner and/or affiliates”;
- Group and/or association captives: “multi-owned insurance companies writing only the risks of their owners and/or affiliates, usually within a specific trade or activity”;
- Rental captives: “insurers specifically formed to provide captive facilities to unrelated bodies for a fee. They are used by entities that prefer not to form their own dedicated captive”; and
- Diversified captives: “captives writing a limited proportion of unrelated business in addition to the risks of their owner and/or affiliates”.

The paper emphasises that regulatory risk inherent in a captive insurer varies substantially and the level of supervision should match the risk. A pure captive represents the lowest regulatory risk because there are no unrelated party policyholders or potential third-party beneficiaries. Captives representing the highest regulatory risk are those that underwrite risks for unrelated party policyholders or underwrite compulsory third-party liability risks where the third party has direct recourse to the insurer. The highest risk captives are similar to commercial insurers. Therefore, supervisors should consider applying regulatory requirements for high risk captives comparable to those for commercial insurers.

Captives typically pose reduced risk to external stakeholders or to the financial stability of the insurance market. Supervisors, nevertheless, need to receive sufficient and timely reporting to monitor solvency, assess compliance with legislation and identify potential problems. In defining the scope, content and frequency of the information to be provided, supervisors may take into account the captive’s particular risks, size and the amount of third party and/or unrelated party insurance exposures, if any.

Captives often rely on one reinsurer, and therefore, the captive’s board and the supervisor must insure that there are adequate procedures to monitor this significant counterparty exposure. Supervisors should require that cedants are transparent in their reinsurance arrangements and the associated risks.

Many captives are owned by industrial or commercial organisations, and therefore, the captive will be the only legal entity within a group that is subject to financial regulation. In this case, the supervisor may not have the authority to undertake group supervision. However, the supervisory focus needs to remain on the legal entity while, at the same time, the supervisor must take into account the potential for the activities of the group to impact on the captive. Controls must be in place to prevent the group from removing assets from the captive without the approval of the captive’s board and the supervisor.

Good corporate governance for captives differs from commercial insurers and reinsurers because of the presence of insurance managers, which often separate the oversight function from the management responsibilities. ICPs do not apply to insurance managers or other outsourcers but to the insurers for which they act, necessitating a requirement to formalise the outsourced arrangements among captive owners, directors and insurance managers. Because of the traditional use of insurance managers for captives, the board must clearly define the responsibilities of the insurance manager with adequate controls in place.

When the insurance managers are licensed, the supervisor should assess whether the insurance manager is fit and proper to carry out functions on behalf of the captive. An insurance manager should have sufficient financial and skilled human resources in relation to the number and complexity of the captives it manages and the necessary insurance protection in cases of negligence and fraud. The captive manager must be very familiar with local regulations and supervisory practices. When assessing a captive’s corporate governance framework, supervisors should recognise that an insurance manager is an outsourced service provider.

At the same time, it will form part of the captive’s corporate governance framework. Supervisors should be satisfied that there are agreements in place reflecting the division of responsibilities between the insurance manager and the captive’s board and management, and that these agreements clearly reflect the relative obligations of both parties.

Effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit, are an essential part of the overall corporate governance framework and the supervisor should require a captive to have such functions. Despite the presence of an insurance manager, the board of a captive must recognise that it cannot delegate its responsibilities for corporate governance to the insurance manager. The board must satisfy itself of the adequacy of its governance arrangements as well as the governance arrangements within the insurance manager.

Supervisors should be satisfied that the boards of insurance managers have a clear understanding of their obligations with respect to the captives they manage. Supervisors may require the appointment of a compliance officer function by insurance managers to oversee their outsourced compliance function to the captives.

Poor management, whether or not the management is outsourced, where there is a lack of technical knowledge, is particularly significant as it can pose a threat to the solvency of the captive through inadequate premium levels or insufficient technical provisions or solvency. Most importantly, the board must collectively have the skills and experience necessary to manage effectively any outsourced operations including outsourced insurance management functions.

