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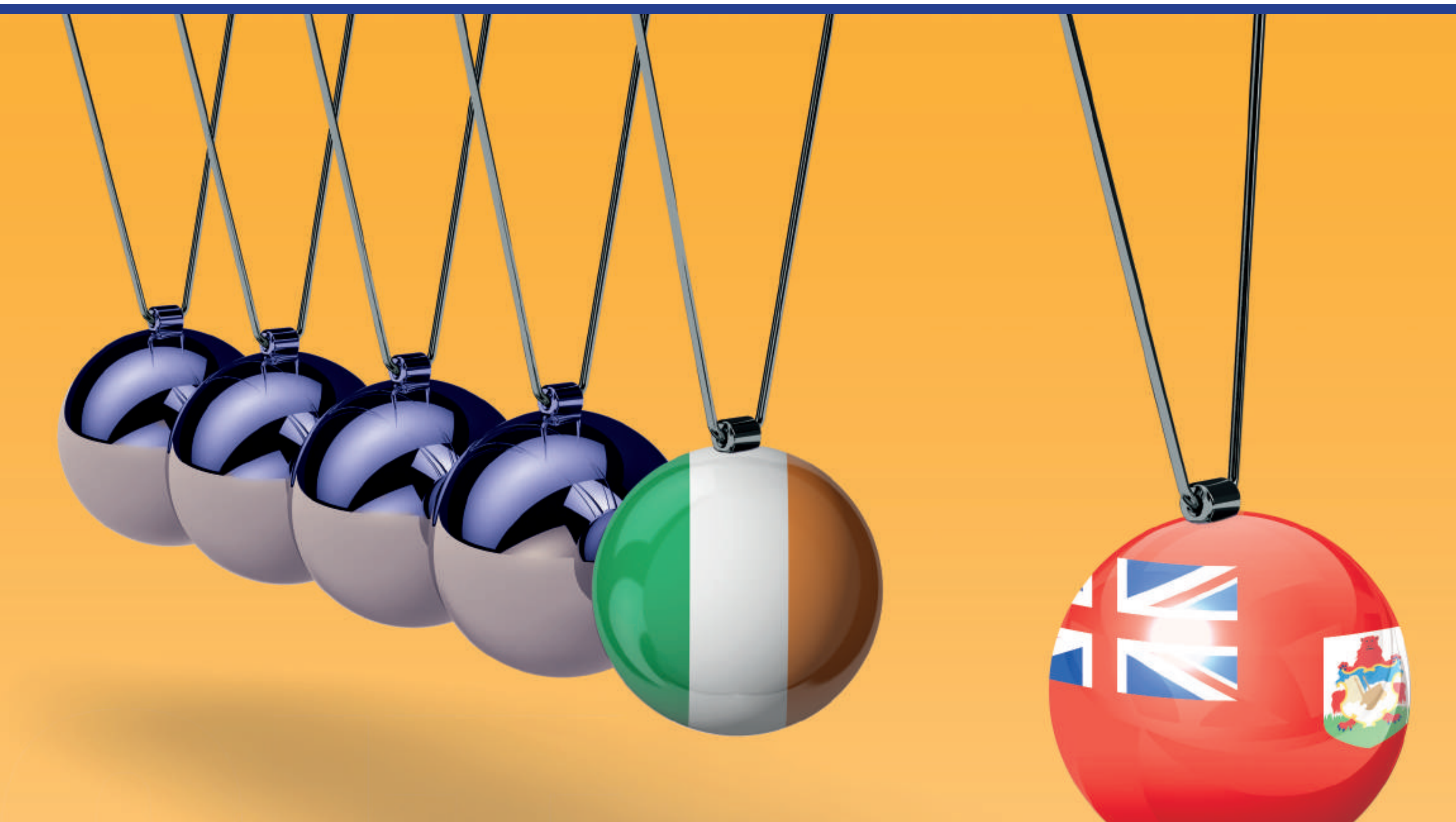

Solvency II and fro

Dublin and Bermuda are in full swing

Enterprise Risk
Fostering a risk culture

Captive Insight
The state of the captive market

Run-Off Review
An expanding and evolving business

Captive Management
Becoming a top one-stop-shop

Bahamas captive insurance is ‘rapidly emerging’

The Bahamas is rapidly emerging as a destination for companies looking for captive insurance solutions to their risk management requirements, according to a new Timetric Insurance Intelligence Center (IIC) report.

The IIC report revealed that captive insurance accounts for around 13 percent of total insurance business in the Bahamas.

According to the report, US companies cover a large portion of clients with captives domiciled in the Bahamas. The report noted that growth was also spotted in the number of segregated captive cells, which increased from 65 in 2013 to 99 in 2014.

The reasons behind the attraction of the Bahamas include its well-developed financial services sector, geographical proximity to the US and Latin America, and accommodative regulation for captives.

In addition, the growth of captive insurance has spurred demand for non-life products. The IIC report noted that high-net-worth individuals are using captives to insure significant property and asset holdings, to avoid out-of-pocket expenses to third parties.

As well as a boost in captive insurance, the report said that the adoption of National Health Insurance (NHI) in the Bahamas is forecast to improve the industry growth.

The NHI plan is to implement a programme that will move the Bahamas from a system where two thirds of its citizens do not have health insurance to a system where everyone receives coverage. The Bahamian government is currently in the registration stages, according to the IIC report.

Jay Patel, insurance analyst at Timetric, said: “The NHI will significantly affect the business models of private insurers. While the initial stages of NHI are concentrated on primary care, it is expected to expand and cover all aspects of healthcare within the next decade and this raises questions of the role of private health insurance in the Bahamas.”

National Catholic RRG strengthens cyber toolkit with Sera-Brynn

The National Catholic Risk Retention Group has mandated Sera-Brynn to provide its members, clients, affiliates and shareholders with risk control cyber security products and services.

The RRG, which is headquartered in Illinois and provides coverages for the Catholic Church in all 50 US states, became the first church-affiliated insurer to provide cyber liability coverage to its insureds in 2007.

It also provides VIRTUS, an internal risk control programme.

President and CEO Michael Bemi said cyber security specialist Sera-Brynn would strengthen the RRG’s cyber risk controls.

“In 2007, the National Catholic Risk Retention Group was the first church-affiliated insurer to provide cyber liability coverage to its insureds and now we are very proud and excited to be the first church-affiliated insurer to offer highest quality cyber security risk control services to the church, via our exclusive relationship with Sera-Brynn,” said Bemi.

Sera-Brynn works with the insurance industry to identify and mitigate cyber risks.

The company offers compliance audits and advisery services, vulnerability assessments, penetration testing, and incident response.

Sera-Brynn CEO Rob Hegedus commented: “We greatly appreciate the opportunity to work with the National Catholic Risk Retention Group to provide specialised risk control and compliance services to their members and affiliates.”

“The insurance industry is taking a leadership role in proactively providing cyber security products and services to minimise the growing cyber risk businesses and organisations face.”

“This is especially true in the captive and risk retention group environment, and the National Catholic Risk Retention Group is at the forefront of this movement to provide cyber security support to its members and clients,” Hegedus added.

CSC expands tech offering with acquisition of Xchanging

US technology firm CSC has finalised the acquisition of London-based tech services company Xchanging as part of its drive to provide business process services to the global insurance industry.

The acquisition will give CSC’s clients access to Xchanging’s well-established insurance software Xuber, as well as expanding CSC’s presence in the London insurance market.

The deal was reached after nearly a year of negotiations that will see CSC pay £1.90 per share in cash for 87 percent of the existing issued share capital of Xchanging.

Contents

The deal was "accepted overwhelmingly by Xchanging shareholders, with approval by the CSC and Xchanging boards and regulators", according to CSC's statement on the acquisition of Xchanging.

"We are delighted to have the Xchanging team join CSC to create a dynamic technology leader," said Mike Lawrie, CSC's chairman, president and CEO.

"The addition of Xchanging is another step toward our goal of becoming a leader in the key geographies and markets we serve."

Lawrie added: "Xchanging's people and offerings portfolio are a complement to CSC's existing business, which will allow us to demonstrate our commitment to areas such as the London market and the commercial insurance industry."

Phil Ratcliff, vice president and general manager of CSC's global insurance industry, added: "The way insurance is being bought, sold and managed is changing rapidly."

"Many insurers now recognise the need to take a 'digital first' approach in order to maintain their relevance with distributors and clients," Ratcliff explained. "The coming together of these two organisations provides a complementary set of technology and business process services to help insurers on their road to digital."

HSP and UnitedLex partner up for cyber security services

Hanover Stone Partners and UnitedLex have agreed to collaborate on cyber security, legal services and other risk management solutions to help businesses address technology exposures.

Doug Goodall, vice president at cyber security specialist UnitedLex, commented: "Today, although there's no silver bullet for managing cyber-related exposures, enterprise approaches are a recognised best practice."

"Addressing cyber-related risks requires a combination of skills and disciplines that may vary depending upon type of organisation, its business model, technology infrastructure and other factors."

John Kelly, founder and CEO at Hanover Stone Partners, added: "We look forward to teaming with UnitedLex on behalf of our clients, including the growing number of businesses, public entities and organisations that face these serious exposures."

National Interstate enjoys ratings affirmations from A.M. Best

National Interstate Insurance Company and its affiliates have had their financial strength and issuer credit ratings affirmed at "A (Excellent)" and "a+".

The group, whose affiliates include National Interstate Insurance Company of Hawaii and Vanliner Insurance Company, has enjoyed excellent long-term operating performance, strong risk-adjusted capitalisation achieved through generally profitable underwriting results, and has demonstrated expertise within its niche transportation market, said A.M. Best.

The captive and its affiliates have also benefitted from an experienced management team and conservative operating philosophy, and a focus on providing alternative risk transfer for the specialty transport sector that provides a sustainable competitive advantage, particularly in terms of pricing, claims adjusting and loss control.

A.M. Best pointed to the the prior years' loss reserves for commercial auto, the group's largest line, and the associated deterioration in underwriting results over the past three calendar years, as well as the concentration


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of business within the passenger and truck transportation industries, as potential threats to the ratings in the future.

AIG mandated for pre-2009 mortgage reinsurance

AIG's mortgage insurance business, United Guaranty Corporation (UGC), has gained $298.6 million of indemnity reinsurance from Bellemeade Re II, for mortgage insurance policies issued in 2008 and earlier.

The insurance-linked securities transaction is intended to transfer risk to investors.

According to AIG, could be the first of its kind involving policies from before 2008.

Bellemeade Re II is currently funding its reinsurance through three repayment notes with 10-year legal maturities.

This transaction will provide UGC with fully collateralised coverage from Bellemeade Re II for potential losses on its legacy mortgage insurance portfolio.

Reinsurance is on a portion of UGC's first-lien US mortgage insurance portfolio of policies issued before 2009.

Previously, less than 20 percent of UGC's gross risk in force was written pre-2009.

Donna DeMaio, president and CEO of UGC, said: "We believe this marks the first time a mortgage insurer has accessed the capital markets for a risk transfer involving a mortgage insurance portfolio made up of policies issued in 2008 and earlier years."

"The transaction not only helps United Guaranty manage risk, but also demonstrates that investors are willing to assign value to this type of portfolio from the 2008 and earlier period," DeMaio added.

In August 2015, a similar deal was announced, in which UGC gained around $300 million of indemnity insurance from Bellemeade Re for a portfolio of mortgage insurance policies from 2009 to 2013.

