

The primary source of global captive insurance news and analysis



## Organisations turning to captive insurers to tackle developing risks

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 benchmarked 1,139 captives around the world under Marsh management, found that the number of captive owners writing non-traditional risks rose considerably in 2015.

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

Chris Lay, president of Marsh Captive Solutions, 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."

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

Continued on p3

## Artex acquires Quest

Artex Risk Solutions has acquired Quest Holdings, an insurance manager based in Gibraltar.

Quest specialises in providing services to insurance companies on the island.

Nick Heys, CEO of Artex's International operations, said: "We had long admired Quest's leading position in the Gibraltar insurance market and their style and approach to business makes them a perfect match for Artex."

"We're very happy to welcome Steve Quinn, CEO and founder of Quest, and his staff to the Artex family."

David McManus, president of Artex Risk Solutions, added: "Quest strengthens us considerably within the Gibraltar insurance market and brings particular expertise in the UK motor arena."

## London in good position for cyber via ILS

The London insurance linked-securities (ILS) market is perfectly positioned to become the global centre for cyber risk insurance, according to a report by BNY Mellon.

The report suggested that new data protection rules being implemented in the EU are expected to further drive up demand for cyber liability cover, which ILS could be used to fund.

Karin Mulvihill, BNY Mellon's head of technology compliance, said: "The ability of cyber terrorists to target national infrastructure, power grids and other critical assets is a real and growing threat. This threat pervades businesses of all sizes and across all sectors."

Continued on p3

An established captive and PCC jurisdiction  
Your gateway to the European Union Single Market  
Reputation, regulation and speed to market

...our strengths

Contact: Michael Ashton ACA, Senior Executive  
HM Government of Gibraltar  
Gibraltar Finance, Suite 761, Europort, Gibraltar  
Office: +350 200 51163 • Mobile: +350 5800 7755  
[michael.ashton@financecentre.gov.gi](mailto:michael.ashton@financecentre.gov.gi)  
[www.gibraltarfinance.gi](http://www.gibraltarfinance.gi)  
@GibFinance



GIBRALTAR FINANCE  
HM Government of Gibraltar

BRITISH VIRGIN ISLANDS

CAPTIVE  
INSURANCE

# A SEAMLESS APPROACH TO FORMING REINSURANCE STRUCTURES

## An established, internationally recognised insurance centre

BVI remains a highly sought-after domicile for enhanced insurance products and services, fully compliant with the International Association of Insurance Supervisors' core principles.

### The BVI boasts a number of advantages for captives:

- > It is easy to obtain affordable structures due to its competitive pricing scheme
- > No requirement to hold board meetings in the BVI
- > No requirement to capitalise a captive in the territory with a BVI bank
- > Popular for mini or micro US I.R.S. Code 831(b) captives which have taken the 953(d) election under the Code and for Segregated Portfolio or Protected Cell companies
- > Domicile of choice in terms of captive formations and is compliant with international regulatory standards
- > International memberships with OECD, IAIS, GIICS and CAIR confirms confidence in our reputation as a trusted and reliable domicile

*The jurisdiction introduces a creative and innovative legislation ensuring that we are truly your one stop shop to fulfil your wealth structuring requirements.*



## Firms to use captives to tackle developing risks

Continued from page 1

Latin America is currently the fastest growing developing market for captives. According to Marsh, in the last three years it has worked on 42 active captive opportunities and delivered 20 advisory projects for organisations in Latin America.

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

## London in good position for cyber via ILS

Continued from page 1

The report said that although steps have been taken to standardise cyber risk data and to design products that cater for cyber terrorism, the insurance market for physical damage and bodily injury arising from a cyber attack is growing.

Paul Traynor, international pensions and insurance segments leader at BNY Mellon, explained that ILS could step in to provide capital.

He said: "The capital markets can help nascent classes of insurance flourish. There's huge potential for cyber risk to be transferred to the capital markets using ILS, in a similar way to how cat bonds underwrite hurricane and earthquake risks."

"However, before cyber risks can be successfully securitised, significant progress is needed in aggregating and modelling the risk. This requires more collaboration between major insurers and technology experts to better understand the interdependencies between systems and the frequency of attacks."