The captive's board needs transparent, effective ways to identify owner conflicts of interest and to ensure that they are managed and satisfactorily dealt with so that transactions, payments or charges on assets initiated by the owner (dividends, reinsurance agreements with related entities, loans, expenses or guarantees) do not financially impair the captive's ability to meet its obligations.

Supervisors set capital adequacy requirements for solvency purposes to ensure that insurers can absorb significant unforeseen losses while also providing for varying degrees of supervisory intervention. Regulatory capital requirements have both a prescribed capital requirement (PCR) and a minimum capital requirement (MCR). The PCR may be lower for captives than for other types of insurer.

Some captives may be structured as protected cell companies (PCCs), which maintain a legal separation between the assets and liabilities relating to each policyholder, but in other captives, such as rental captives, these may not be kept legally separate. Supervisors should consider the adequacy of the capital within a PCC in both the core and the individual cells. Supervisors should also be satisfied that the board has put in place suitable corporate governance procedures to ensure that potential conflicts of interest that may exist between the owners or management of the PCC and that of its cells can be identified and managed.

Captives often depend on the financial strength of the parent or rely significantly on reinsurance. This requires the supervisor to be aware of the risk of parent insolvency, and to ensure the good credit standings of reinsurers. When the risks to which captives are exposed are similar to those of commercial insurers but the degree and diversity of exposure is different, the supervisor can look to the resources of the parent. In these troubled times, even captives run the potential risk of money laundering, terrorist financing and fraudulent activities, and these all must be monitored by the supervisor.

Supervisors should exercise their power to require the captive to hold sufficient funds to meet the maximum potential claim level in a given period. Also, they should monitor high claims volatility, high liquidity risk and exposure to related parties. Asset concentration risk and credit risk should be monitored, managed and mitigated by a captive, especially if it holds relatively low levels of assets and has low solvency capital requirements.

It is clear that the Application Paper on the Regulation and Supervision of Captive Insurer has heard the industry when it comes to practical regulation of captives. The paper presents a strong case for proportionate supervision when regulating these unique entities so their supervision appropriately matches the existing risks. **CIT**

Industry Events

World Captive Forum

31 January - 03 February 2016
Florida
www.conferences.businessinsurance.com

Celebrating its 25th year, the 2016 World Captive Forum will address new and emerging risks facing companies and organisations worldwide, demonstrating how captives can offer solutions that may not be available in the traditional insurance marketplace.

CICA International Conference

06 - 08 March 2016
Arizona
www.cicaworld.com

The CICA International Conference 2016 is a great place to gather new ideas and expand your captive's horizons. You can network with captive owners, potential captive owners, risk managers, captive managers, domicile regulators and service providers.

People moves

Comings and goings at Willis Towers Watson, Flood Re, JLT and more

Flood Re has appointed **Harriet Boughton** as its general counsel.

In her new role, Boughton will be responsible for overseeing the organisation's legal and compliance framework and embedding best practice corporate governance.

She will report directly to chief executive Brendan McCafferty.

Previously, Boughton worked at ProSight Specialty Insurance, where she created its in-house legal function and, as head of legal and compliance, was central to its regulatory authorisation.

McCafferty commented: "The role of general counsel is vital and I'm delighted that we have now completed the executive team. Boughton's invaluable experience will be of great benefit to Flood Re in the run-up to launch in April 2016 and beyond."

Karen Clautour has also joined Flood Re as head of operations, reporting to Aidan Kerr. She joins from Pen Underwriting, where she was responsible for underwriting operations, and conduct and regulatory risk.

As well as ensuring Flood Re's target operating model is ready for launch in April, Clautour will focus on ensuring an effective partnership is maintained with all outsourced service providers and support the delivery of ongoing efficiencies for the business.

Willis Towers Watson has appointed **Alexander van Kuffeler** as regional leader of financial institutions in Central and Eastern Europe, the Middle East and Africa, with immediate effect.