Guy Carpenter and Symantec develop cyber model

Guy Carpenter has formed a strategic relationship with Symantec Corporation to create a cyber aggregation model.

The new model will include a detailed list of cyber scenarios that insurers can use to derive frequency and severity distributions to measure the potential financial impact of loss from both affirmative cyber coverages and silent all-risk policies where cyber is the peril.

The cyber solutions specialty practice at Guy Carpenter, which focuses on the development of cyber reinsurance solutions, will lead the operation to develop the cyber aggregation model

Tim Gardner, CEO of US operations at Guy Carpenter, said: "We are pioneering a cyber aggregation model to help reinsurers gain a better understanding of their correlated cyber risks and to manage and protect their capital in extreme cyber scenarios."

Aon enhances World Bank's new risk reduction tool

Aon Benfield's Impact Forecasting has incorporated its latest earthquake data into the World Bank's new risk reduction tool.

ThinkHazard was produced by the Global Facility for Disaster Reduction and Recovery (GFDRR).

It enables the development specialists to assess the potential likelihood of eight natural hazards and what actions should be taken to make their project resilient, from enhanced

evacuation planning to promoting improved building codes.

Impact Forecasting has collated earthquake data for 31 countries, including coverage of Bosnia and Herzegovina, Kenya, Morocco, Serbia, Uganda and Turkey.

These were identified as priorities by GFDRR.

The data collated is visualised within the tool, as aggregated administrative units, labelled as high, medium and low hazard, and linked to recommendations of how to reduce risk.

Adam Podlaha, global head of Impact Forecasting, said: "The insurance industry has traditionally focused on how we effectively react and pay claims following a disaster—using insights from catastrophe models to help prepare."

"Now, we have the opportunity with the World Bank to help risk reduction specialists to plan ahead," he added.

Parents using captives to insure new risks, says Marsh

There is growing trend among organisations seeking to address rapidly developing risks through the use of a captive, according to Marsh's 2016 Captive Benchmarking Report.

The report, which assessed 1,139 captives around the world under Marsh management, found that the number of captive owners writing risks deemed to be non-traditional rose considerably in 2015.

The number of captives writing supply chain grew by 133 percent in 2015, while captives writing cyber liability grew 30 percent. Political risk grew 27 percent and the number accessing the Terrorism Risk Insurance Act (TRIA) increased by 17 percent.

Chris Lay, who was president of Marsh Captive Solutions at the time of the report's release, commented: "Some of today's risks, including cyber, political risk, and terrorism, are evolving so fast that at times the insurance markets struggle to come up with appropriate solutions to address them."

He added: "Captives offer a unique solution for organisations that are struggling to find adequate insurance solutions and are a nimble tool that can quickly respond in the event of a catastrophic loss."

Marsh's report also found that the number of owners using captives for multinational employee benefits increased by 143 percent in 2015.

Latin America is currently the fastest growing developing market for captive insurance, according to Marsh's report.

Marsh worked on 42 active captive opportunities over the last three years and has delivered 20 advisory projects for organisations in Latin America.

Looking ahead, Marsh expects to see a rise in captive growth from construction, energy, real estate, education, and sports entertainment and events, among other industries.

Captive expert releases new book

Inga Ivsan, manager at Swiss Private Wealth Advisors and Lighthouse Captive Services, has authored a new book on how captives have revolutionised the medical profession.

In her new book, Captive Insurance for Medical Professionals & Hospitals, Ivsan explains that by insuring risks through a captive insurance company, coverages can be streamlined, insurance costs can be reduced and underwriting profits can be captured. The book is retailing for $199 and is available via Kindle and as a hard copy.


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The world-class of 2016

David Gibbons reveals what delegates can expect from this year's Bermuda Captive Conference, and how Bermuda is primed for the future

How many attendees are you expecting for the Bermuda Captive Conference?

Traditionally, we've had between 700 and 800 delegates every year. Based on the registration numbers to date, we're looking to surpass that in 2016. However, it's not only the total number of attendees that makes the Bermuda Captive Conference so impressive—it's the number of captive owners who attend. That is testament to the relevance of topics on our annual agenda and also the close partnership we enjoy with the Bermuda Captive Owners Association.

What can delegates expect from this year's conference in Bermuda?

Our aim always is to make the conference as relevant as possible, so we're focusing on specific industries that have represented Bermuda's strengths for several years, but perhaps have not always been highlighted in a big way. Employee benefits and healthcare are good examples, along with expanding Latin American and Canadian business, and the energy sector. We want to build greater awareness around what we do well in Bermuda. We also plan to spotlight the path forward for captives, for example, how to reinvent and utilise captives in new areas such as cyber.

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

With healthcare and technology futurist Joe Flower as our keynote speaker, the ever-changing world of healthcare is a major focus this year and we have added sessions to address healthcare and employee benefits. We expect there will be a lot of good discussion around where the healthcare market is going—and how that will impact captives, and, in particular, why Bermuda is the right solution for those captives amid such a shifting industry landscape.

What sessions are you most looking forward to?

Obviously, Flower's view of the healthcare sector is very relevant and I'm interested to hear what he has to say. I'm also especially excited about a very strong panel we have slated for the first day: it will be headed up by Grainne Richmond, new president of the Bermuda Insurance Management Association (BIMA), and will include a representative of the Bermuda Monetary Authority, Ross Webber, CEO of the Bermuda Business Development Agency, and Jill Husbands, chair of Marsh IAS Bermuda. They are going to give their perspectives on the jurisdiction and the overall captive market. Another highlight will be the induction ceremony for this year's 'Captive Hall of Fame'. It's our second year for this new feature, and we're going to recognise a new group of captives that have now spent over a quarter of a century in Bermuda. We're also looking forward to the inaugural Fred Reiss Bermuda Captive Conference Lifetime Achievement Award, and celebrating our first winner.

What will Bermuda be working on in 2016 in terms of captives?

As the worldwide leading captive domicile, Bermuda will look to solidify its strengths, including our close relationship with the reinsurance market here and the world-class insurance professionals in it. We'll be looking to leverage those strengths in ever-growing areas such as Latin America and Canada.

What is the Bermuda Business Development Agency working on?

The Bermuda Business Development Agency has hosted numerous captive insurance-related webinars over the past several months leading up to the 2016 conference. These webcasts have attracted a global audience and allowed panels of experts from Bermuda to explore and detail several of the conference's hot topics, such as cyber risk, healthcare, solutions for Latin American corporations, and the energy sector, making them highly useful in the run-up to our event.

In September, Bermuda will also host the ALARYS Congress—the biennial conference for Latin American risk managers. We are proud Bermuda has been selected for the third time to host this significant event, underscoring our synergy with the Latin American market. Indeed, Bermuda is the only non-Latin American venue in the event's history. ALARYS and the Bermuda Captive Conference have been busy cross-selling each other, and we feel they will both showcase the Bermuda's strengths. CIT

> "We also plan to spotlight the path forward for captives, for example, how to reinvent and utilise captives in new areas such as cyber"

David Gibbons
Chair
Bermuda Captive Conference

Time Solvency II, please

With Solvency II now in full swing, experts in Dublin and Bermuda discuss how their jurisdictions are getting to grips with the directive

For many, midnight on 1 January was filled with New Year's Eve festivities, but for the insurance industry, the clock striking 12am might have brought a shudder, because it marked the implementation of Solvency II.

The Solvency II framework was put in place to introduce risk-based capital requirements and the mark-to-market approach for balance sheet items. Solvency II allows insurers and supervisors to identify risk at an earlier stage and take the appropriate action. It also strengthens insurers' risk management and introduces a level playing field in the European market.

Solvency II applies to almost all insurance and reinsurance undertakings licensed in the EU. Only the smallest are exempt from the new directive. Its implementation marks the first set of insurance rules for the 28 member states of the EU, requiring insurers to show they have robust risk and capital management strategies in place and forcing new corporate governance and reporting requirements on companies. The directive aims to protect policyholders, ensure that the industry can withstand economic shocks, and protect the viability and stability of the financial system in Europe. It was no mean feat, and although the beginning of 2016 marked its implementation, much of the preparatory work began long before that date.

According to Sarah Goddard, CEO of the Dublin International Insurance Management Association (DIMA), Ireland began its work a number of years ago, shaking up both its regulatory infrastructure and the way some captives were being used. Since those changes, Goddard reveals: "We have seen stability and growth, with certainty of infrastructure a particular appeal to captive owners in the pre-Solvency II environment."

Since the implementation of Solvency II, the captive insurance market in Dublin has seen an uplift in applications and some growth opportunities for large multinationals that wish to set up in Ireland, says Trevor Madden, managing director of Willis Management in Dublin, particularly because the capital requirements of captives have been clarified and made more certain.

Alastair Nicoll, managing director of Aon Global Risk Consulting Ireland, says that since implementation, the majority of Irish captives are now better placed to grow as they have a firm understanding of the new capital requirements through the Own Risk Solvency Assessment (ORSA) process.

With a better understanding of capital requirements, captives have the ability to increase their risk retention or write new lines.

Nicoll says: "The Solvency II capital model rewards diversification and in the context of insurance risk, that rewards including insurance programmes with differing claims profiles."

Of course, the regime is now in its second stage, known as Pillar II. Goddard says: "We are bang in the process of implementation now. Solvency II isn't done and dusted."

The original framework set for Solvency II doesn't show the extent of the detail needed in Pillar II and III. The requirements have become more complex and much greater in volume than originally intended, says Goddard.

One particularly important area to captives is outsourcing. Goddard says: "For many captives, the whole of their operations are outsourced, and many regulators across Europe are taking a good look at the appropriate way to structure the outsourcing relationships and responsibilities."

Pillar II of Solvency II is the governance and supervision stage of the framework. In the second phase, Ireland-domiciled insurers need to put into place an effective system of governance that includes four key functions: risk management, compliance, actuarial and internal audit. That means insurers will have to review policies, strategies and risk appetite by using ORSA and then reporting their findings to the Central Bank of Ireland.

Insurers are also required to submit annual and quarterly reports in multiple formats, the first of which were due on 20 May. From the data that insurers submit, the European Insurance and Occupational Pensions Authority (EIOPA) will be looking for trends that will allow it to become more efficient.

> "Captive owners will continue to explore the efficiency of using alternative forms of capital now permitted under Solvency II"

A broken clock is right twice a day

Before implementation of Solvency II, there were fears that the practical application of the principle of proportionality not being demonstrated at a regulatory level across the EU would affect captive numbers.

Brian McDonagh, head of the Dublin office at Marsh, confirms that the industry is yet to see a large fall-off in captives post-Solvency II. Dublin, in particular, is one of few domiciles in Europe that has experienced growth during the soft market of the last couple of years.

McDonagh says: "The growth rate in the number of captives within Dublin and the other EU domiciles will increase, as the EU captive industry continues to be one of the more sophisticated marketplaces globally."

> "The requirements have become more complex and much greater in volume than originally intended"

Looking ahead, what can we expect from the future impact of Solvency II? McDonagh expects that growth during this year will come from the expansion of existing captives that are maximising their utilisation of capital already invested.

He says: "In the pursuit of capital efficiency, we anticipate seeing an increase in diversification of risks underwritten by the captive—beyond the traditional areas of property and casualty, into non-traditional areas such as employee benefits, supply chain, cyber risk, and medical stop-loss."

