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The primary source of global captive insurance news and analysis

Several US states have passed, or are on the cusp of passing, changes to their captive legislation in a bid to modernise their regulatory offerings.

Vermont has finalised changes to its captive law, while Tennessee, Alabama and Georgia are at various stages of consideration.

Most recently, the Alabama Senate voted 29 to none to pass the state's captive bill, which will see the insurance department provide 60-day provisional licences to new captives.

The bill recently passed the Alabama House of Representatives, by 96 to none, meaning it only needs to be signed by governor Robert Bentley to become law.

The changes in Alabama will make captive formation easier for small businesses.

Elsewhere, the State of Vermont fully signed off on changes this month.

They will see sponsored and industrial insured captives able to enter dormant status, allowing them to waive premium taxes but stay in Vermont, ready to be reactivated.

Tennessee's Senate backed the state's new captive bill this month and it now awaits full signature from Tennessee governor Bill Haslam. That legislation will establish a new way for captives to redomesticate to the state.

In Georgia, insurance committees are considering whether to make changes to the captive legislation proposed, which currently include provisions for agency captive formations, as well as allowing accident and sickness insurance to be written by a pure captive insurance company.

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BevCap Captive Group moves to Hawaii

BevCap Captive Group has joined BevCap's sponsored cell captive insurance company, domiciled in Hawaii.

Now a part of BevCap Health, BevCap Captive Group, previously domiciled in Nevada, provides its beer distributor members with workers' compensation, general liability, auto liability and auto physical damage coverage.

BevCap Health, meanwhile, is a self-funded health plan with group risk sharing.

BevCap Captive Group has also added West Side Beer Distributing of Romulous, Michigan, and Double Eagle Distributing of Deerfield Beach, Florida, as new members.

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Record breaking Q1 for ILS market

Q1 2016 saw new issuance volume reach $2 billion of non-life capacity, breaking the record of any Q1 for the insurance-linked securities (ILS) market, according to Willis Capital Markets & Advisory.

Issued through nine transactions and 13 tranches, capacity was up 35 percent compared to the Q1 2015 total of $1.5 billion in seven deals.

Willis Capital Markets & Advisory's report showed that all Q1 issuances were sponsored by repeat sponsors. It also revealed that Q1 2016 ended with $23.2 billion outstanding, also a record for any quarter end.

Apart from the Japanese bonds Akibare Re and Aozora Re, Q1 was dominated by US transactions. Merna Re 2016-1 was the only US transaction paying a coupon lower than 5 percent.

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BevCap Captive Group moves to Hawaii

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"We are delighted with our partnership with the Hawaii regulatory team and look forward to growing our business with them."

Lance Abbott, president of BevCap Captive Group's programme manager BevCap Management LLC in McKinney, Texas, commented: "To the best of my knowledge, the establishment of our second cell in Hawaii makes BevCap Sponsored Captive Insurance Company the first Hawaii captive to have multiple active cells."

Record breaking Q1 for ILS market

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Bill Dubinsky, head of ILS at Willis Capital Markets & Advisory, said: "The headline figure shows that a record level of non-life ILS was placed during Q1, highlighting the continued appetite for risk from investors and alternative reinsurance capital from ceding companies. Nonetheless, it is too early to say whether the strong Q1 issuance will translate to a record-breaking year."

The report also highlighted how pension funds and consultants have increased their focus on transparency in cat modelling. As a result, ILS funds and ceding companies are responding with more modelling information.

Dubinsky said: "Going forward we may start to see similar pressure for better transparency in portfolio valuation. As with better modelling, more transparency in valuation will lead to a larger ILS market."

Roundstone partners with Missouri health system

Roundstone Management has partnered with SoutheastHEALTH to underwrite health insurance coverage for the Southeast First Option Health Plan, a provider-sponsored plan for the Missouri-based health system.

Under the agreement, Roundstone will provide back-office insurance services including underwriting, policy, excess claims administration and captive management.

Roundstone president Michael Schroeder commented: "We are excited to be involved with such an innovative and efficient delivery of healthcare benefits to the commercial market. By directly contracting with SoutheastHEALTH, the employers will further reduce their fixed costs and better manage their claim costs."

He added: "The efficiency of our self-funded captive solution makes these type of relationships turnkey and incredibly effective. It draws the community to the provider system, while reducing costs for the employers as well as the employees."

The self-funded plan will be available to employers with 25 or more employees.

Schroeder stated: "I believe we are at a tipping point in healthcare insurance, and these types of direct arrangements, coupled with the financial efficiency of our captive model, will be how health benefits are delivered in the middle market going forward."

IRS wins micro captive battle

The Internal Revenue Services (IRS) can use a deficiency case to challenge the legality of micro captive arrangements, the US Tax Court has ruled.

The Tax Court ruled on 11 February that the nature of Phoenix Capital Management's relationship with its captive, SMS Insurance Company, was relevant to its dispute with the IRS over insurance expenses.

Phoenix formed SMS in 2009 to provide coverage for a drug store company bought in 2001. In 2009 and 2010, Phoenix paid premiums to SMS for the coverage of risk.

In 2009, the captive owner filed $1.2 million premium paid as insurance expenses and another $1.13 million in 2010.

After an audit, the IRS disallowed the deductions and issued a notice of deficiency (NOD) in September 2014.

The NOD said that the deductions had been disallowed because the amount of premiums shown were not insurance expenses and had not paid.

Phoenix challenged the NOD in the Tax Court, disputing the IRS's motions to raise new matter not mentioned in the NOD, including whether any risk shifting existed between the captive owner and SMS.

"We are not at all persuaded that the NOD is as simple as Phoenix asserts," the Tax Court ruled.