The BNY Mellon report recommended new laws allowing the incorporation of special purpose vehicles (SPVs) onshore within the London market to offer ILS sponsors and investors more choice and potentially allow new emerging risks to be transferred to capital markets.

The UK government has begun work on modernising the country's regulations to make way for an 'ILS hub' in London.

It proposed a framework in line with Solvency II and proposals were put forward for consultation, which ran until 29 April.

BNY Mellon's report also recommended tax incentives for SPVs to locate in London, and the establishment of a dedicated unit within the UK's Prudential Regulation Authority.

Traynor said: "London's position as the undisputed global market for specialist insurance is being challenged by competition from international hubs such as Bermuda, Singapore and Dubai."

"The development of a London ILS centre will help secure its leading status. It will also drive innovation by offering the ILS market direct access to the capital markets, not just for cyber risk but for other new areas such as pandemics, pension fund longevity risk and emerging market natural catastrophe risk."

## ERM is best method to meet new EU requirements

The Federation of European Risk Management Associations (FERMA) has told the European Commission that enterprise risk management (ERM) is the best method for larger companies to report non-financial or corporate social responsibility risks.

The comment is a part of FERMA's response to the commission's consultation on non-financial reporting guidelines.

Under the Non-Financial Reporting Directive, which comes into effect in 2017, large public interest entities, such as listed companies, should disclose in their management report relevant and useful information on their policies, main risks and outcomes.

A large number of the 4,700 European risk and insurance managers represented by FERMA work for companies that are within the scope of the directive.

FERMA president Jo Willaert said: "It is difficult for specialists in each department to connect different aspects of risk across functions, leaving grey areas where reporting may be incomplete."

"We, therefore, urge the commission to recognise in the guidelines the fundamental role of risk managers and the value of ERM methodology in the reporting of non-financial or corporate social responsibility elements, which require a deep understanding of the business model of the organisation."

"Risk reporting is a key element of the risk manager's role. Because of the cross-functional nature of the risk manager's mission, he or she is the best placed person in the organisation to provide assurance that the various types of risks, including those related to corporate social responsibility, have been identified and managed."

In addition, FERMA has told the commission that the value of reporting risks connected with non-financial elements of business



## Contents

### Latest News

The Tennessee governor, Bill Haslam, has signed the new captive bill, HB 2228, into law, effective 28 April

page 4

### Latest News

Traditional reinsurance capital has seen a drop of \$13 billion, says Willis Re

page 6



### EU Referendum

The UK referendum on EU membership takes place on 23 June and, should the vote be to leave, a range of issues will affect all commercial sectors, not least insurance. Charles Winter of Aon Risk Solutions explains what the vote could mean for the captive industry

page 10

### Enterprise Risk

There is no real limit to the types of risk that can be insured in enterprise risk captives, according to Patrick Theriault of Strategic Risk Solutions

page 13

### Terrorism Risk

Since the TRIA extension in 2015, there has been an increase in captives writing terrorism risk. But, according to Chris Varin, captive owners should always explore commercial insurance options while simultaneously exploring use of their captive insurer for a terrorism-specific programme

page 16

### People Moves

Comings and goings at the Reinsurance Association of America, CRLA, Hanover Stone Partners and more

page 19

conduct goes far beyond concern for reputation management.

In the submission, FERMA said: "Being in control of these risks opens the way for productivity and efficiency gains over the long term."

"The creation of a complete, company-wide risk management policy, including non-financial aspects, that leads to thorough risk knowledge should be seen as a global decision-making tool for the board."

## Tennessee state governor signs captive bill into law

The Tennessee governor, Bill Haslam, has signed the new captive bill, HB 2228, into law, effective 28 April.

The Tennessee Senate approved the bill after it received 31 votes to none.

Most notably, the legislation establishes a new way for captives to redomesticate to the state.

Before the new law, a company had 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.

The new legislation means that 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 a 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.

## China plans to develop mutual insurance sector

Willis Towers Watson has hosted a workshop in Beijing with senior officials from the Chinese Insurance Regulatory Committee (CIRC) to discuss the development of a mutual insurance sector in China.