In his new role, van Kuffeler will be based in London and will focus on delivering the full range of Willis Towers Watson products, services and solutions to financial institution clients in the regions.

Previously, he served as executive director in Willis's political and trade credit risk practice, where he developed bespoke risk management solutions for clients.

Mary O'Connor, global head of Willis Towers Watson's financial institutions industry, said: "Van Kuffeler is a tremendous asset to our growing team."

"His detailed understanding of the insurance market combined with a deep knowledge of our clients' individual needs will ensure Willis continues to offer the most tailored and comprehensive risk management programmes."

Willis Towers Watson has also appointed **Nigel Goodlad** as European regional managing director of its global captive practice.

Goodlad is now responsible for local offices throughout Europe offering insurance company management services.

Previously, he was responsible for Willis's captive insurance company management services operations in Malta.

In his new role, Goodlad will continue to be located in Malta.

Goodlad said: "This is a tremendously exciting time—particularly with the successful completion of the merger of Willis Group Holdings and Towers Watson as well as our integration of Gras Savoye, the leading French insurance broker. I will be looking to build on the success of the Malta office with a wider number of operations throughout Europe. Solvency II is now part of the business fabric in Europe."

"We have in the pipeline a broad range of captive and niche insurer projects to work on as we deliver attractive risk financing solutions to our clients within the EU."


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John Haley, CEO of Willis Towers Watson, commented: "Willis Towers Watson is uniquely positioned to see the connections between talent, assets and ideas and how they can lead to strong performance and growth for our clients. We intend to help our clients manage risk and engage their people in a whole new way."

RIMS, the risk management society, has chosen **Julie Pemberton** as president for the 2016 term, effective immediately.

Pemberton is the director of enterprise risk and insurance management for Outerwall. She has been a member of RIMS for more than 16 years and on its board of directors for six years.

Prior to her new appointment, she served as the society's vice president and board liaison to the RIMS external affairs committee.

Pemberton commented: "Risk professionals' responsibilities continue to evolve and are growing within their organisations. In addition to mitigating the impact of a risk, practitioners are initiating ideas and developing solutions to not only prevent unwanted risks but to embrace and enable risk taking that optimises business growth."

"As RIMS sixty-second president, I look forward to helping this society focus on the future, ensuring that we continue to advance and convert ideas into valuable resources that support the world's risk management community."

Matthias Meyenhofer has joined Guy Carpenter as managing director, with immediate effect.

Meyenhofer will lead the firm's global partners client segment for Europe, the Middle East and Africa (EMEA) and will be responsible for further improving and expanding the range of services provided to its large clients across the region.

In his new role, Meyenhofer will be based in Zurich and will report to Eric Paire, head of strategic advisory and global partners.

He previously served at ACE Group, where he was division president of ACE Tempest Re Zurich. He was responsible for all treaty non-life business underwritten from Zurich.

Paire said: "Meyenhofer's wide-ranging European experience perfectly matches the scope of our large EMEA-based clients, and coupled with his underwriter's perspective will help us to develop even greater insight into the extensive range of services they require from a reinsurance broker."

Nick Frankland, CEO of Guy Carpenter's EMEA operations, added: "We believe we have found in Meyenhofer a combination of skills, expertise and character that can only help to enhance our large client offering."

JLT Specialty USA has appointed **Brad Kotlewski** as senior vice president. He will join the financial lines group as the US private equity product leader.

In his new role, Kotleswki will be focusing on delivering financial products to the private equity sector and helping JLT build a team of US-based experts. Kotleswki, who will be based in JLT's New York City office, previously worked at Aon Corporation, where he served as managing director of the private equity and transactional solutions team.