"The quintessence of insurance is the shifting of risk and where an alleged insurance premium is paid to a 'captive' entity owned by the very person who wants the coverage and makes the payment, the question naturally arises whether risk has actually been shifted, a question not really answered just by showing an insurance policy."

"Since a payment to one's own entity can sometimes be the mere moving of money from one pocket to another, the question whether

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a premium has really been 'paid' to a captive insurer is not really answered just by showing a cancelled cheque."

"Conducting such an assessment is a useful tool for improving risk understanding and maturity as well as helping organisations better prepare for potential business interruption during or after a breach."

"Thus, if an NOD denies a deduction for premiums paid to a captive insurer because (the IRS says) 'you did not establish that the amount shown was (a) insurance expense, and (b) paid', then that notice has raised much more than 'a straightforward expense substantiation dispute'."

Next two years will be crucial for ACA

As rising costs for healthcare providers and Americans covered by the Affordable Care Act (ACA) continues, the next two years will be crucial in assessing the programme's long-term financial health, according to panellists at an event in Washington DC.

Panellists of the Standard & Poor's (S&P) event noted that expanding the pool of participants will be critical.

Currently, the average costs for services for those who buy insurance on either the federal or state exchanges has begun to outstrip the cost under employer-provided or group plans.

Glenn Doody, vice president of product management for healthcare indices at S&P Dow Jones Indices, said: "The real question that the market needs to answer is: what's going to happen over the next 12 to 24 months? Will these costs stabilise and get in line with employer costs?"

He explained that expectations are for costs to normalise with the employer-provided market as additional insurance consumers, particularly those who are healthy at the time of enrolment, begin to buy coverage on the exchanges.

Business interruption tops cyber risk concerns

Business interruption due to a breach is a top cyber risk concern, according to Aon's 2016 Captive Cyber Survey Report.

The captive cyber survey, new to 2016, found the cost of business interruption due to a breach to be the top cyber risk concern for businesses across all industries.

The survey revealed that 94 percent of respondents would share risk with others in their industry as part of a captive facility writing cyber. Aon expects alternative risk transfer options to become increasingly more attractive as these solutions give companies some control over underwriting, coverage scope and claims adjustment.

The survey also found that 61 percent of survey respondents buy cyber limits in the $10 to $25 million range, but overall, 60 percent of large companies still do not buy cyber insurance.

Of the 40 percent that do, 68 percent buy cyber for balance sheet protection, while slightly fewer buy it to ensure due diligence comfort for the board.

According to the survey results, only 25 percent of respondents that buy limits are confident that they comply with international best practices and standards for information security governance.

It also noted that 95 percent of companies state clear policy wording as the most important issue in the cyber risk market, and 75 percent of large companies have concerns about the loss adjustment process.

Peter Mullen, CEO of the Aon Risk Solutions captive and insurance management practice, commented: "Our findings indicate that there is a disparity between companies recognising that cyber is one of the fastest growing and permeating risks, and actually understanding what their individual exposures and coverage needs are."

"Captives are a great alternative risk transfer solution for bridging this gap while the industry's approach to cyber risk management catches up to the evolving pace of technology."

Kevin Kalinich, global practice leader for cyber and network risk at Aon Risk Solutions, added: "Given the evolving nature and complexity of cyber exposures, we found that the use of cyber risk assessments is surprisingly low."

Siemens concludes £300 million deal

Pension Insurance Corporation (PIC) has concluded a £300 million pension insurance buy-in with the VA Tech UK Pension Scheme and the captive reinsurer of parent Siemens.

The scheme provides pensions for UK employees of the VA Tech Transmission and Distribution business, which was acquired by Siemens in 2006.

John Smith, head of pensions at Siemens, said: "Siemens is the sponsor of several defined benefit schemes in the UK. There is an overall aim to de-risk the schemes in the medium term. Siemens's pension captive programme, in collaboration with PIC, is an important and innovative part of the de-risking strategies which works on a local level as well as at the Siemens group level."

There are two tranches of pension liabilities insured. The first £100 million of liabilities was insured in 2013 by PIC, followed by £200 million in December 2015.

Trustees will benefit from the scheme by securing its liabilities with a UK insurance company.

The collaboration with the Siemens captive reinsurer, Risicom, means that a significant portion of the insured liabilities are reinsured by PIC to Risicom. It also enables Siemens to centrally manage pension risks and liabilities in different pension schemes through its captive reinsurer.

Finally, the transaction covers the liabilities of approximately 1,500 scheme members and addresses any outstanding cross-border complications.

Eric Hurrell, chair of trustees at the VA Tech UK Pension Scheme, said: "This arrangement provides greater security for our members through PIC whilst facilitating Siemens's broader strategy."

Jay Shah, head of origination at PIC, said: "Multinational companies are taking a holistic view of their various pension liabilities across the globe as part of their efforts to de-risk and settle these liabilities."

"Siemens has taken this a step further in this innovative captive reinsurance arrangement. We are proud to have collaborated with Siemens in this transaction."

TigerRisk executes first secondary reinsurance trade

TigerRisk Partners has transacted the first electronic secondary reinsurance trade using Xchanging's X-gRm platform.

According to Xchanging, accessing the secondary market through X-gRm may also be attractive to buyers looking for a quick and easy way to participate in reinsurance risk.

Xchanging believes development of the secondary market will also benefit sellers.

Buyers gain the ability to quickly and efficiently trade in and diversify their portfolios.

Sellers benefit from an easy way to trade out of a position and seek a better allocation of their capital, according to Xchanging.

Rod Fox, CEO of TigerRisk, commented on the trade: "Executing secondary reinsurance trades in 'a live market environment' provides a host of benefits."

"It adds liquidity, increases volume and speeds transactions—something we've wanted to achieve in catastrophe reinsurance for a long time. In addition, it opens an easy-to-access, pre-qualified channel for buyers."