The event, supported by A.M. Best and the International Cooperative and Mutual Insurance Federation (ICMIF), focused on trends and best practice in the global mutual insurance industry, particularly regulatory frameworks.

An officer from the development and reform department of CIRC said: "Developing insurance partnerships is an important part of our strategy to proactively promote and encourage innovation in the insurance sector."

"The government is supportive of a mutual insurance market in China, which is appropriately regulated and controlled."

Paul Owens, CEO of the Willis Towers Watson global captive practice, added: "The mutual insurance sector represents 27 percent of global insurance premium and has seen growth outstripping the traditional insurance market since the financial crisis of 2008."

# STRUCTURE THE ULTIMATE CAPTIVE INSURANCE VEHICLE

Get ahead of the curve with a high performance captive insurance company. Brown Smith Wallace can develop a strategy that integrates insurance, tax and audit aspects to structure your custom vehicle. Our unique captive insurance company experience will help provide high performance, significant savings and tax and regulatory compliance.

Let us help you custom design your captive insurance company. Contact us today.



Toll free 1.888.279.2792 BSWLLC.COM

An A.M. Best Top Ranked  
U.S. Insurance Audit Firm



Brown Smith Wallace LLP

# MANAGING RISK WORLDWIDE

DELIVERING SOLUTIONS FOR BUSINESSES  
AND INSURERS WORLDWIDE

At Charles Taylor, we provide management services to help Insurers, reinsurers and businesses around the world identify and manage their risk exposures.

Our services are delivered by experts working from multiple locations around the world providing ease of access to our clients:

- Risk Consulting
- Risk funding
- Insurance management and administration
- Run-off management

Our insurance management services are part of a wider range of services delivered worldwide by Charles Taylor to insurers, reinsurers and businesses from 40 offices in 23 Countries.

## To find out more, please contact:

### Life Company Management

Jeffrey More  
+44 162 468 3602  
Jeffrey.More@ctplc.com

### Captive Management

Andy McComb  
+1 441 278 7700  
Andy.McComb@ctplc.com

### Risk Management (US)

Chris Moss  
+1 972 447 2053  
Christopher.Moss@ctplc.com

### Risk Management (EU)

Martin Fone  
+44 207 767 2918  
Martin.Fone@ctplc.com





“The mutual insurance sector is often seen as a risk transfer solution for organisations where affordable capacity is not available in the traditional insurance market,” Owens said.

## Outstanding cat bonds reached \$25 billion in Q1

Outstanding catastrophe bonds stood at \$25 billion at the close of play on 31 March, Aon Benfield has reported.

The capital adviser’s Q1 2016 insurance-linked securities (ILS) update revealed that bonds covering US-named storms and earthquakes dominated the market in Q1, as well as those covering the Japan typhoon.

Additional placed perils included US severe thunderstorms, winter storms, wildfire, volcanic eruptions and meteorite impacts. Canada earthquake and US medical benefits ratio coverage were also part of the Q1 2016 issuance season.

Total catastrophe bond issuance for the period reached \$2.22 billion across 10 transactions, representing a new Q1 record for the ILS sector and an increase of more than 30 percent on the previous record set in Q1 2015.

Secondary markets activity increased during the quarter, with trade volume rising more than 25 percent compared to Q4 2015.

In total, 311 trades totalling approximately \$308 million were reported in Q1, according to the Financial Industry Regulatory Authority’s Trade Reporting and Compliance Engine.

Paul Schultz, CEO of Aon Securities, commented: “With market volume typically concentrated around the important reinsurance renewals periods of Q2 and Q4, the strong start to 2016 bodes well for the year ahead, especially in light of the prevailing competitive reinsurance and insurance landscape, which contributed to the more moderate issuance volumes of Q4 2015.”

## Traditional reinsurance capital down \$13 billion

Last year saw a 3.5 percent reduction in traditional capital dedicated to reinsurance, according to Willis Re.

Willis Re’s Reinsurance Market Report found that traditional capital fell by \$13 billion from \$370 billion in 2014.

The decline in traditional capital was offset by the continued growth in non-traditional capital, which hit new heights of \$70 billion. In

total, global capital dedicated to reinsurance now stands at \$427 billion.