There will also be "a greater call for the services of captive managers and advisors as captives owners address evolving aspects of the Solvency II calculations and reporting, and focus further on a fully integrated service solution across all three of the Solvency II pillars".

Some new risks, such as cyber and weather-related coverages, are being considered by clients at Willis, adds Madden, with more focus being placed on analytics to assist in the pricing and structuring of these coverages.

According to McDonagh, captive owners will continue to explore the efficiency of using alternative forms of capital now permitted under Solvency II, including letters of credit, parental guarantees, subordinated debt and unpaid share capital, as alternative options for the future.

Nicoll suggests that Dublin needs to ensure that, on a practical basis, captives are treated proportionately within that framework going forward. Although there were fears of dips after the implementation of Solvency II, Madden believes that the outlook for Dublin is positive, with the uplift in new applications and the certainty around Solvency II.

He says: "The objective of the international captive community here is to reinforce Dublin as the pre-eminent onshore domicile of choice for captive owners."

Bang on time

Although Solvency II is European, jurisdictions outside of the EU have the option to become equivalent with the directive. The decision to allow non-EU countries to become equivalent allows EU insurers to use local rules to report on their operations in third countries, and offers the option for third-country insurers to operate in the EU without complying with all EU rules.

The European Commission formally recognised Bermuda as being fully equivalent with Solvency II in 2015, and its enhanced commercial insurance regime reached full equivalence in March of this year. Bermuda's captives and special purpose insurers (SPIs), however, remain outside the scope of Solvency II.

> Outside of the EU, domiciles are continuing to strike their own deals for captives, meaning risk managers are spoilt for choice

This means that the regulations governing class 1, 2, 3, A and B insurers and SPIs were largely unchanged.

Marian Fenton, AIG's regional director of Europe and Bermuda, says that by leaving captives and SPIs outside the scope of the Solvency II, "Bermuda is demonstrating its risk-based approach to regulation by recognising that the effective supervision of such entities can be successfully achieved outside a formal Solvency II framework".

Although captives and SPIs have been left out of the scope of Solvency II, they can apply to obtain a commercial licence and so come under its remit. David Gibbons, managing director at PwC Bermuda, says: "Having this option is a big advantage for Bermuda, because it is one of the few places where the option is available if you are a captive."

He notes that most captives in Bermuda are writing US-sourced business and business for US groups where equivalence with Solvency II would not be necessary. Including those captives in the Solvency II regime would have created "more of a hinderance" than any real benefit.

A spokesperson from the Bermuda Monetary Authority adds that captives and SPIs are already compliant with International Association of Insurance Supervisors (IAIS) standards.

The authority also has no intention of incorporating captives or SPIs into Bermuda's enhanced commercial insurance regime.

The BMA spokesperson adds: "Bermuda will, however, continue to be actively involved at the IAIS level and ensure that its framework in respect of both captives and SPIs is in accordance with evolving international standards for these sectors."

Steve Arrowsmith, executive chairman of JLT Insurance Management America, says that the fact that Bermuda has a two-tiered approach to regulation is a significant advantage to captives and SPIs.

He says: "[Captives and SPIs] can operate in a Solvency II-equivalent jurisdiction without the increased cost and capital requirements of full Solvency II compliance."

While domiciles outside the EU are doing their own thing, inside the EU, the hard work and preparation leading up to Solvency II is paying off. Although the work is ongoing, the likes of Dublin are in a good, and stable, position.

Outside of the EU, domiciles are continuing to strike their own deals for captives, meaning risk managers are spoilt for choice. Most importantly, deciding what is best for their captives is still their choice to make. **CIT**

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Better together than apart

With its acquisition of Cedar Management and Consulting, Citadel Risk has become a fully capable captive manager. Mike Palmer and Dennis Silvia explain how a one-stop-shop makes their business a top pick

What were your reasons for acquiring Cedar Management and Consulting?

Mike Palmer: Our main reason was completeness. As a group, Citadel Risk has operations in the US, Bermuda and the UK, including a cell business, two insurance companies and a reinsurer. What we were missing was a captive manager. We have worked in the captive market, generally providing stop-loss or reinsurance opportunities and legacy management for captives, but we have always had to outsource captive management.

This is how we got to know Cedar Management and Consulting. Cedar has been our captive manager for many years, so we know all of the individuals in the consultancy and management businesses. As a result, the acquisition was relatively easy and we now have that last arrow in our quiver, enabling us to offer captive setup, management, consultancy, reinsurance, run-off, novations and more. Captives can now come to Citadel from beginning to end.

Why are Citadel and Cedar better together than apart?

Dennis Silvia: When you consider the services that are necessary to bring a captive to market, you're talking about a very mixed bag. A captive requires all sorts of capabilities—management, reinsurance, fronting, cells, the list goes on—so finding a specialised expert provider for each of those is going to be very inefficient. Combining the services of Citadel and Cedar, we are able to integrate the entire process.

We can consult on areas such as feasibility and, once the decision to launch a captive is made, provide every specialised service the client needs to bring it to fruition. It's exciting because now we're not dependent on outside providers to make a captive happen.

We can create them with the expertise we have within our organisation. It's a very complementary acquisition.

Palmer: Citadel has been expanding over the last two years in both insurance and reinsurance fronting. Having Cedar Management as part of the team makes that a faster and more efficient process.

On top of that, Cedar Consulting gives us an additional layer of expertise that we didn't have before. For example, we have a client that has some problems with its existing captive structure. Cedar Consulting is now able to offer some very real and new solutions to those difficulties. That is something that we couldn't do before.

What's next for Citadel and Cedar following the finalised acquisition?

Silvia: The acquisition allows Cedar the opportunity to grow its client base as a captive manager. I don't think any of us are expecting a dramatic boom in business but I think we will see genuine organic growth.

Palmer: Expansion is a possibility. For example, we have spent a lot of time in the last two or three years working in Latin America to develop relationships with brokers and agencies to create some Latin American captives. Citadel Re is licensed as an admitted reinsurance company in many of those countries, which means there is the opportunity for growth. That's quite exciting.

Do you see Citadel expanding its presence to other domiciles?

Palmer: We are very much Bermuda-centric, but we do see our next segregated cell capabilities being both onshore and offshore. Cedar has ability to help set that up. We are looking at a feasibility study at the moment.

Silvia: We have looked at several domiciles, but I think we are homing in on Tennessee. That location makes the most sense for us to establish a segregated cell captive because the state allows incorporated cells.

This means that we can offer the cell structure and those cells can each have their own corporate identity.

This expansion could open the door to providing services to micro, small- and medium-sized captives, but also has flexibility to offer any kind of captive structure. Tennessee seems to be very interested in working with us. CIT

Mike Palmer
Lead London consultant
Citadel Risk

Dennis Silvia
President
Cedar Consulting

A sleeping giant

Malcolm Cutts-Watson discusses his new role as adviser at Cim Global Business, as well as the state of the captive insurance market

Cim Global Business has recently launched its accounting outsourcing offering to captive insurance managers. What are Cim's plans in the captive space?

Firstly, let me provide some background on Cim Global Business. Based in Mauritius, Cim Global Business is an experienced cross-border service provider to well-known corporate and institutional clientele, including Fortune 500 companies, through its 250 staff (with a large proportion being accountants). It is part of the Cim Group, which is listed on the Stock Exchange of Mauritius. Mauritius has developed itself as a premium service centre, compared to more traditional outsourcing markets, by offering an abundance of highly qualified accountants, bilingual labour force (English is an official language) and world class IT infrastructure.

Cim's vision is to enable captive insurance managers across a variety of high-cost domiciles to maximise efficiencies through significantly reducing the ongoing operational costs of the structures they oversee. Cim offering is well-suited to insurance managers that don't have their own back-office operation in a lower cost domicile, and that wish to leverage the benefits of the qualified and technically proficient accountants in Mauritius.

> Outsourcing routine accounting work enables management to direct their people to higher value-generating work

Cim has broadened its existing captive accounting capabilities by hiring Shaun Geils last year as head of operations of its outsourcing business, which focuses on captive insurance. Shaun is a qualified chartered accountant who is familiar with leading insurance managers' operating models, having previously worked as a captive insurance and insurance-linked securities (ILS) manager for the Kane Group in the Cayman Islands for seven years.

In addition to a strategic outsourcing solution, Cim is finding increased interest from insurance managers for assistance during times of staff turnover, as well as enabling them to minimise hiring full time staff during peak periods. By leveraging Cim's back-office, non-client facing services, insurance managers can benefit from significant cost benefits as the work is conducted from a more cost effective domicile and managers are thereby able to allocate more of their valuable time and resources to strategic and revenue enhancing activities. Cim's team of accountants are well-versed in the operational aspect of captive insurance management, thereby allowing the benefits of wage arbitrage to be enjoyed without diminishing the quality that insurance managers and their clients have become accustomed to.

> Cim broadened its existing captive accounting capabilities by hiring Shaun Geils last year as head of operations of its outsourcing business

Cim's core services include conducting the full client accounting cycle (and audit process management) for captive insurance, risk retention groups and ILS structures. In collaboration with its in-house IT software development team, Cim also has the expertise to work with insurance managers, and their clients, on the design and implementation of customised IT-based solutions that allow for efficient streamlining of data intensive processes, thereby enhancing the reporting and information being received (and managed) by insurance managers.

In your capacity as adviser, what are you telling Cim about captive managers and how they do accounting? What problem is Cim attempting to solve?

The perennial challenge to captive managers is to make the best use of their most precious resource—people. Typically, salaries are the highest overhead and it is a challenge to find, train and retain talent. Outsourcing routine accounting work enables management to direct their people to higher valuegenerating work such as deepening client relationships or bedding in new business, confident that the regular financial reporting occurs accurately and on time. In my experience, outsourcing does not lead to redundancies, but more of a refocusing of existing talent.

Accounting for captives is becoming more complex as the parent companies of captives move to common international financial standards with attendant increased disclosure in the notes. However, a number of domiciles permit captives to adopt local accounting standards. Add to this mix increased granularly of regulatory reporting, take Solvency II as an example, and the captive accountant has to be the master of a broad range of accounting policies and standards. Use of outsourcing allows efficiencies to be achieved in terms of the ongoing training and education of accounting personnel to deliver compliant accounts.

Outside of your work with Cim, what emerging trends are you currently seeing in the captive market?

In my view, increased competition and segmentation. I think currently there are more than 70 recognised domiciles globally and that number is set to rise as remaining US states pass the necessary legislation. In addition, financial centres are looking to broaden their proposition by adding captives to their menu of services. Take Mauritius, for example. This proliferation in captive locations can lead to a diffusion of captive accounting skills and so the use of outsourcing can ensure critical mass of insurance accounting expertise is achieved.

The myth that captives are only relevant for the largest companies has been exploded with the rise of captives in the small- and medium-sized entity market, be it enterprise risk captives, cells, or members of mutual or association captives. This growth began in the US but we are seeing signs that it will be replicated elsewhere.

Finally, Asia is a sleeping giant. I expect the captive concept to be embraced, primarily in China, resulting in 200 new captives writing $20 billion premium within 10 years.

"Asia is a sleeping giant. I expect the captive concept to be embraced, primarily in China"

Tax planning has obviously been in the headlines of late, but captives have long been under scrutiny, particularly in the US. How are managers working with their clients to make captive tax arrangements more transparent?