Nick Lamb, director of broking services at Xchanging, added: "Expanding the use of X-gRm to the secondary marketplace is a significant step for this multi-broker platform, and we're convinced this will become an integral facility of the platform."

Forecasting risk to become more difficult

Risk professionals believe that forecasting risk will not get any easier in the next three years, with cyber risk and regulation topping the list of likely emerging risks, according to Marsh.

Marsh's Excellence in Risk Management report, which was produced in conjunction with RIMS, found that while risk professionals are increasing relied upon to identify and assess emerging risks, there remain organisational and other barriers preventing this.

According to the report, 61 percent of survey respondents cited cyber attacks as the likely source of their next critical risk.

This was followed by regulation with 58 percent and talent availability with 40 percent.

Brian Elowe, client executive leader of US Marsh and co-author of the report, commented: "Whether emerging risks are on your doorstep, around the corner, or on the far horizon, they have the potential to catch organisations unaware."

"It's important for risk professionals to maintain awareness of global risk trends, and to make the connection to their organisations' business strategy."

A majority of respondents, 60 percent, said they use claims-based reviews as the primary means to assess emerging risks, compared to 38 percent who said they use predictive analytics.

Elowe said: "The widespread use of claims-based reviews means that a majority of organisations are relying on studying past incidents to predict how emerging risks will behave rather than using predictive analytic techniques like stochastic modelling and game theory to help inform their decision making."

Respondents also cited several barriers to understanding the impact of emerging risks on their business strategy and decisions, with lack of cross-organsation collaboration ranking first among risk professional respondents.

Carol Fox, vice president of strategic initiatives for RIMS and co-author of the report, said: "Lack of collaboration across the organisation is still an issue for many risk professionals. On the other hand, breaking down silos has become less of a concern for executives."

RRGs remain financially stable

Risk retention groups (RRGs) can continue to collectively provide specialised coverage to their insureds while remaining financially stable, according to Demotech.

Douglas Powell, senior financial analyst at Demotech, said in a report on RRGs' financial status that they have a great deal of financial stability and remain committed to maintaining adequate capital to handle losses.

During the last five years, cash and invested assets, total admitted assets and policyholders' surplus have increased at a faster rate than total liabilities.

Since 2011, cash and invested assets increased 70.2 percent and total admitted assets increased 58.4 percent.

More importantly, over a five-year period from 2011 to 2015, RRGs collectively increased policyholders' surplus by 55 percent.

Powell said this increase represents the addition of more than $1.6 billion to policyholders' surplus. During this same time period, liabilities increased 60.8 percent.

These results indicate that RRGs are adequately capitalised in aggregate and able to remain solvent if faced with adverse economic conditions or increased losses, according to Powell.

Underwriting gains and losses have taken a hit, however, with RRGs collectively failing to be profitable in 2015.

RRGs reported an aggregate underwriting loss for 2015 of $58.7 million, a decrease from 2014, and they achieved a net investment gain of $330 million, which beat the previous year.

The loss ratio for RRGs collectively, as measured by losses and loss adjustment expenses incurred to net premiums earned, through to the end of 2015 was 79.6 percent, a decrease from 2014, when the loss ratio was 131.5 percent.

Despite political and economic uncertainty, RRGs remain financially stable and continue to provide specialised coverage to their insureds, according to Powell.

The financial ratios, calculated based on the reported results of RRGs, appear to be reasonable, keeping in mind that it is typical and expected that insurers' financial ratios tend to fluctuate over time.

Powell said the results for RRGs indicate that these specialty insurers continue to exhibit financial stability, and noted that while RRGs have reported net income, they have also continued to maintain adequate loss reserves while increasing premium written year over year.

Powell concluded that RRGs continue to exhibit a great deal of financial stability.

Lombard Odier launches new catastrophe bond fund

Lombard Odier Investment Managers has added to its range of liquid alternative strategies with the launch of LO Funds – CAT Bonds.

LO Funds – CAT Bonds is a new UCITS-compliant vehicle in catastrophe bonds targeting returns of the LIBOR rate plus 2 to 4 percent net of fees, and offering weekly liquidity.

Exposure will be primarily to regions with a high concentration of insured wealth, such as the US, Western Europe and Japan.

Jan Straatman, chief investment officer of Lombard Odier IM, commented: "Over the next few years investors face enormous challenges with low economic growth, low yields and lots of volatility."