According to the report, which is based on the Willis Reinsurance Index, the continued focus on active capital management is the main driver behind the fall in traditional capital, as opportunities for acceptably profitable capital deployment remain challenging.

The decrease in traditional capital is also a result of unrealised investment losses and the strengthening of the US dollar against the euro, the report said.

The record volume of mergers and acquisitions activity in 2015 was also a key driver. For companies within the index, these factors accounted for a reduction of approximately \$20.9 billion.

However, despite the decline, capital oversupply remains a fundamental industry challenge and market pressures continue to manifest themselves in diminishing return on equity.

According to the report, companies within the index providing catastrophe loss and prior-year reserve release disclosure continue to show a seemingly healthy aggregate reported return on equity of 10.2 percent, down from 11.5 percent in 2014.

A significant rise in expense ratios over several years is a major factor eroding return of equity. As the report highlighted, expense ratios for the subset have risen by approximately four percentage points to 33.1 percent between 2007 and 2015.

The report found that in 2015 alone, expense ratios increased by one percentage point. This comes as reinsurers continue to invest in underwriting and diversify their business portfolios. The increasing costs associated with enhanced regulation and governance is also affecting bottom lines.

John Cavanagh, global CEO of Willis Re, said: “Reinsurers continue to face myriad headwinds placing downward pressure on underlying results. However, headline figures remain robust and capital positions are strong—the dual saviours of reserve releases and low severity loss experience continue to underpin reported results.”

“Yet underlying returns on equity are now beginning to breach minimum target thresholds. The pressure persists with capital remaining at record levels amid the continued influx of capital from non-traditional sources.”

“Given the current climate, the broadening of reinsurer business models is proving a successful strategy for many and increasing

relevance to clients, despite the impact on expense ratios. But ultimately, reinsurers will yet again be looking to another below average loss year to maintain acceptable results.”

## Alabama captive bill becomes law

Alabama governor Robert Bentley has signed the state’s new captive bill into law.

The update to modernise the Alabama Captive Act will become effective on 1 July.

The legislative update is expected to make Alabama more competitive in the formation of captive insurance companies.

Proposed changes include modernising the language and capital requirements for protected cell captives, allowing captives to form as series limited liability companies and mutuals, and introducing a 60-day provisional licence.

Norman Chandler, president of the Alabama Captive Association, commented: “We are thrilled with the support from the governor and the legislature for captives in Alabama. It is exciting that we had no opposition in any of the committees, House or Senate along the way.”

He added: “The newly revised Captive Act will significantly help the captive industry grow in Alabama. We thank the Alabama Department of Insurance and captive supervisor Sean Duke for their help and support of captives and this bill.”

## Aon Benfield launches next-gen version of ReMetrica

Aon Benfield has launched ReMetrica Version 7.0, its next generation platform for risk and capital modelling.

Following Solvency II and equivalent regulation, insurers are demanding more value from their investment in capital models.

According to Aon Benfield, this trend has led to a shift in how actuaries, catastrophe modellers and other risk analysts use models. They’re moving from primarily identifying solvency capital requirements to exploring wider financial strategies such as asset allocation and business optimisation.

Aon Benfield has re-written the coding behind ReMetrica to take advantage of new technology and prepare the tool for the next 10 years.

The new model is able to run models more quickly and efficiently, taking advantage of increased hardware capabilities.

# Citadel Risk

INSURANCE | REINSURANCE | SERVICES



**STOP PRESS...**

CITADEL RISK ACQUIRES CONTROLLING INTEREST IN  
**CEDAR MANAGEMENT LIMITED**, THE BERMUDA BASED  
INSURANCE AND CAPTIVE MANAGER

## WHEN BIG ISN'T ALWAYS BEAUTIFUL!

If you are looking for a reinsurer who can handle small deals  
and really 'partner' with you, come and talk to us.