Jim Pierce, chairman of JLT Specialty USA, commented: "Kotleswki brings unparalleled transactional and coverage expertise to JLT. I cannot emphasise enough what an important and powerful hire this is to our firm." CIT

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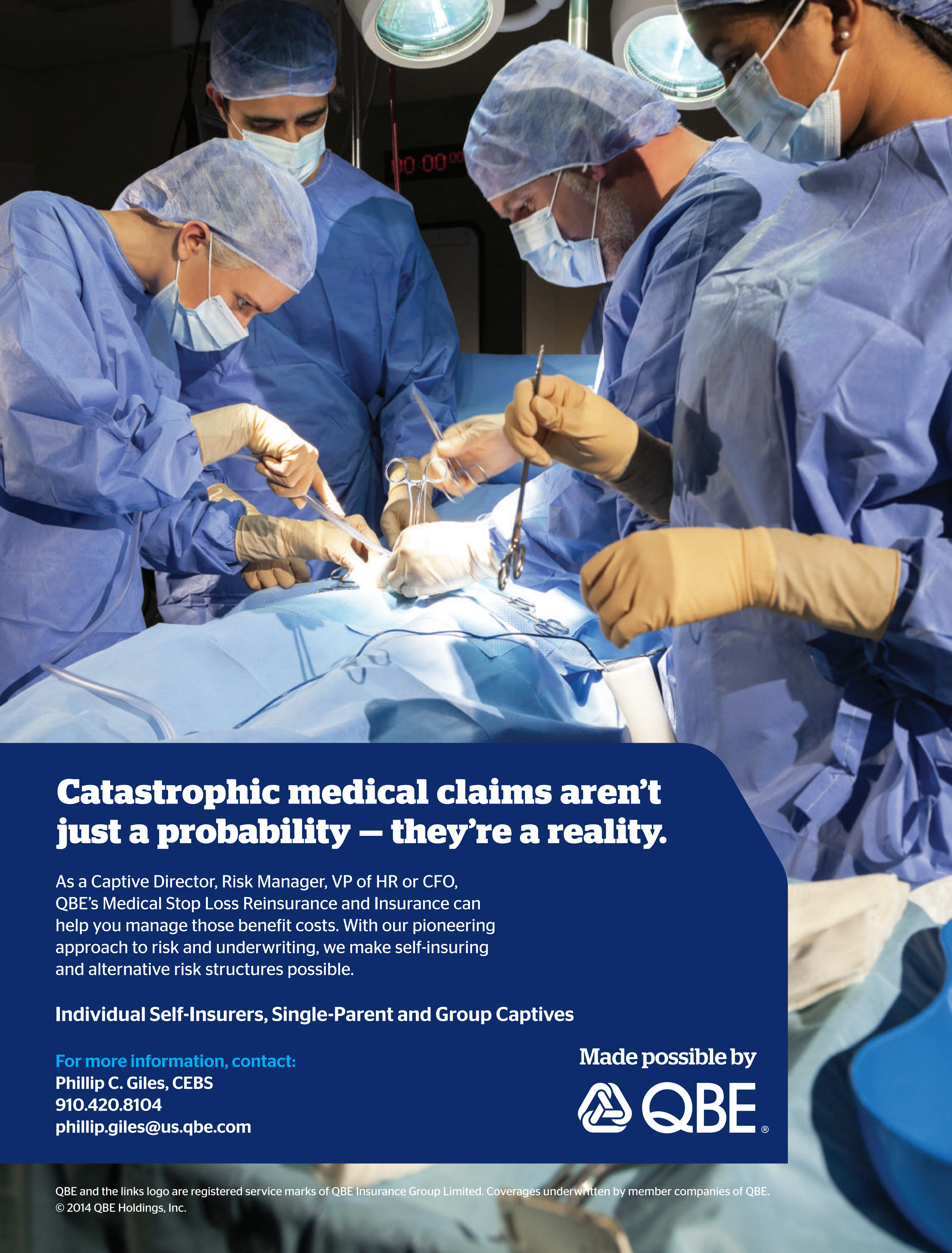
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