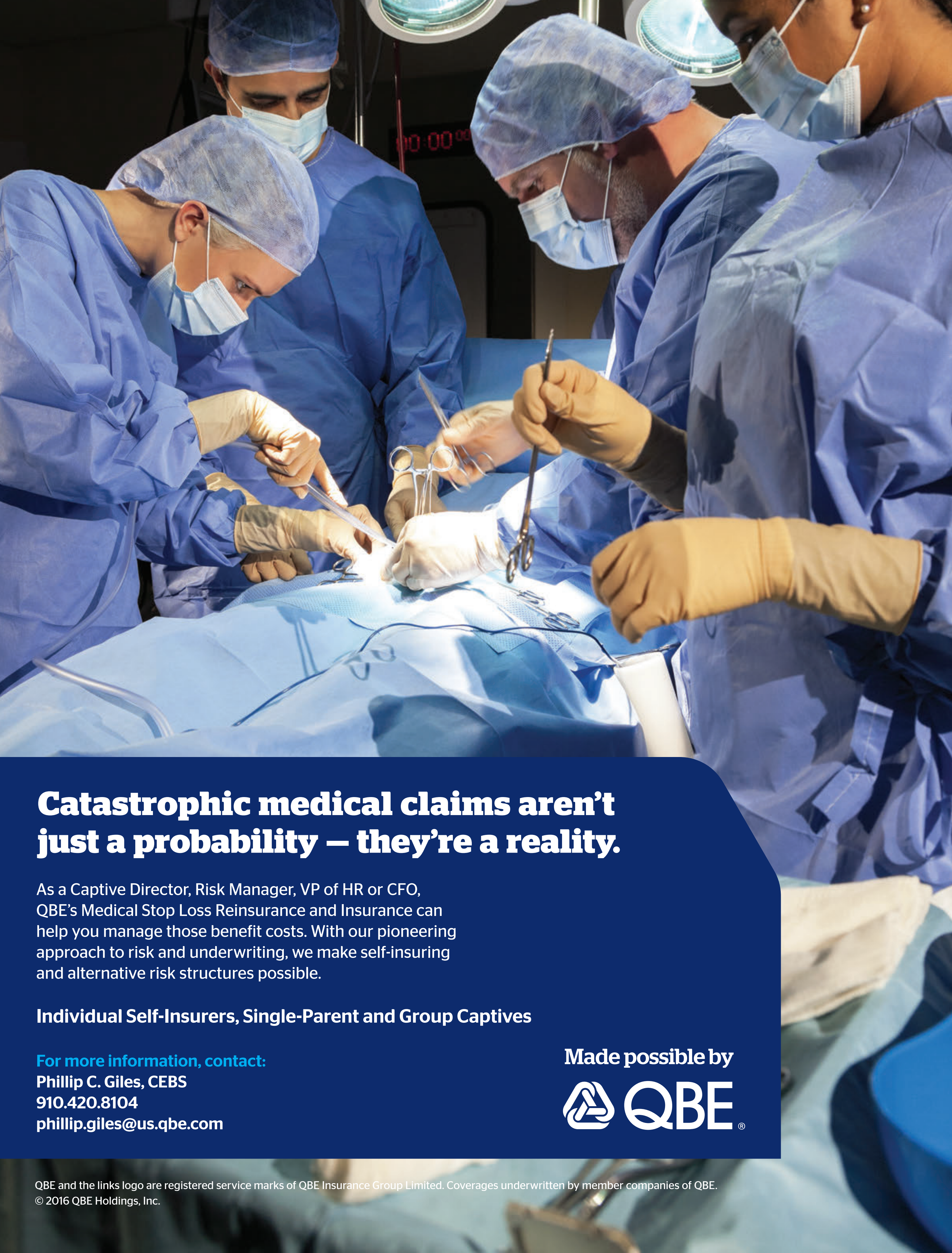
"We know our clients are looking for stable returns, income, capital preservation and lower correlation, and traditional asset classes are not be able to deliver this."

"Cat bonds meet these criteria with a higher starting yield and floating rate coupon. They are uncorrelated to traditional economic and capital markets and their return profile is related to factors such as meteorological and geological events."

The fund will be managed by a team of insurance-linked securities experts appointed in 2015.

They include Gregor Gawron, Simon Vuille, Marc Brogli and Stephan Gaschen.

Gawron said: "We expect the market for insurance-linked securities and cat bonds to continue to grow as the insurance industry looks to cope with the ever increasing concentration of wealth in urban areas and the continuing pressure from regulators."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Solving solvency

Captives critical of Solvency II are finding that regulators are carving out exemptions to the legislation for them. Gaynor Brough and Richard Bray of Aon Risk Solutions explain how the Isle of Man is designing a captive-friendly regulatory environment

What benefits does the bifurcated approach to implementing Solvency II bring to the Isle of Man as a captive domicile, compared to the likes of onshore jurisdictions such as Dublin and Malta?

Gaynor Brough: Broadly, captive owners have been critical of Solvency II, believing that it is over-engineered for captive business and not fully recognising the reduced risk to third-party policyholders. A bifurcated approach would allow the Isle of Man to maintain its position as an attractive jurisdiction with a regulatory framework that is proportionate to captive business, while taking into account the strong life sector on the island.

Richard Bray: The Isle of Man has a policy of maintaining a high degree of compliance with the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs) and is currently in the process of developing its insurance regulatory framework to take account of changes in the ICPs.

According to the Application Paper on the Regulation and Supervision of Captive Insurers, which was issued in November 2015, 'high-risk' captives, those that write third-party business, should be treated like commercial insurers by regulators. How will the Isle of Man approach the regulation of these captives in its IAIS review?

Brough: Ordinarily, any insurer that writes third-party business should be subject to commercial or near commercial regulatory standards. However, there are some instances where reduced standards might be permissible. For example, reduced standards

A bifurcated approach would allow the Isle of Man to maintain its position as an attractive jurisdiction with a regulatory framework that is proportionate to captive business, while taking into account the strong life sector

Gaynor Brough, Managing director, Aon Risk Solutions

might be applied when the policyholder is a sophisticated party and is entering the contract on an informed consent basis. The Isle of Man is currently considering this and other potential exemptions within its market.

Capital adequacy requirements have been adjusted for solvency purposes to ensure that insurers can absorb significant unforeseen losses while also providing for varying degrees of supervisory intervention. What approach will the Isle of Man take to make updates to this principle?

Bray: The Isle of Man is in the process of further development of its insurance solvency regime. This includes, for example, more detailed minimum requirements in the setting of technical provisions for regulatory solvency purposes, as well as more specific guidance on enterprise risk management, including own risk and solvency assessments to further supplement capital adequacy assessment. Proportionality will be a consideration when undertaking this exercise.

Captives typically pose reduced risk to external stakeholders and to the financial stability of the insurance market, according to the IAIS. How will the Isle of Man implement reporting to monitor solvency, assess compliance with legislation and identify potential problems?