- A rated Bermuda carrier
- Niche reinsurance
- Fronting *management & consultancy*
- Captive support *support*
- Legacy and finality solutions

### Contact Citadel:

Tony Weller

+44 (0)207 042 7968

tony.weller@citadelrisk.com

Mike Palmer

+44 (0)207 042 7969

mike.palmer@citadelrisk.com

[www.citadelrisk.com](http://www.citadelrisk.com)



It enables enhanced reporting, statistical analysis and the ability to access updated user interface.

The platform is also now able to easily convert existing models into Version 7.0 without the need to re-build, due to backwards compatible capability.

Originally, ReMetrica was released in 2000. It has approximately 1,500 global users, modelling \$400 billion of capital.

Paul Maitland, international head of ReMetrica at Aon Benfield, commented: "The advent of Solvency II has further augmented the role of analysts and highlighted the flexibility required from capital models to deliver more strategic insights."

"ReMetrica Version 7.0 is designed so a spectrum of users can achieve these goals and have the data at their fingertips to make more informed business decisions. This will be an exciting journey over the next year as we work with our users to transition to the enhanced platform and share new features."

## Georgia passes captive bill

Georgia governor Nathan Deal has signed updates to the state's captive framework

into law. The amendments, known as Senate Bill 347, passed the Georgia Senate at the end of February.

The revisions include adding a new definition for agency captives, expanding the definition of a risk retention group captive, and allowing accident and sickness insurance to be written by a pure captive insurance company.

Other proposed changes include permitting companies that do not maintain their place of business in Georgia to be licensed under the state's laws.

## Worst April for natural disaster losses since 2011

The global economy has suffered the worst April for natural disaster losses since 2011, according to Aon Benfield's Impact Forecasting report.

Aon Benfield's Global Catastrophe Recap revealed that two major earthquakes struck Southern Japan during the month, killing at least 66 people.

Total economic losses, including physical damage to residential and commercial structures, vehicles and infrastructures, and business interruption, are expected to exceed

JPY 1.12 trillion (\$10 billion). The General Insurance Association of Japan reported that nearly 70,000 non-life claims had been filed, and total insured losses were expected to breach JPY 225 billion (\$2 billion).

Aon Benfield's report also found that the earthquake that struck Ecuador's northwest coast on 16 April killed at least 660 people. Government figures showed that total economic cost for damage and reconstruction is expected to rise above \$3 billion.

Given the low insurance penetration levels, the insured loss was set to be a fraction of the overall financial cost, the report said.

Impact Forecasting director Steve Bowen said: "The global footprint of natural disaster losses in April was significant. Between major events such as the Kumamoto earthquake, the severe convective storms and flooding in the US, and flooded agriculture in Argentina, economic and insured losses are poised to make this the costliest April since 2011."

"The large differential between the economic and insured losses is yet another reminder of how much opportunity exists for the insurance industry to help engage with governments, communities and businesses around the world to provide the risk expertise that can help mitigate the effects of natural disasters."

*I expect my bank to:*  
**Look out  
for my business,  
not their interests.**



When it comes to Captive Insurance, no other bank has more knowledge and know-how than Comerica Bank. More than just banking services, we provide our clients with a dedicated team of experienced Captive Insurance Specialists to help navigate through the challenges of alternative risk management. When it's time, come to Comerica, and discover why we're the leading bank for business.\*

**To Learn More, Contact the Comerica Global & Captive Insurance Group: 313.222.5550**



CBP-4141-01 05/14  
MEMBER FDIC. EQUAL OPPORTUNITY LENDER.

[comerica.com/captive](http://comerica.com/captive)

\*Data provided by  
Thomson Reuters Bank Insight, December 2013





## **Catastrophic medical claims aren't just a probability — they're a reality.**

As a Captive Director, Risk Manager, VP of HR or CFO, QBE's Medical Stop Loss Reinsurance and Insurance can help you manage those benefit costs. With our pioneering approach to risk and underwriting, we make self-insuring and alternative risk structures possible.

**Individual Self-Insurers, Single-Parent and Group Captives**

**For more information, contact:**

**Phillip C. Giles, CEBS**

**910.420.8104**

**[phillip.giles@us.qbe.com](mailto:phillip.giles@us.qbe.com)**

**Made possible by**



QBE and the links logo are registered service marks of QBE Insurance Group Limited.