Captives remain a valid risk financing strategy. I can see that because the captive financially benefits from improved risk management by the policyholder/owner, this would lead to scrutiny. However, I feel the captive industry is too defensive in how it responds to this exposure.

"This proliferation in captive locations can lead to a diffusion of captive accounting skills"

I see this as a perfect opportunity to explain the benefits of, and value generated by, a captive. It will require more transparency of process and governance, but captives, in general, are well managed and able to demonstrate they are properly run and formed for solid management of risk reasons. For example, the introduction of the Solvency II regime ensures European captives hold adequate capital reserves, follow best risk management practices and report regularly to key stakeholders.

I do recommend that the captive's strategy be aligned with its parent's business plan and that a strategic road map be prepared for the next three to five years of the captive's life with attendant milestones and key performance indicators highlighted. This way, the value of the captive can be demonstrated to internal and external stakeholders. CIT

Malcolm Cutts-Watson
Adviser
Cim Global Business


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On the right PATH

The PATH Act represents an important policy choice by the US to expressly permit the continued use of micro captives, according to Inga Ivsan of Swiss Private Wealth Advisors and Lighthouse Captive Services

Why were the 831(b) changes targeted at wealthy families?

Representatives from the Internal Revenue Service (IRS) and others indicated that they felt using captives to shift wealth outside the US transfer tax system was too much of a good thing. They pressured Congress to either get rid of Section 831(b) of the Internal Revenue Code (IRC) altogether or foreclose the ability of family members to transfer wealth to younger generations through the use of captive insurance. Congress diligently decided that it wanted to keep the benefits of 831(b) while curbing its use in the context of family wealth shifting.

What were the changes made to the 831(b) election and what will their effect be?

On 18 December 2015, US President Barack Obama signed into law tax extenders legislation combined with a $1.1 trillion omnibus spending bill. The legislative package was first passed by the House of Representatives on 17 December, and subsequently ratified by the Senate on 18 December. Division Q of the legislative package contains a set of provisions labelled the Protect Americans from Tax Hikes (PATH) Act of 2015. Embedded in the PATH Act, Section 333 of Division Q modifies the rules of 831(b) in two significant ways.

Firstly, Section 333(b) of the PATH Act raises the amount of exempt premium income for a micro captive under 831(b) from $1.2 million to $2.2 million for tax years beginning after 31 December 2016. The legislation also introduces an inflation adjustment mechanism, automatically increasing the 831(b) limit in $50,000 increments to correspond with cost of living adjustments made under Section 1 of the IRC.

Secondly, 831(b)(2) is modified under the PATH Act in order to curb the ability of families to shift wealth to succeeding generations through the use of captive insurance. The legislation accomplishes this through the introduction of a new compliance test, billed as a "diversification requirement". The label is misleading, because it has nothing to do with risk diversification under tax law. Rather, an insurance company is left largely unaffected under the new 831(b) rules if no more than 20 percent of new written premiums are attributable to any one policyholder. In other words, captives with a diverse pool of policyholders are not affected by the new diversification requirement.

If the insurance company does not have diversified policy ownership, then the new 831(b)(2)(B) seeks to ascertain whether there is a difference in the percentage ownership between the family members who own the captive and the family members who own the insured business. The objective of this particular provision is to preclude use of the 831(b) election if a spouse or lineal descendant owns a disparately larger interest in the captive than they do the insured business.

With these changes in place, do you believe 831(b) captive insurers will avoid scrutiny from IRS in the future?

The PATH Act represents an important policy choice by the White House and Congress to expressly permit the continued use of micro captives. Treasury and IRS representatives obviously pitched Congress on the increasing use of captives to exploit the 831(b) exemption, but Congress has clearly chosen to preserve—and expand—the exemption. Moreover, testimony before Congress indicated that the concern with 831(b) was not the primary concern, and that transfer tax principles commanded primary attention.

What action is the IRS taking to crack down on micro captives attempting to avoid tax instead of providing insurance?

We are seeing where the IRS is challenging captives promoted by some well-recognised participants in the industry, including both captive managers and lawyers who work with them. The Avrahami case is an example of the type of case the IRS is targeting for litigation.

A common thread is that: (i) the clients are aggressively seeking tax savings over any apparent concern for risk reduction or insurance profits; and (ii) the promoters have little to no understanding of how to properly price coverage or run a reinsurance pool.

What advice would you give to SMEs considering forming their own micro captives following implementation of the new rules?

Congress has clearly given the green light for the increased use of captive insurance, so long as the captive serves a legitimate business purpose. While it is tempting to be enthralled by the exemption offered under 831(b), a well-run captive can produce profits that easily outdistance the value of any tax savings offered. More importantly, small- and medium-sized enterprises (SMEs) stand to benefit from the increased protection of a captive.

In our business, many SMEs and their principals find that captive insurance offers a rational basis by which underwriting profits can be efficiently protected from the claims of unanticipated creditors, thereby enhancing wealth preservation. CIT

Inga Ivsan
Manager
Swiss Private Wealth Advisors and
Lighthouse Captive Services

The cost saving benefit

Respondents to a Spring Consulting Group survey revealed that they met the objectives they originally set out to achieve when starting an employee benefit captive. Spring's Peter Bandarenko explains

What is your role at Spring Consulting Group?

I am a senior consultant at Spring Consulting Group. Spring is an actuarial, risk management and employee benefits consulting firm. We work with plan sponsors and captives of all types and on all matters. The work we do includes the specialised focus of helping captive owners add employee benefits to their captives. We are experts in this field and have consulted with more than a third of all the companies that have gone through the US Department of Labor (DoL) prohibited transaction exemption process.

How do you define an employee benefit captive and its uses?

Captive owners often establish a captive for business/property casualty risk, so we define it as the ability to include their own employee benefit plans in an existing captive.

Captive owners are excited about doing that because it introduces diversity, risk distribution and third-party risk into their captives, which can create cost savings and tax efficiencies for the business and the captive. In addition, it also supports the emerging trends toward total enterprise risk management by aligning the management and oversight of the business risks for a company as well as the people risks, including the employee benefit risks.

> "Diversifying the business mix in the captive provides more consistent profitable results over time"

What are the key advantages to placing employee benefits in a captive?

One of the major drivers behind the introduction of employee benefits into a captive is cost savings. Just as with other property and casualty coverage lines being introduced into a captive, the ability for the captive to recoup carrier-underwriting profit is a very attractive option. Another key driver is the whole concept of risk diversification and introducing third-party risk to the captive. Diversifying the business mix in the captive provides more consistent profitable results over time and can also drive tax efficiencies for the captive.

And do you believe there are any negatives?

There are no universal negatives. It does require a unique alignment between risk management and human resources, so companies that are not aligned in that way or not looking at a collaborative stakeholder engagement that involves both sides, might find it a challenge. This is not a detriment per se but a hurdle that has to be overcome.

Why did you recently conduct a survey on employee benefits, and what did you find out?

The first US employee benefit captive transaction that was granted a prohibited transaction exemption (PTE) from the US DoL occurred in 2000. Since then, more than 30 companies have followed suit.

> "The ultimate goal to evaluate whether adding employee benefits to their captive proved to be a fruitful exercise"

We felt it was to time to pause and ask these pioneers to reflect back on their experiences with adding employee benefits to their captive and share their collective perspectives. Our mandate for the survey was to first identify these pioneers, then ask them to respond to our survey with the ultimate goal to evaluate whether adding employee benefits to their captive proved to be a fruitful exercise.

At Spring, we wanted to know what were the perceived advantages originally were, what were the primary business objectives for heading down this path, and to confirm whether these objectives have been met.

We also wanted to see if these these original objectives have shifted, and if so, how they have changed and evolved. We also wanted to capture the best practices and advice these pioneers could share for companies now contemplating heading down this path today.

There are always lots of industry insider discussion about the merits and advantages of introducing employee benefits to captives—we felt it was important for the industry to hear the objective voice of those who had done it.

Have companies that have employee benefit captives met the objectives they originally set?

The overwhelming majority of respondents said that they have met the objectives they originally set out to achieve. The most common objectives noted were cost savings, alignment and overall control of their entire risk pool. Other objectives mentioned include tax efficiencies derived by introducing third-party risk.

In terms of what's coming next, there is a clear interest by the majority of respondents to continue to expand other coverage lines, including medical stop-loss, and to even consider including the spectrum of emerging voluntary benefits as well. The clear trend in responses suggests that those who have embarked on employee benefits in captives are glad they did and, in fact, they intend to go further.

What new emerging risks do you think companies are considering and why?

Our survey revealed that adding voluntary benefits are the top emerging employee benefit risks being considered for addition to captives. The pioneer companies first started with their group life and disability plans, and as the market is moving toward expanding voluntary benefit offerings, captive owners are focusing here as well. In response to the Affordable Care Act (ACA) and the expansion of high deductible health plans, plan sponsors and carriers are introducing new voluntary benefits to the financial gaps that are being created by them. Products such as critical illness, group accident and sickness and hospital indemnity are all seeing tremendous growth in the market, which creates new opportunities for captive owners to consider for their captives.

What other results were revealed in the survey?

In terms of non-employee benefit risks, the survey confirmed that more and more captive owners are looking at adding medical stop-loss insurance as the self-insured medical market is expanding.

Cyber risk, reputational risk, and product warranty are high on the list as well.

> "There is a clear interest from the majority of respondents to continue to expand other coverage lines, including medical stop-loss"

> "The look back at the first 15 years of benefits in captives has revealed that it is meeting market needs and expectations"

Do you think employee benefits will continue to be a success in the future?

Yes, there is no question about it. The look back at the first 15 years of benefits in captives has revealed that it is meeting market needs and expectations. As the market continues to expand, the impediments, perceived or real, become easier for companies to navigate. The regulatory framework continues to be supportive, especially with the DoL reinstituting the EXPRO approval process again in 2014.

We continue to see new companies stepping into the benefits in captive realm and expect to see the trend of three to five new DoL PTE requests per year, continue year over year. Lastly, with the explosion of interest in mid-market medical stop-loss captives, we expect to see an acceleration in the number small- and medium-sized companies going down that path. **CIT**

Peter Bandarenko
Head of new market development
and senior consultant
Spring Consulting Group


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ERM yourself

A proper enterprise risk management programme must be implemented from the top down, while a captive insurance company can enable a more robust ERM process, if properly managed, says Temple University's Michael Zuckerman

How do ERM programmes work and how have they evolved in recent years?

An enterprise risk management (ERM) programme requires recognition that exposures to loss and adverse events do not occur in a silo. So why manage them as if they are? An adverse event has a cascading impact affecting the entire organisation. For example, a factory explosion results in the loss of a plant, equipment and bodily injury. The loss will also disrupt the organisation's supply chain, interrupt operations, make it difficult to recruit and retain skilled employees, increase expenses, and reduce revenue and profit, which in turn impacts on corporate value, possibly increasing the cost of capital.

Ultimately, there will be negative consequences for a firm's reputation, which may cause the downward spiral towards lost market share and even bankruptcy. At the end of the day, ERM is about building a resilient organisation.

A successful ERM programme must, therefore, begin with the board of directors holding the senior managers responsible for driving the ERM process across the organisation. The process must address all risks, including the upside and downside. And it must foster a risk culture characterised by strong risk-based communication across the enterprise, including regular reporting to the board on material risks, and how they are being addressed.