Brough: In its development programme, the Isle of Man is anticipating refining its current model. This is based on periodic regulatory returns and on-site inspections, which feed into ongoing regulatory monitoring and assessment. The framework will also maintain broad powers for the Isle of Man Financial Services Authority to amplify regulatory scrutiny on a case-by-case basis where appropriate.

What regulatory initiatives is the Isle of Man undertaking to remain attractive to new forms of business, such as ILS?

Bray: The island has in place its insurance special purpose vehicle (ISPV) framework, which is specifically designed for insurance-linked securities (ILS) and similarly styled business.

This framework was designed following consultation with a leading global ILS broker and other users of ILS structures, which produced a robust, proportionate framework.

This in turn provides transparency to applicants and speed-to-market with a five-day regulatory decision turnaround. It can be used for a variety of structures, including catastrophe bonds, mortality bonds, sidecars and industry loss warranties, as well as other collateralised reinsurance structures.

The Isle of Man already has incorporated cell company and protected cell company legislation in place, which supports the ISPV framework.

The ISPV framework reflects the regulator's ability to respond to changes in the regulatory and economic landscape and develop legislation in close consultation with the industry and the Isle of Man's Department of Economic Development.

Further regulatory initiatives are ongoing, as would be expected with the ever-changing insurance and economic environment. CIT

The island has in place its insurance special purpose vehicle framework, which is specifically designed for insurance-linked securities and similarly styled business

Richard Bray, Client service director, Aon Risk Solutions

Sweet home Alabama (or Georgia, or Tennessee, or Vermont)

Four US states are revising their regulations in a bid to stay competitive

Alabama

The Alabama Senate has approved HB 270, with a 29-to-none vote, paving the way for governor Robert Bentley to sign the changes into law. The bill has already passed the Alabama House of Representatives, by a vote of 96 to none.

Alabama's Captive Act was originally approved in 2006 but has not been updated since. During that time, captives have gone through significant changes in the way they are formed, regulated and taxed.

Norman Chandler, chairman of the Alabama Captive Association, explains: "The change will allow for easier captive formation, especially for small businesses. It will also help larger businesses because there will now be a cap on the premium tax of $100,000."

Several additional states have passed captive legislation in recent years. As a result, Alabama's law was somewhat stale and needed an update, according to Chandler.

"We need an updated law to make Alabama competitive again. The changes will allow for easier captive formation, by lowering capital requirements to match several other Southeastern states," he adds.

The proposed changes include the modernisation of the language and capital requirements for protected cell captives. Protected cell captives, currently allowed under Alabama law, give small business greater access to captive insurance.

The update will further allow captives to be formed as any entity allowed by law. The current law states that captives must form as corporations. Chandler notes that the update will apply to all types of entities, including series limited liability companies.

The new update will also provide a 60-day provisional licence. This small business-friendly update will make for easier entry into the captive insurance market.

Alabama has significantly higher requirements on certain types of captives, however, and the Captive Act update will match initial capital to current industry standards, making Alabama competitive with other domiciles.

Chandler suggests that another change that will help the competitiveness of the domicile is the clarification on the amount of premium taxes that captives are required to pay.

The new law will mean dormant captives are not subject to premium tax, and insurance department examination fees will be allowed as credits to the premium tax.

Chandler says that the Alabama captive industry is growing slowly but benefits from a "relatively long history". Alabama currently has 40 captives licensed, including pure, association, protected cell, branch and industrial insured captives. Chandler adds: "By passing this law, we expect that number to grow significantly".

"The department is very efficient in reviewing captive applications and in regulating existing captives. We have a good regulator. We need an updated law to make Alabama competitive again."

Georgia

Georgia's amendments, which were put forward under Senate Bill 347, passed the Senate on 26 February and have now been sent to the Georgia House insurance committee for review.

The bill revises the current law and includes extensive changes to the captive insurance provisions, according to Kim Bunting, COO of River Oak Risk.

The changes include permitting agency captive formations, expansion of the risk retention group captive law, allowing accident and sickness insurance to be written by a pure captive insurance company, and permitting businesses outside of the state to form a captive in Georgia.

Bunting suggests that all of these changes expand the captive options in Georgia, matching or exceeding options in other popular captive states.

She explains that the change relating to businesses outside of Georgia forming captives in Georgia is a key change that will allow expansion of the captive industry in the state beyond its own borders, which has been critical to the success of other states such as Vermont and Delaware.

Bunting says: "We do expect to see an increase in new captive formations and redomestications in Georgia. Several new captives were formed by year-end 2015 in Georgia and a major redomestication of Coca-Cola's captive to Georgia occurred."

Coca-Cola is headquartered in Atlanta. According to Bunting, the fact that the city has one of the highest concentrations of Fortune

500 company headquarters in the US makes it likely that there will be a number of large company captive redomestications to Georgia in the next couple of years, as well as new captive formations that would have otherwise gone to other states.

Bunting suggests that Georgia has a relatively robust captive industry, mainly located in the Atlanta area, including captive managers, accounting firms with captive specialty practices, and actuarial firms with captive expertise.

She says: "Most of the efforts of companies in the Georgia captive industry have, to date, been focused on developing Georgia captive opportunities that ultimately were domiciled in other states. The industry can now focus on domiciling more of these businesses in Georgia."

Tennessee

Tennessee's legislation moved one step closer to law after the new captive legislation, HB 2228, received 31 votes to none in the Senate. It now awaits full signature from governor Bill Haslam.

Most notably, the legislation establishes a new way for captives to redomesticate to the state. Currently, companies need to create a new Tennessee captive and then either merge the old insurer into the new one, or place its policies and assets in the new captive.

Under the new legislation, companies can simply register a transfer of the captive's domicile, once the insurance department has approved the redomestication.