Coverages underwritten by member companies of QBE.

© 2016 QBE Holdings, Inc.



The referendum on EU membership will take place on 23 June and, should the vote be to leave, a range of issues will affect all commercial sectors, not least insurance. Charles Winter of Aon Risk Solutions explains what a British vote to leave could mean for the captive industry

**If the UK leaves the EU, how will it affect the captive insurance industry, particularly captive owners based in the UK?**

There are few captives in the UK itself, so the effects are most likely to be felt by UK owners of captives based in Gibraltar or the EU states that have developed captive insurance sectors, such as Ireland and Malta. Captive reinsurance is less likely to be affected. The way insurance is currently written cross-border within the European economic area (EEA) would need to be reviewed.

In the short term, there could be an impact on captives' asset bases, for example, the valuation of equities and gilts as well as the currency impacts of a change in the relative value of the British pound. Captive boards and managers should consider, along with their investment advisers, whether this is likely to create any stress for captives in relation to solvency or their ability to satisfy non-sterling liabilities.

The effects will also be dependent on the nature of the UK's future relationship with the EU. A 'Norway-style' membership of the EEA may have minimal impact, whereas an exit from the EU and EEA in full has the potential for more fundamental impacts.

**In the event of Brexit, will British reinsurance and insurance companies need to be Solvency II compliant? What are the implications if they aren't?**

While Solvency II was born out of EU directives, these have been implemented into national legislation so there should be no need to change the way insurance companies in the UK are regulated.

Given that the regulation doesn't change, then it would be logical that the UK would achieve Solvency II equivalence.

The UK has been at the forefront of the global insurance industry for decades, centuries even, and it would appear likely that the industry would want to position itself, supported by appropriate regulation, to maintain such a position, including its trade with the EU.

**How would Brexit change the way that risks are underwritten?**

The main question is, in the absence of passporting rights under the Freedom of Services Directive, whether such companies will still be able to write business into the UK in the same way.

For captives in the UK or Gibraltar, it could call into question the ability to write business from these jurisdictions across the EEA.

For captives that remain in the EEA, the issue is the reverse of this, that is, how to write risks, particularly compulsory classes such as employers' liability and motor, into the UK. The number of captives writing in this way is, however, relatively low.

The commercial insurance market enjoys the ability to issue a master policy in one EEA state to cover risks across the EEA, without the requirement for separate local policies.

Any changes to this could have a broader effect on the way cover is structured and purchased. The nature of any bilateral agreements put in place post-Brexit will influence the extent of any impact, and the remedies that are appropriate.



### What flexibility will the likes of Gibraltar, Jersey and Guernsey have on implementing regulation post-Brexit?

Gibraltar, as an EU member, will be in a different position from Jersey, Guernsey and the Isle of Man, none of which are in the EU or EEA.

The latter jurisdictions have not expressed intentions to date to seek Solvency II equivalence, with the exception of the Isle of Man life insurance sector, so captive regulation is likely to continue to follow the Insurance Core Principles of the International Association of Insurance Supervisors, and the way captives in these jurisdictions relate to the UK or EEA is unlikely to change.

The position for Gibraltar is more complex and is likely to be closely tied to the approach taken by the UK as a whole.

### What is your opinion on Brexit? Do you believe it has the potential to damage the industry?

There is a great deal of uncertainty around what a future state post-Brexit would actually look like, and there has been much commentary around the ease or otherwise of reaching agreements of trade and market

access. Indeed, there have been views expressed that suggest both positive and negative consequences on an exit from the EU.

It is therefore really too early to give an opinion on the medium to long-term effects on the industry.

With any change, there is likely to be a short-term need to understand the impacts and to plan for these, which is likely to result in a need for increased activity and management focus.