To do this, risks must be properly identified and assessed at the strategic and operational level. A firm must understand its appetite and tolerance for risk. And it must use tools to enable risk prioritisation, and establish risk owner accountability to ensure that risk is being properly managed across the organisation. Risk identification and assessment is the critical component of ERM. It goes without saying that this requires strong data management skills.

This process sets the ERM agenda and creates the focus on measuring residual risk, or in other words, identifying the opportunities to improve risk mitigation for those identified significant risks. A captive insurance company can enable a more robust ERM process, if properly managed.

How would a company incorporate cyber risk within an ERM programme? What are the challenges specifically with cyber?

The ERM programme must absolutely address cyber risk. It is a material risk from which good things can flow if managed properly, otherwise it could have disastrous consequences if mismanaged. The cyber exposure, if mishandled, will damage corporate value and possibly trigger a shareholder suit against the directors. The cyber ERM programme must provide for a strong threat detection system, IT security/loss prevention and cyber risk financing, which should consider employing a hybrid approach using a captive insurance company and commercial insurance and reinsurance. Finally, an exceptional post-breach response programme is crucial.

What are the features of a successful ERM programme?

For an ERM programme to be successful the board needs to understand the firm's significant risks and how they are being mitigated. There should also be a strong enterprise-wide risk identification and assessment process. It is important to understand the firm's stakeholders and the risks associated with these relationships. Effective ERM communication should be in place across the enterprise and an efficacious risk information management policy should be used to assess and manage risk, as well as a focus on managing residual risk, and risk financing.

A successful ERM programme will also need a resilient organisation that is able to address what it does not yet know and finally, it will use a transformative captive insurance company that enables an organisation to meet its strategic objectives.

What other risks can companies use an ERM programme for?

All risks must be addressed by ERM. The question is what material risks could be partially funded in a captive insurance company. The answer to this question, of course, is that the captive should be used to fund any risks that are predictable, usually high frequency and low to moderate severity. The goal is to employ a hybrid strategy to fund a portion of this exposure to the extent that the variation of retained actual losses from expected losses can be managed by proper capitalisation and funding of the risk within the captive. The highly volatile portion of this risk can then be transferred to the reinsurance market.

What does the future of ERM look like for captives?

It is very bright. We are seeing a modest increase in the amount of specialised risks like cyber, supply chain and terrorism being partially funded in a firm's captive insurance company. Again, if the captive is properly managed, according to best practices, it will raise the visibility of risk management within the enterprise. **CIT**

Michael Zuckerman
Assistant professor
Temple University


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With the Affordable Care Act still having an impact on self-funding and the use of medical stop-loss captives, Phillip Giles of QBE North America explores where this area will go next

For what reasons are companies that self-fund their employee health insurance plans increasingly using medical stop-loss captives?

I should first point out that the medical stop-loss market has been very competitive for a number of years. I hesitate to describe it as ‘soft’ as, after this point of sustained longevity, the prevailing rate environment actually becomes the new level of market pricing reality. Whether a single-parent or a properly structured group arrangement, stop-loss captives are not just about saving money on medical stop-loss itself, but rather incorporating medical stop-loss as a contributing component within a larger holistic risk strategy for reducing the overall cost of providing healthcare insurance to employees.

Many larger employers can also realise enterprise level risk-cost reductions by adding medical stop-loss to existing captives. As the majority of existing single-parent captives provide long-tail coverage, stop-loss can serve as a complementary short-term profitability hedge for the captive.

Has the Affordable Care Act had an impact on the number of medical stop loss captives?

The Affordable Care Act (ACA) has contributed to the growth in self-funding and consequently to an expansion in the use of captives. As a carrier that can uniquely write medical stop-loss coverage as either insurance or reinsurance, we have experienced a significant upsurge in the number of employers exploring single parent or group captive options.

Prior to the ACA and its mandate for unlimited lifetime benefit liability, most employers that had a single-parent captive were also large enough to completely self-fund employee healthcare without purchasing medical stop-loss coverage. The growth within this demographic segment was not in the actual number of self-funded employers, but rather in the number of self-funded employers now needing to purchase medical stop-loss coverage. Many of these larger employers are now formalising their retained healthcare benefit risk by converting it into medical stop-loss coverage within the captive and then purchasing reinsurance for the higher layers of risk that need to be transferred.

Most of the market growth in the number of new self-insurers is actually coming from employers having fewer than 500 lives. With this, the number of group captives catering to smaller and mid-sized employers has increased substantially. Some of these are very large 'open-market' captives formed by programme administrators that explicitly target fully insured employers and use the captive as a conduit to facilitate a transition to self-funding.

There has also been a notable increase in the number of existing mid-sized (250 to 1,000 lives) self-insurers forming group captives. Within this segment, the groups tend to be more industry-specific, have tightly controlled membership entry and higher levels of active management engagement by members. We have seen a great deal of performance success within this group captive segment as the typical membership composition has greater underwriting credibility, which fosters increased predictability and decreased loss volatility. The increased member engagement also serves to improve proactive risk control initiatives. We expect to see continued growth in this particular segment.

What are the key advantages for large companies with their own captives?

Stop-loss coverage by itself would not typically generate enough premiums to justify formation of a captive solely for that purpose, however, it can be used to effectively expand the utility and enhance the efficiency of an existing captive.

Funding layers of medical stop-loss coverage through a single-parent captive, as opposed to simply paying claims within the same layers from general assets or through a formal trust, allows the employer to more easily recognise and deploy underwriting profit and investment returns attributable to these layers.

Surplus derived from the underwriting and investment return from the captive can be returned to the employer more efficiently in the form of dividend distributions or strategically deployed to offset future plan costs, expand benefits to employees, or retained within the captive to smooth financial volatility associated with other lines of coverage.

Adding stop-loss to a captive will enhance the financial performance of the captive, especially one that that primarily writes 'long-tail' coverage, such as workers' compensation or liability, and can provide a protective 'short-tail' stability hedge by diversifying the captive's risk portfolio.

Why are small- and medium-sized entities considering group structures?

With self-funded plans having the ability to preempt state and some ACA benefit and rating mandates, the opportunity to more appropriately tailor coverage, reduce coverage costs and related expenses, such as premium tax, exists.

These employers are not large enough to support their own single-parent captive but do have the ability to participate in group captive arrangements that can, through collective size leveraging, provide many of the same advantages traditionally enjoyed by single-parent captives.

What would happen in this space if ACA was repealed?

I don't believe that a full repeal will happen, but rather significant amounts of evolutionary reform are a more realistic scenario. ACA is a massive and excessively magnanimous legislation. It's well-meaning but misguided in terms of how to appropriately and equitably satisfy the objective of affordable healthcare. ACA is still quite raw and I expect that it will continue to evolve through continuous legislative refinement.

"More employers will utilise captives as a tactical resource to support a larger strategy for lowering the ultimate cost"

The stop-loss market itself will also undergo some gradual change. We currently see plan sponsors and brokers continuously pushing for very aggressive pricing and expanded contract terms, while costs within an ACA-influenced healthcare environment push in an incompatible direction.

The cost of claims, especially large claims over $1 million, has increased dramatically with the mandate to abolish lifetime benefit limits.

Over the next few years, I expect the larger stop-loss writers to increase their market share while many of the smaller writers, especially managing general underwriters, will struggle. Medical stop-loss will need to be written primarily by carriers with the financial strength and stop-loss portfolios large enough to absorb losses, especially the increased instances of large, multi-million dollar claims.

Medical stop-loss will continue to respond to the evolving dynamics as reflected by underlying benefit plans of the self-insured employers that we insure. With that, more employers will utilise captives as a tactical resource to support a larger strategy for lowering the ultimate cost of providing healthcare benefits to employees. **CIT**

Phillip Giles
Vice president of sales and marketing
QBE North America

Practice what they breach

Captives seem unlikely to be well positioned to provide a fully integrated solution for cyber in the near term, according to two industry experts

Have you seen an increase in cyber liability insurance in recent years? What are the reasons for this?

Peter Mullen: Yes, there has been a significant increase in the purchase of cyber insurance, as we have seen cyber losses impact organisations on a more regular basis. While 2014 may be viewed as the year of the retail breach, 2015 may be viewed as the year of the healthcare breach.

Given the evolving nature of technology, and growth in big data analytics, cloud computing, and the internet of things, we anticipate that organisational exposure to cyber risk will only increase.

Alec Cramsie: Yes, we have seen an increase in cyber liability insurance being purchased. It's not only about the regulatory environment, particularly in the US where the regulatory environment has been in existence for some time, but also about awareness. I think many companies understand that it's not if, but when, they are going to get a breach, and this is causing them to purchase.

How can captives effectively write this type of business? And does a captive complement a traditional policy?

Mullen: For the most part we have seen captives write cyber coverage as the primary layer typically to fund a very large retention to an excess risk transfer programme. Coverage issued by the captive will follow the terms and conditions of the excess market policy and we haven't seen captives stray from this position to provide coverage that is broader than the market.

Cramsie: At the moment the structure of most cyber policies is around providing some kind of pre-or-post-breach help, and unless a captive has the capabilities of doing this, they are not really going to have the abilities to handle claims.

From a traditional captive perspective, it seems unlikely at the moment that most are that well positioned to provide a fully integrated solution.

Has there been an increase in the number of captive owners funding cyber risk?

Mullen: We manage roughly 1,100 companies and 18 months ago 1 percent of those companies wrote cyber. As of year-end 2015, this percentage has increased to 2.5 percent. By using a comprehensive risk assessment process, captive owners are developing a better understanding of the exposures they face and how to quantify them. This process allows them to make more informed decisions about risk retention, transfer and mitigation, for example, retaining risk in their captive.

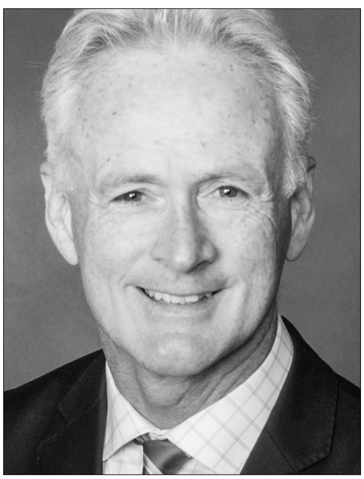
Cramsie: We have certainly seen an increase in clients using their captives to consider taking risk. Most definitely the larger captive audience where they have an appetite to take bigger retentions and take more risk.

Why do you think some are still reluctant?

Mullen: There is really an industry-by-industry answer to this question. In a recent survey we conducted of our captive clients, roughly 60 percent of them said they were not currently buying cyber coverage. However, this percentage changes dramatically by industry. For example, 70 percent of companies such as retailers, healthcare organisations and financial services companies are buying cyber, whereas only 17 percent of critical infrastructure companies say they buy cyber.

Some larger clients have concerns that terms and conditions may be too restrictive or total limits may not sufficient enough for the catastrophic nature of the risk.

Cramsie: I think what it really comes down to is once a company has done its due diligence and figured out what its exposure looks like, it chooses to manage that risk in-house or pass it on through a risk transfer mechanism, or perhaps use the money to increase security or fund different areas of their business. It's a choice, and some companies are just better positioned than others to deal with the risks internally, whereas others need to look externally and that's where insurance becomes an viable option. CIT



Peter Mullen
CEO
Aon Risk Solutions

Alec Cramsie
US TMB team leader
Beazley

Run-off your feet

Andrew Rothseid of RunOff Re.Solve says a perfect storm is brewing in a global run-off market that continues to expand and evolve

How big is the current run-off market in the US? And do you expect the market to increase?