The legislation also requires legal actions brought against a protected cell captive to specify which protected cells are party to a suit. The change addresses industry concerns that the walls between cells will not be respected by courts.

Tennessee's new captive legislation also reforms self-procurement tax forgiveness. Tennessee companies with foreign captives facing a liability on current or past-due procurement taxes will have those liabilities forgiven if they redomesticate that captive back to Tennessee by the end of 2018.

Companies will receive self-procurement tax forgiveness if they transfer a complete line of business into a newly-formed Tennessee captive with at least $15 million of capital and $30 million of annual premium. Finally, the legislation clarifies and sets a uniform due date of 15 March for annual reports and payment of premium taxes, although risk retention groups must still file their annual reports by 1 March.

Kevin Doherty, president of the Tennessee Captive Insurance Association and a partner at Nelson Mullins Riley & Scarborough, commented: "Once again Tennessee has shown that it is willing to do what it takes to stay at the forefront of the captive insurance industry and take innovative action to encourage movement of captives to Tennessee."

Vermont

US captive powerhouse Vermont finalised tweaks to its its captive legislation, with governor Peter Shumlin signing them into law on 13 April. Despite its position as the most popular captive domicile in the US, and indeed the world, Vermont makes changes to its laws every year.

The Vermont Captive Insurance Association (VCIA) uses its member legislative survey results as a foundation to meet with leadership at Vermont's captive management companies and captive attorneys in order to draft proposals for changes to the state's captive statutes.

Once proposals have been agreed, the VCIA meets with Vermont's captive regulators to discuss what will become the initial captive bill to be presented to the legislature.

Richard Smith, president of VCIA, explains: "We do this every year because we know it's important."

The captive industry is always evolving, "so we need to make sure Vermont's laws keep pace".

Smith says: "Any time you update your laws and regulations to keep ahead of this ever-changing industry you increase your chances to attract captive growth."

Giving Vermont's legislators a bill every year to review, change and pass allows them to engage with the captive industry, according to Smith.

Vermont's new captive bill will allow sponsored and association captives to file reports on a fiscal year-end.

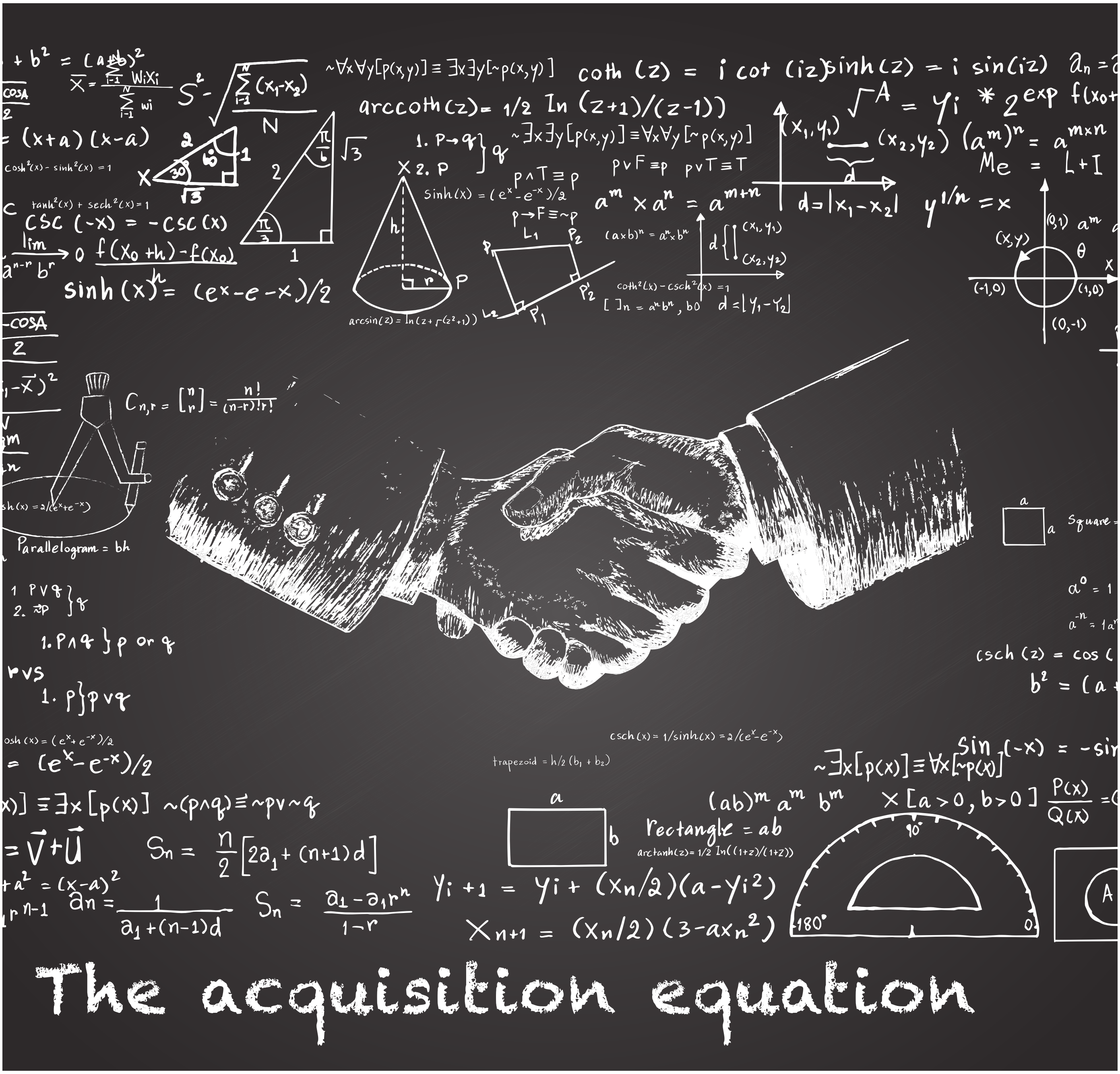
Previously, many sponsored captives were only open to affiliates, while association captives were limited to members of the association.

In these cases, it is appropriate to allow the captive's year to match the owner's or insured's, according to Smith.

The bill also allows sponsored and industrial insured captives to enter dormant status, meaning they can waive premium taxes but stay in Vermont, ready to be reactivated.

Protected cells, meanwhile, are now allowed free movement, so they can move to a different sponsored captive or be converted into an incorporate cell or separate captive. Finally, some minor adjustments have been made to risk retention group governance standards, which passed in the last bill, to clarify the rules for easier implementation.

Smith said of their passage: "This update to Vermont's captive law shows the industry our flexibility, innovation and clarity: three characteristics that any business values and looks for in the state it operates in." **CIT**



Having completed two high-profile acquisitions, David McManus of Artex Risk Solutions explains what its new capabilities mean for clients and the captive industry

How would you describe Artex's captive capabilities following the Kane acquisition? What can you achieve for current and new clients?

Artex is the fastest growing and most diverse insurance manager in the industry. We manage over 1,000 captives and cells in 27 domiciles through nearly 400 staff in more than 15 global locations. There are very few other managers who can offer this sort of scale, but what really differentiates us from the elite peer group we now find ourselves in is our strong sense of independence. Many of Artex's leaders built their own successful businesses by bringing creative, independent thought to the development of their risk management solutions. Far from wanting to stifle that in any way, independent thought is the key brand characteristic we want everyone in Artex to embrace. That's what Kane and all our previous mergers bring to Artex's existing clients and prospects. In turn, Kane's clients can take comfort in the additional financial strength and stability that comes from being part of Artex and a subsidiary of a New York Stock Exchange-listed risk management parent with an $8 billion US market cap.

We have a fantastic owner in Arthur J. Gallagher & Co, which really understands this business and have the confidence to allow us to operate as an independent brand. This has enabled us to retain a hugely supportive referral network that, while including some of Gallagher's top retail brokers, is not in any way dependent on them. Almost 90 percent of our business is generated from outside of our parent group. Externally, when we consider independent thought and what it means for our clients, it is the fact that we're able to create and provide a full range of alternative risk management solutions, customised for our clients' individual challenges and opportunities. Powered by independent thought and an innovative approach, we empower our clients and partners to make educated risk management decisions with confidence.

What plans do you have for your captive offerings in the future? Are you planning any expansions?

I think you'll see us become a lot more active in the healthcare and financial services niche than we have been up until now, as well as in the Cayman Islands and Bermuda in general. We have had a strong presence here for many years, but the scale of the businesses in both domiciles was such that our priority was always strong customer service and retention. With considerably greater scale, our combined teams are resourced to start seeing more new business, and our North American production unit is gearing-up to make sure that happens. This is another key differentiator at Artex. We have a deep pool of sales talent and disciplined production management, which, when fully engaged with Kane's expanded capabilities, will undoubtedly drive growth from our extensive referral network.

What were your motivations for acquiring the Kane ILS admin business at the same time as Hexagon Insurance PCC?

First and foremost, like every merger we have done or ever will do, it's all about the people who lead those businesses. In the case of Kane's insurance-linked securities (ILS) teams and Hexagon, they are among the smartest and most respected voices in this sector. Acquiring great talent whenever it becomes available will always be a priority. That said, our strategic intent to enter the ILS business could not have come together better than through the acquisition of a strong Bermuda and Cayman ILS team in Kane, plus one of the two leading ILS structure administrators in Guernsey.

As always, the first priority will be to take care of our existing customers, but as we move through integration, the teams will come together to make sure we offer sponsors and investors the widest possible range of skills sets, structures and domicile capabilities available.

What opportunities does ILS offer captives? Do you think captive owners should look more closely before entering the ILS market, and do you think they need more education before entering?

The ILS market's potentially greater interaction with corporates and/or their captives is a subject very much in vogue at the moment, but of course it is nothing new, with Tokyo Disney Land having utilised alternative capital to support its earthquake protection since as far back as far as 1999. Amtrack and New York Metropolitan Transport Authority cat bonds are more recent examples, but I doubt that anyone could seriously argue that we have anything yet that amounts to a trend.

What we can be sure of is that risk and capital will always seek out the most efficient methods to come together. That means that every player in the risk value chain will be challenged including the broker, the insurance manager and the captive. There is some debate as to exactly how big the global 'protection gap' is, but there is little doubt that it is huge, with insurance estimated to respond to no more than 30 percent of global economic losses from natural disasters. Add to this public and private exposure to man-made losses from cyber, terrorism, pollution and other impacts to the environment and it's not hard to conclude that there is no shortage of risk looking for capital.

Risk managers and chief financial officers of every large corporation, public and private, are already on to this and are eager to understand how the ILS-sponsored capacity could be structured within their programmes. Minimally, we can expect that service providers in every segment of our industry will need more education on the subject if they hope to remain pertinent in any large corporates' future risk management discussions. **CIT**

> "Like every merger we have done or ever will do, it's all about the people who lead those businesses. In the case of Kane's ILS teams and Hexagon, they are among the smartest and most respected voices in this sector"

David McManus, President and CEO, Artex Risk Solutions

Industry Events

Western Region Captive Insurance Conference

09-11 May 2016
Arizona
www.westerncaptiveconference.org/

AZCIA, MOCIA and UCIA invite you to attend the Sixth Western Regional Captive Insurance Conference.