When commentators reference the 'size' of a run-off market, the term 'size' generally refers to the amount of liabilities that are in run-off. To use a phrase that has become all too popular in this US election season—it is huge.

The size of the US non-life run-off market has never been determined. It has been estimated. In the mid-1990s, a study conducted by Swiss Re estimated the size of the US run-off to be between $150 milion and $200 million.

However, with more than 400 entities in solvent run-off and a similar number in insolvency, it is difficult to put any precise number on the size of US non-life run-off. Many insolvent entities do not issue reports on their financial condition. Similarly, many captive insurers and reinsurers have liabilities in run-off and there are few, if any, captives that issue publicly available financial statements.

Complicating the analysis further is the fact that large blocks of run-off reside on the balance sheets of insurers and reinsurers that continue to write business within the same legal entity in which the run-off liabilities reside. Few, if any, active carriers will identify their total reserves in run-off.

Additionally, and by no means, finally, few, if any, estimates of non-life liabilities take into account the wave of financial guarantors that when into run-off in 2007 and 2008 with billions of dollars of per value liabilities on their books.

The perfect storm continues for insurers and reinsurers. Premium rates remain soft. Insurers' investment returns are under pressure from a prolonged period of low interest rates. At the same time, reserves from discontinued or run-off liabilities continue to deteriorate.

Despite this volatile climate, the global run-off market continues to expand and evolve. Run-off liabilities are no longer comprised exclusively of long-tail exposures—asbestos, pollution, health hazards and workers' compensation claims. New, varied lines of business, such as financial guarantee, have created both the opportunity for capital relief and investment by opportunistic, as well as strategic, capital providers.

In tandem with the growing diversity of liabilities in run-off, existing and emerging regulations force companies exposed to run-off business to undergo greater capital scrutiny.

Do you believe the current soft market conditions are putting pressure on captives, thereby increasing run-offs? If so, how?

Soft markets traditionally are a breeding ground for run-off. Historically, poor underwriting decisions have been made in the race to write premium. Whether the industry as a whole will follow this historic pattern is unclear. Even more opaque is whether corporate risk managers will follow this practice.

If captive liabilities are moving into run-off, it may be the result of soft market conditions or simply the increased use of captives as a risk management/capital management tool.

Generally speaking, what would make a company to put its captive into run-off?

As corporations look for ways to control the amount of capital that they spend on insurance cover, there can be a tendency to increase their appetite for risk retention. The fact that there are larger numbers of liabilities held by captives can translate into the fact that there are a larger number of captive liabilities in run-off.

Captive owners find their captive entities enter run-off for a variety of reasons not necessarily experienced by traditional insurers. Insurers and reinsurers enter run-off, or place lines of business

> "The fact that there are larger numbers of liabilities held by captives can translate into a larger number of captive liabilities in run-off"

in run-off, due to poor underwriting, poor claims management, adverse loss development, poor investment strategy, changes in the law, or adverse court decisions.

Corporate owners of captives find themselves with run-off exposures for these factors and others that are more closely related to traditional corporate activity. For instance, a merger of companies in similar businesses can result in redundant captive operations. As part of the post-merger integration process, the redundant captive may be placed into run-off.

Similarly, simple asset purchase transactions may leave the seller with the residual captive liabilities of the business sold. Following an asset-based transactions, it is likely that those liabilities will be placed into run-off.

What about the captive's reinsurance cover? How does this complicate matters?

The real impediment for captives in run-off is the fact that the captive is, in many circumstances, the reinsurer for the fronting carrier that insures the corporate parent. As is well known, the captive reinsures the fronting carrier by paying an initial portion or retention of the risk insured by the fronting company. The captive posts collateral to secure its payment obligation and then that collateral takes the form of either (evergreen) letters of credit or funds placed in trust.

The complication occurs when the captive goes into run-off. The fronting carrier stays on the risk but, disputes can arise, depending upon the types of liabilities insured and the provisions in the captive's reinsurance agreement with the front covering the captive's collateral obligations.

The result can be one where the immovable force meets the immovable object. The captive or its corporate parent may have a far different view of the ultimate value of the liabilities insured from that of the fronting carrier.

The fronting carrier will want to be protected in case of adverse loss development, while the captive or its owner may want to repatriate previously trapped capital.

What makes a successful run-off?

A successful run-off is a careful balance of interests and perspectives among policyholders, insurers and regulators. Transparency, fairness and finality are the goals.

The path to effective resolution of run-off liabilities has several objectives, including honouring valid policyholder obligations, adjusting liabilities fairly and correctly, preserving assets, capital, industry rating and shareholder value, controlling and reducing expenses, and planning and achieving a path toward finality.

The timing, quality of structuring and efficient management of the run-off resolution is critical in determining the amount of value that can be released. For a captive, this can be more straightforward than for a traditional property and casualty insurer or reinsurer.

For the traditional insurer, simply commuting all known claims does not end the run-off. Hence, the unique value and attraction of the solvent scheme of arrangement (available in the UK, Bermuda or other countries based upon the commonwealth legal system), or the Rhode Island commutation plan.

> “The captive or its corporate parent may have a far different view of the ultimate value of the liabilities insured from that of the fronting carrier”

Both of these processes allow the implementing insurer or reinsurer to crystalise its liabilities as of a date certain and then accelerate the closure of all known and unknown liabilities provided a majority of creditors, representing a supermajority of reserves, vote in favour of the implementing company's plan at a meeting of creditors. Following the successful vote and court approval of the voting process, a bar date is set. All creditors that submit their claims by the bar date will receive 100 percent of the present value of their agreed claim. Following the claim agreement process and payment, the implementing company will be discharged from its insurance obligations.

For a captive in run-off, the process can be much more direct. For instance, assume that the captive operated for 20 years before it entered run-off. Assume further that during that 20-year period, the captive reinsured some reasonable number of fronting carriers, perhaps five or six. Upon entering run-off, the captive can accelerate the conclusion of its run-off process if it can commute with all of the relevant front carriers. By commuting this limited number of reinsurance relationships it will have discharged its obligations to its fronting carriers.

Consequently, the captive may be eligible for closure and any remaining capital can be repatriated to the captive owner. **CIT**

> “A successful run-off is a careful balance of interests and perspectives among policyholders, insurers and regulators”

Andrew Rothseid
Principal
RunOff Re.Solve

Dotting your LOCs

Martin Ellis of Comerica Bank explains how letters of credit function, and what each party requires from the process

In simple terms, a letter of credit (LOC) is a document issued by a bank that assures payment of an obligation. In the captive world, the obligation is usually the reinsurance obligation between the captive called the applicant and the fronting insurance company called the beneficiary who is actually issuing the insurance policy and then reinsuring some portion of this liability with the captive.

According to industry surveys, standby LOCs are still by far the most common type of security used by captives and preferred by fronting companies because of their ease of use.

The other types of security are reinsurance trusts and 'funds withheld', which in simple terms is basically cash and/or premiums that are due to the captive, but held by the fronting company as security.

The LOC is security that assures the fronting insurance company that the captive will pay its share of losses on any and all claims and enables the fronting insurance company to exclude these reserves for losses from its balance sheet for regulatory purposes.

This regulation is also called the Schedule F penalty on statutory statements, which is triggered when premium is ceded to an 'unauthorised' reinsurer. The captive is generally considered unauthorised since it is not licensed in most states in the US. Finally, to avoid this Schedule F penalty, banks issuing the LOCs must be National Association of Insurance Commissioners (NAIC)-approved.

For captive insurance purposes, a standby LOC is usually a relatively simple document involving three parties—the issuing bank, the beneficiary and the applicant. The fronting insurance company is the beneficiary of the LOC, so it will generally impose certain requirements regarding the LOC.

First, the LOC is issued for a fixed dollar amount and usually expires one year from the issuance date, but often has an evergreen clause, which means it automatically renews for an additional year unless the issuing bank notifies the beneficiary otherwise.

Next, the fronting insurance company wants the LOC to be clean, irrevocable and unconditional. Clean and unconditional means there are no conditions to the issuing bank's obligation to pay under the LOC, other than the presentation of documents that comply with the terms of the LOC. Irrevocable means the LOC cannot be cancelled by the applicant or the issuing bank prior to its expiry date without beneficiary approval.

The issuing bank must honour and pay any drawing or demand for payment under the LOC when presented, so long as the drawing and the documents comply with the terms of the LOC. Essentially, under a LOC, the issuing bank substitutes its credit for the captive, and the issuing bank is required to pay a complying drawing, even if the applicant objects.

The beneficiary holds on to the original LOC and enjoys its ease of use. It simply files this piece of paper away, and since there is generally an evergreen clause, the LOC automatically renews every year unless the beneficiary receives notice from the issuing bank within a specified period prior to the expiration date that the LOC will not be renewed.

This gives the beneficiary time to either get a replacement LOC or simply draw on the LOC.

A final important characteristic is that the LOC generally cannot be decreased, modified or cancelled without the approval of the beneficiary. This assures the beneficiary that the LOC issued in its favour, which is its collateral, will not change without its consent, for example, the applicant couldn't decrease the amount unilaterally.

The obligations of the applicant to the issuing bank with regard to captive LOCs are almost always secured by collateral in the form of marketable securities, for example, cash equivalents, US government and agency securities, corporate fixed income securities, and equities.

The reason for this is that there is generally no recourse on the part of the issuing bank back to the parent company since the captive should be a standalone entity with its own financing to support the premium deductibility by the parent.

Pricing for the issuance of LOCs varies depending, in part, on the type of collateral pledged by the captive. LOCs secured by collateral with less market risk, such as cash, warrant better pricing than those secured by equities. Note that pricing on secured LOCs should be cheaper than if the parent were to get unsecured LOCs.

In the event of a draw on a LOC, the issuing bank can liquidate the collateral to reimburse itself for funding the LOC obligation. Banks apply different advance rates on the collateral. Cash usually has a 100 percent advance rate, whereas a bank may only advance 70 percent on equities.

The process of making a change to a LOC is fairly simple. It is done via an amendment request submitted by the applicant to the issuing bank. The issuing bank would then issue the amendment, which must be approved by the beneficiary.

The most common LOC changes are the amount and the expiration date. The fees to amend LOCs are usually nominal.

In order for the beneficiary to draw on a LOC, they will generally be required return the original LOC, along with any amendments, to the issuing bank, together with any other documents required under the terms of the LOC. In order for the issuing bank to honour and pay the drawing, the drawing and the documents presented must strictly comply with the LOC.

“There is generally no recourse on the part of the issuing bank back to the parent company”

Frequently, partial drawings and multiple drawings are permitted. This means that the beneficiary is not required to draw or request to be paid the full amount of the LOC. For example, if the LOC is issued for $10 million, and the beneficiary only requested $1 million at this time, they would be paid the $1 million, assuming the drawing complies with the LOC, and the available amount of the LOC would be reduced to $9 million. The $1 million drawing would be noted or endorsed on the LOC, and the original LOC would be returned to the beneficiary.

Standby LOCs issued by banks on behalf of captives are used to assure the fronting insurance company that the captive honours its reinsurance obligation and allows the fronting company to exclude this liability from its statutory balance sheet.

The main characteristics are that they are irrevocable and unconditional with evergreen clauses. Their ease of use makes them the preferred and most common type of security. **CIT**

“The main characteristics are that standby LOCs are irrevocable and unconditional with evergreen clauses. Their ease of use makes them the preferred and most common type of security”

Martin Ellis
Senior vice president
Comerica Bank

Evolving as a leading captive destination

Tanya McCartney of the Bahamas Financial Services Board and Joseph Ziolkowski of Long Cay Captive Management explain why the Bahamas continues to attract and cultivate captive business

When the Bahamas became a destination for capital investment, it was based on the needs of winter residents escaping colder northern climates. Since that time, the depth and expertise of the country's financial services has created an industry that is no longer just a destination for capital but a place for real and substantive businesses. Indeed, it is a location from which one can invest and manage one's businesses all around the world.

The captive insurance market is a case in point. A dedicated effort has been made to ensure that the legislative and regulatory environment awaiting new arrivals is proactive and recognises the real business needs of entities. Minimum capital requirements that are competitive with other jurisdictions are in place. While potential licensees are encouraged to work through an insurance manager who is familiar with the Bahamas, this is not mandatory. At the same time the Insurance Commission of the Bahamas (ICB) carries out due diligence on risk managers and directors of the companies interested in coming here to ascertain that policyholders have adequate protection. From the perspective of the Bahamas, its effective regulatory regime is very much a competitive advantage.

Moreover, the captive environment in the Bahamas is supported by a highly experienced and diversified asset and wealth management industry. The jurisdiction has developed a reputation as a leader in these areas, which has enabled it to facilitate synergies with the insurance market.

With nearly 150 active captives as of the end of 2015, more than 15 licensed external insurance intermediaries, direct writing captives, reinsurance captives, risk sharing arrangements and licensed variable insurers, it's hard to imagine that less than 10 years ago, the Bahamas was a virtual forgotten player in the external insurance marketplace. This, however, is all about to change.

Historically, external insurers licensed in the Bahamas were insuring US-based risks. More specifically, the captive arrangements largely consisted of directly written coverage for a US-based affiliate. Additionally the captive coverages were typically supplemental to the traditional lines of insurance maintained by the business. The complexity of providing coverage that was compliant with the US Department of Labor or specific insurance requirements from banks, vendors, clients and so on fell outside of the realm of concern of many of the captive shareholders. These captives, therefore, provided the respective owners with the primary benefit of pre-funding for the potential loss of events for which there would have been no source of financial recovery in the absence of the captive.

While anyone in the industry would agree that this approach is certainly an advancement to the more commonly pursued approach of ignoring the potential for significant uninsured loss, these owners had still barely scratched the surface of the potential benefits of their captive.

As the learning curve has steepened over the last several years and owners have become more comfortable with the idea of strategic risk retention, the strategies for financing the diverse scope of risks of these insureds has also evolved. Furthermore, the accumulated earnings of these captive arrangements have put the insureds in a powerful bargaining position when it comes time to renew the coverage obtained through third-party insurers.

In combination with a focus on retention analysis and the implementation of risk mitigation strategies at the operating business level, some of these captives have enabled business owners to prudently reduce premiums paid to third-party insurers by as much as 50 percent.

Other success stories include the moment an insured experienced a six-figure covered loss under one of its captive policies and was finally able to quantify the benefit of assuming and distributing risks with numerous unrelated insureds through a risk sharing arrangement. The counterpoint to this realisation was when the assuming reinsurers realised that the impact of such a loss spread among a large of pool of participants was really not as painful as they likely imagined when they entered into such an arrangement. These realisations have built confidence in the planning and have enabled a further evolution into the programme structure of these captives.

Instead of the captive simply insuring the deductible or self-insured retention exposure at the operating business level, authorised fronting insurers are now entering the equation, enabling these captives to assume as much risk as their appetite and captive capacity will allow, before being retroceded to professional reinsurers. Therefore, in some cases these captive programmes are in the process of morphing from a purely direct writing capacity to a more sophisticated hybrid programme structure. The involvement of the authorised fronting insurer not only enables the insured to take over significantly more control of the current commercial insurance programme, but also enables some of these insureds to utilise their captives as profit centres.

There are several programmes currently in the midst of contemplating fronting assistance in the issuance of coverage to vendors, customers, and/or subcontractors of the operating business, or provide extended warranty programmes. Any of these additions will only add integrity to the overall captive structure and enable the owner to position itself to continue to expand the potential for profits via the assumption of risk.

As the risk financing strategies and insurance programmes have evolved, so to have the involvement from regulators and service providers. The ICB has continually added staff to accommodate the new formations and maintains an active interest in understanding the change in business plans and programme structures. It has an active presence at all major industry conferences and staff members that are dedicated to

> “The involvement of the authorised fronting insurer enables some insureds to utilise their captives as profit centres”

continually increasing their captive knowledge through various insurance credentialing programmes, including the Associate in Captive Insurance through the International Center for Captive Insurance Education.

The ICB today still provides unparalleled accessibility and a strong interest in prudently expanding the external insurance footprint of the Bahamas. In parallel, the insurance expertise that we are seeing in the Bahamas is on the rise, as well as the level of understanding from various audit firms regarding the insurance transactions that are unique to captive arrangements. The level of exposure among local legal professionals has also rapidly expanded. There are reportedly six law firms in New Providence that are actively advising clients on external insurance matters.

It is also important to note that the state of the traditional insurance marketplace worldwide almost necessitates a more rapid availability of these types of solutions to business owners of all sizes. With a glut excess capacity, insurers and reinsurers are more accommodating to alternative planning than they may otherwise be in a harder market. It just so happens that many of the insurers that are accommodating these types of alternative arrangements for US insureds are also pursuing growth in less developed, non-US markets.

The evolution of the external insurance environment in the Bahamas over the previous six or seven years has favourably positioned it to garner the confidence of business owners in Mexico, Colombia, Peru, and Brazil, among numerous other jurisdictions, to pursue a more sophisticated approach to managing risk. Enter players of the calibre of Long Cay Captive Management.

Long Cay is leveraging the existing insurance, banking and finance infrastructure to deliver compliant solutions to two important parties: the owners of growing businesses in developing markets and the insurers that have an interest in providing coverage to these businesses. The growth in interest from international business owners, primarily in the Latin American region, has been fuelled by the economic growth arising from the reduction of trade barriers.

> “Many local markets cannot handle sophisticated insurance needs”

As these small multinational companies grow, there has been an increasing awareness on the importance of risk management. It has also become apparent that the local markets in many of these countries are not capable of handling the sophisticated insurance needs of some of these growing clients and can therefore only offer limited support and limited capacity. In many cases, the penetration of property and casualty insurance to these developing markets is literally only a fraction of what has been experienced in the US. In this sense, one of the initial driving forces is to form a captive solely to gain access to the abundant capacity and creativity in the international reinsurance marketplace. Also relevant is the growing importance of enterprise risk management as a focal point of the rating process that many of these business owners need to go through in order to expand their trade opportunities. The evolving customer needs of these countries are requiring insurers to rethink their strategies and be more nimble than historically anticipated.

In light of the above, however, it’s important to put into perspective the growth opportunity for the Bahamas. In comparison with the approximately 5,000 captive insurance companies that have been formed for US insureds, there have only been approximately 80 captives formed for Latin American business owners. Companies such as Long Cay are confronted with governments whose primary objective has been to provide for the immediate basic needs of its population versus bolstering the availability of insurance for its people. As such, promoting a culture of insurance and communicating the varied benefits of implementing a captive will be challenging due to the limited awareness of these planning opportunities. Furthermore, insurance regulations in many of these countries necessitate the use of fronting insurers, and in many cases, fronting reinsurers, before premiums can be ceded to the captive.

However, with its core areas of expertise and its established network of strategic market partners, Long Cay is poised to lead the next evolution in external insurance in the Bahamas and open the doors to the international insurance and reinsurance opportunities.

Like most productive joint ventures, Long Cay Captive Management was forged out of a mutual acknowledgement of differing but complementary skill sets. Recently named the best private bank in the Bahamas by Global Finance, Deltec Bank & Trust has a long-standing presence in the Bahamas dating back nearly 60 years. Deltec has excelled in the private banking sector, effectively delivering a diverse array of solutions to high net worth clients all over the world, many of whom own and operate closely held private businesses. Over the years, Deltec has strategically established an extensive and well-entrenched network of relationship managers in numerous developed and developing markets.

Hamilton Captive Management is the largest Bahamian insurance intermediary licensed under the External Insurance Act. Hamilton is responsible for a substantial amount of insurance infrastructure including three segregated accounts companies, more than 100 active segregated accounts (also known as cell captives), as well as the risk sharing facility through which the risks and losses of all participants are distributed—the first of its kind in the Bahamas.

Hamilton’s focus, however, has been successfully delivering captive insurance solution to US-based business owners.

Deltec acknowledged the merit of adding sophisticated insurance and risk financing strategies to its already diverse quiver of solutions for international clients. Hamilton recognised the opportunity to scale its current US-focused insurance platform to include business owners worldwide. Both companies recognised the value in being positioned to provide such strategies in the relatively underdeveloped international captive insurance marketplace. On this premise, Long Cay was founded with the objective of delivering alternative risk financing strategies to closely held businesses in non-US jurisdictions.

This innovative partnership is a microcosm for the evolution of the Bahamas as a domicile for external insurance and has played a critical role in positioning the Bahamas to accommodate business from other target-rich areas of the globe. **CIT**

Tanya McCartney
CEO
Bahamas Financial Services Board

Joseph Ziolkowski
Principal
Long Cay Captive Management

Industry Events

Bermuda Captive Conference 2016

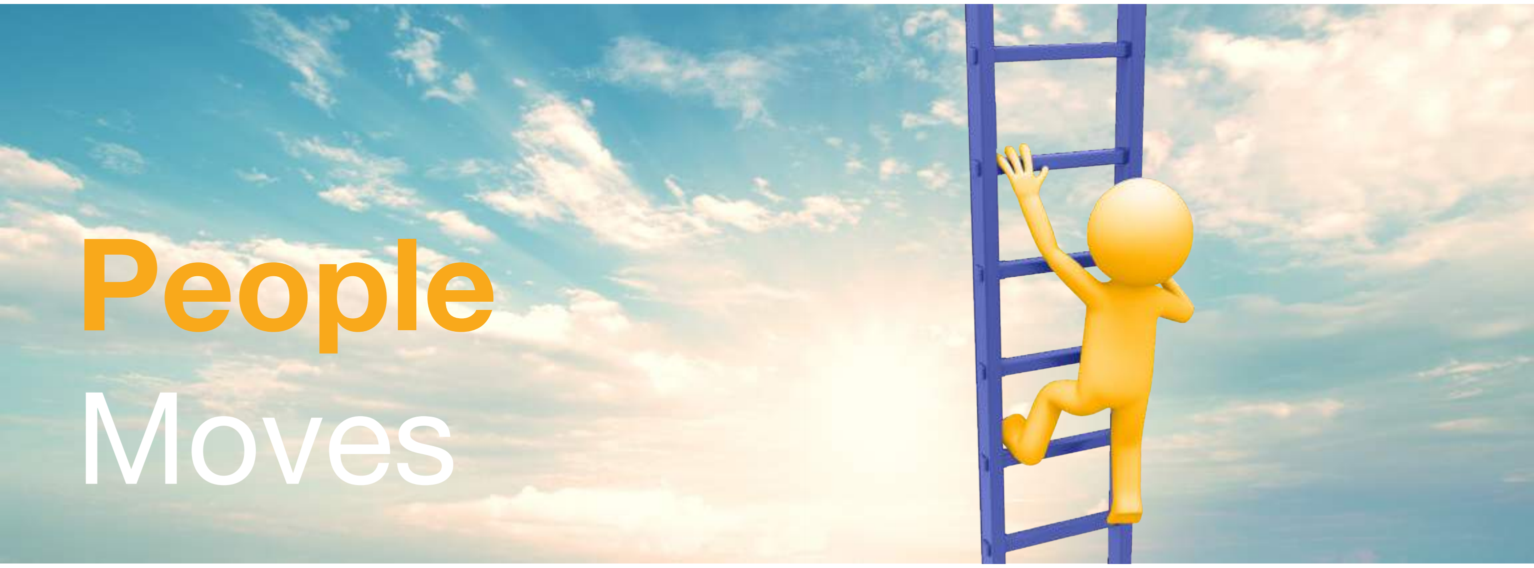
13-15 June
Bermuda
www.bermudacaptiveconference.com

The Bermuda Captive Conference 2016 will provide captive owners, risk managers and insurance professionals with a robust and extensive agenda that provides insights into current developments that affect the captive insurance market and a broader view on insurance industry topics, emerging issues, global risk perspectives and an opportunity to interact with industry specialists and peers.