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Industry appointments

Arrivals and departures at Adventist Risk Management, XL Catlin and more

Adventist Risk Management (ARM), the risk management provider to the Seventh-day Adventist Church, has named **Tim Northrop** as its new president and CEO.

Northrop will replace **Bob Kyte**, who is on retiring 31 May to pursue other business opportunities in Idaho. He will also hold the roles of president and CEO of ARM's affiliated Gencon Insurance companies.

Northrop started his career at ARM in 2001 as a technical assistant in the underwriting department.

He has served in multiple positions at ARM, most recently as senior vice president.

During his time at ARM, Northrop has opened two international offices in Brazil and the UK, and was instrumental in launching cyber coverage for the Adventist Church.

Northrop commented: "[Our mission] starts with education at the local church where we often see the most losses occur, ensuring the stability of the captive insurance company for future church needs and expanding our international coverage for global ministry."

Juan Prestol-Puesan, ARM board chair, said: "We as the ARM board are confident in Northrop's knowledge of insurance and solid financial management. [He] has the ability and energetic perspective to lead this company."

Atlas Insurance Management has expanded its team with the appointment of **Steve Coffield** as senior vice president of finance and compliance.

Coffield has spent several years as CFO in a variety of industries.

In his new role at Atlas Insurance Management, he will be responsible for the key areas of treasury management, corporate finance and tax, financial systems and controls, corporate secretarial, statutory, regulatory and legal compliance, risk management, human resources and information technology.

Martin Eveleigh, chairman of Atlas Insurance Management, said: "We are very pleased with the continual growth we are experiencing at Atlas. This allows us to bring in experienced and talented individuals, like Coffield, to assist in maintaining Atlas as a leader in the captive insurance industry."

Cim Global Business has recruited captive expert **Malcolm Cutts-Watson** as an adviser to its team. The appointment comes as Cim Global launches its accounting outsourcing offering to captive insurance managers.

Cutts-Watson has more than 30 years of experience in the captive management industry.

He commented: "Captive managers can build resilience in their operating platform and reduce costs by implementing an outsourcing strategy. "

"The key to success is to work with a partner who really understands the business, can demonstrate the capability to deliver and is culturally aligned."

"Cim Global Business offers all of this from their operational base in Mauritius, where they have invested in captive insurance capabilities and have proven experience at cross-border delivery. As such, I am delighted in becoming part of their team."

Cutt's Watson's appointment comes after **Shaun Geils** joined Cim's outsourcing business, which focuses on captive insurance, as head of operations last year.

Previously, Geils served as a captive insurance and insurance-linked securities manager for Kane Group in the Cayman Islands, a position he held for seven years.

Strategic Risk Solutions has appointed **Robert Johnson** as managing director of corporate strategy.

In his new role, Johnson will be responsible for the firm's expansion into new geographic markets and industry sectors.

He joins with 20 years of experience in senior management roles in the captive management industry. His previous roles include opening and managing the South Carolina office of Marsh Management Services.

Most recently, he was managing director and head of office for Aon Insurance Managers in Bermuda.

Johnson commented: "I am looking forward to working in a more entrepreneurial environment and one which is dedicated to the provision of services to the captive industry."

"The strategic initiatives SRS is implementing will allow me to leverage the work and experience gained in my previous captive management positions. I am excited about the challenge of establishing SRS as the leading captive management firm in its targeted markets."

XL Catlin has named **Philippe Gouraud** as its head of strategic clients and broker management of insurance, in a bid to drive its captive services.

Gouraud will take on responsibility for further expanding XL Catlin's insurance solutions to its clients and brokers. He will also help to drive global programmes and captive services.

In his new role, he will report to Kelly Lyles, chief regional officer of insurance.

Lyles commented: "In this newly created strategic role, we expect Gouraud to effectively align our broad underwriting and service capabilities to current and future market demands."

"His mandate includes making sure that our clients can benefit from the full breadth of our global programmes and captives service capabilities, leveraging our owned and partner network."

Harneys has hired **Michael Skrbic** as counsel in its Bermuda office.

Skrbic has more than 25 years of insurance and banking law experience gained from working in London, Hong Kong and Bermuda. Previously, he has held senior positions at ACE Group and Zurich Financial Services.

His practice covers corporate insurance, insurance-linked transactions, life and general insurance and reinsurance, risk funding and transfer solutions.

He also has experience in the Bermuda market, having advised on the formation and reorganisation of Bermuda reinsurance and insurance corporate groups, special purpose vehicles, captives, segregated account companies, and corporate administration of Bermuda-domiciled insurance corporations.

Sarah-Jane Hurrion, managing partner of Harneys Bermuda, commented: "Skrbic has a wealth of international relationships in the ILS market, as well as with financial institutions and reinsurance and insurance companies in Asia."

"The addition of Skrbic adds significant depth of expertise and further strengthens our leading corporate, insurance, and investment funds practices."

Capsicum Re has officially appointed **Alistair Lockhart-Smith** and **Jerry Reeves** as its marine and energy specialty managing partner and partner, respectively, following the completion of their contractual obligations.

Prior to his new role, Lockhart-Smith served as deputy chairman of JLT Re's global business.

Reeves also joins from JLT, where he worked as head of the UK facultative division and as a member of the JLT Re executive committee, in the role of international head of marine and energy.

The pair joined from JLT last year, but their appointments could not be confirmed until they completed certain contractual obligations.

Rupert Swallow, CEO of Capsicum Re, commented: "2016 has got off to an excellent start for Capsicum Re; the business is progressing well and we are gaining market share."

"Lockhart-Smith and Reeves have joined at a great time as we are building momentum and there are lots of opportunities for them to utilise their expertise and experience to develop our reputation in the marine and energy market." **CIT**

If you have an appointment to announce, let us know: beckybutcher@blackknightmedialtd.com

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