Africa Insurance and Reinsurance Conference

28-29 June
Nairobi
www.aidembs.com

The 2016 Africa Insurance & Reinsurance Conference will keep you up-to-date with the latest industry developments, marketing strategies and product innovations relevant for the African market. New technologies, development of new client segments and the overall economic growth in the continent is not only forcing regional insurers to rethink the way they conduct business but also forcing the global players to look at Africa as a strategic market for growth.



People Moves

Chris Lay, president of the Marsh global captive business, has been promoted to the position of president and CEO of Marsh Canada.

Marsh has named **Nick Durant** as his replacement, effective 1 July.

In his new role, Lay will assume responsibility for the operations of Marsh Canada. He will take over from Alan Garner, who is taking on the role of Chairman of Marsh Canada, effective from 1 July.

Lay will focus on driving client value in Canada and on delivering advisory and strategic services to a growing client base in the region. Based in the Toronto office, he will report to Robert Bentley, President of Marsh in the US and Canada.

Bentley said: “Chris Lay’s experience across a wide range of risk and insurance businesses makes him an outstanding choice to lead our Canadian operations. [He] will continue to strengthen our relationships with our clients as their trusted risk advisor.”

Lay added: “Our reputation in Canada has been forged by a sustained commitment to excellence from our colleagues there and the continuity and experience of our leadership team.”

“I look forward to working with them to deliver the innovation and superior value that our clients have come to expect.”

New Marsh global captive business president Durant will be based in New York and report to John Drzik, president of Marsh’s global risk and specialties division

In his new role, Durant brings 20 years of reinsurance and analytics experience, having most recently served as Marsh’s global analytics sales leader.

Drzik said: “Strategic advice and capital-based solutions have never been more critical for our captive clients. I am confident that Nick Durant’s leadership will help us build on our current growth momentum and accelerate our innovation of new solutions.”

Willis Towers Watson has appointed Rafal Walkiewicz as CEO of Willis Capital Markets & Advisory, the firm’s investment banking business, following the departure of co-CEO Michael Guo.

Based in New York, Walkiewicz will take the reins as CEO of the investment banking business effective immediately.

Walkiewicz joined WCMA in 2014 and was appointed as co-CEO in 2015. His confirmation as full CEO follows the departure of WCMA co-CEO Guo, who has held the position since 2015.

Guo joined Willis in 2013 as WCMA’s head of Asia, having been a partner and managing director of Boston Consulting Group.

WCMA’s **Vincent Lien** in Hong Kong and **John Philipsz** in Australia will take on joint responsibility for its Asia strategy.

Lien was appointed as managing director of Hong Kong for WCMA.

Dominic Casserley, president and deputy CEO of Willis Towers Watson, said: “Rafal Walkiewicz has been instrumental to the success of WCMA over the past few years and I am confident he will continue to strengthen its client offering and drive the business forward in new markets.”

“I also want to thank Michael Guo for the valuable contribution he has made to WCMA’s global footprint by further developing and broadening its client relationships and market coverage in Asia.”

Walkiewicz added: “The WCMA business model is built on the highest standard of execution combined with superior understanding of the insurance industry.

“With unprecedented globalisation of the insurance industry, we remain committed to our strategy in Asia to support our clients’ interests in the region as well as growing global ambitions of Asian capital.”

Eurobase International Group has named Ilka McHugh as its new director of insurance solutions.

In her new role, McHugh will be a part of the firm’s ongoing expansion in the reinsurance and captive markets.

McHugh, who joined from Ventiv, has more than 25 years of experience in risk management and insurance, previously working in Germany, France, Switzerland and the UK, not only for insurance companies and brokers but also as an insurance and captive manager for a global logistics company.

Joe Locke, CEO of insurance and banking at Eurobase, said: “Ilka McHugh has strong domain expertise of both the reinsurance and captive markets and we are pleased to have her join the team."

Brentwood Reinsurance Intermediaries has appointed Bill Hodson as senior vice president.

Hodson joins from USA Risk Intermediaries, the reinsurance intermediary platform of USA Risk Group.

Brentwood Reinsurance president Keith Fawcett commented: “Hodson will broaden the range of reinsurance products and capabilities offered through BrentRe.”

He added: “His focus is on placing and servicing specialty lines reinsurance for traditional carriers, programme-oriented business produced through managing general agents, and alternative risk reinsurance placements for captives and risk retention groups.”

He added: “Hodson [will also] be working with diverse groups to create unique insurance coverages and bring them to market."

Aon Insurance Managers in Bermuda has named Anup Seth as managing director.

Seth will be responsible for leadership and oversight of Aon’s captive and insurance management operations in Bermuda.

He brings 20 years of international experience, with a particular focus on speciality commercial insurance solutions.

He joins from ACE Bermuda International in Ireland, where he was a managing director based in Dublin, and has previously served as a chief actuary at ACE and as a senior consultant at PwC. He is also a fellow of the UK Institute of Actuaries.

Seth said: “I’m delighted to join Aon and return to Bermuda at a time when the island has become the world’s leading insurance linked securities marketplace, maintained its preeminent status as a captive domicile, and has developed a robust corporate governance framework for its global reinsurance industry.”

“Given this backdrop, the investments that Aon has made in its client serving capabilities across insurance linked securities, captive and insurance management and risk consulting continues to position the firm for long-term revenue growth and further margin expansion on the island.”

Andrew Hulme is taking on a new position at JLT Insurance Management, moving from his current role as vice president of underwriting and claims to become the new business development vice president.

Hulme joined JLT Insurance Management in 2012, and has previously worked at Aviva and Allianz.

His experience includes assessing exposures and claims trends, and advising clients on alternative programme structures.

Richard Daley, president of JLT Insurance Management, said: “In just a few years, Andrew Hulme has shown extraordinary abilities in underwriting often difficult programmes, while also providing development support for new clients.”

“We believe [he] will continue to serve our clients and develop prospects in a way that will best serve our clients and strengthen the firm’s position as an offshore insurance leader.”

Have an industry appointment, promotion or retirement announcement you would like us to cover? Let us know via: beckybutcher@blackknightmedialtd.com

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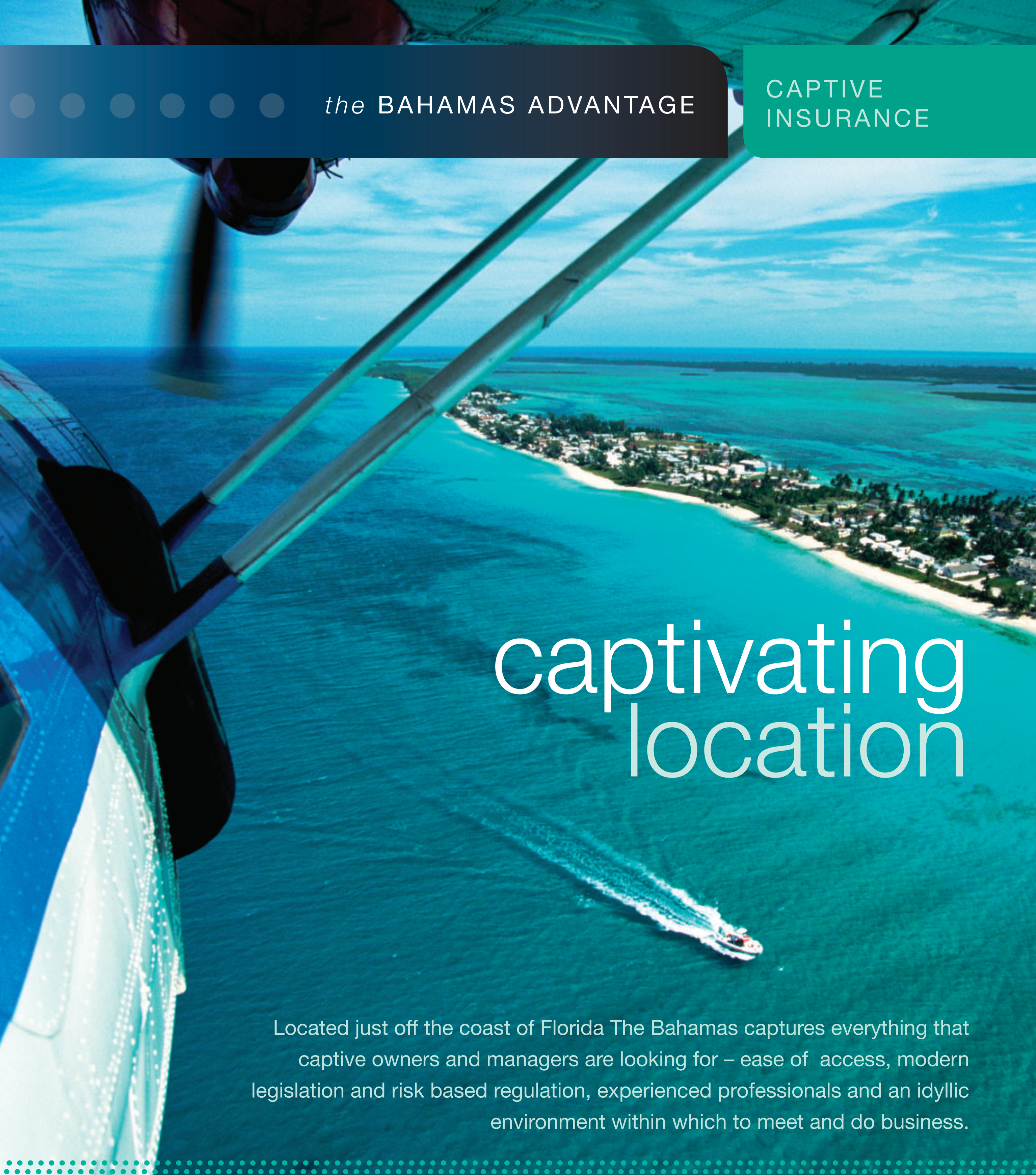
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