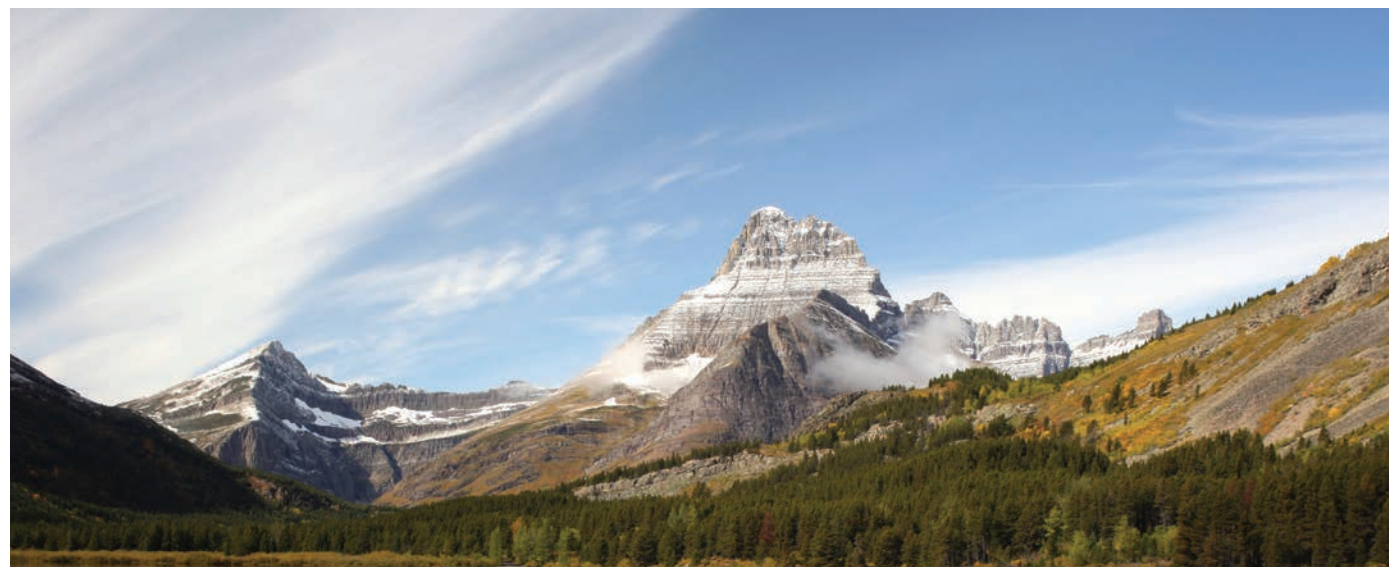
The timeframe for an exit, being a minimum of two years, means that overnight changes are not likely to occur in most areas and that there would be an ability to achieve a planned and orderly transition. **CIT**

“

With any change, there is likely to be a short-term need to understand the impacts and to plan for these, which is likely to result in a need for increased activity and management focus

”


**Charles Winter**, Chief operating officer, Aon Risk Solutions

## MONTANA *Naturally Captivating*

Since 2001, Montana has been a leading captive domicile. We have a dedicated and experienced regulatory team that is responsive to the developing captive landscape and open to new ideas. We work hard to keep our state captive laws current with the latest industry innovations.

Come see why Montana has the most accessible, innovative and professional captive team around. Visit our website at [www.csimt.gov](http://www.csimt.gov) or call Steve Matthews, our lead captive coordinator, at 406.444.4372.



Office of the Montana State Auditor  
**CSI**  
Commissioner of Securities & Insurance  
REGULATORY DIVISION OF INSURANCE



A  
**Sound**  
Investment  
**move.**



**Nevis,**  
*your ideal jurisdiction.*

*Your solution to efficient risk management.*

*A financial services center well positioned.*

Nevis Financial Services

T: 1 869 469 1469    [info@nevisfsrc.com](mailto:info@nevisfsrc.com)

[www.nevisfsrc.com/](http://www.nevisfsrc.com/) [www.nevisipa.org](http://www.nevisipa.org)





# No Limits

**There is no real limit to the types of risk that can be insured in enterprise risk captives, according to Patrick Theriault of Strategic Risk Solutions**

## **How does an enterprise risk captive work and how have they evolved in recent years?**

There are different forms of enterprise risk captives, but the one most often seen historically has provided a wrap programme that complements the commercial insurance programme, with an emphasis on low-frequency and high-severity risk. As such, the enterprise risk captive will often provide difference in condition (DIC) and difference in limits (DIL) coverage for self-insured retention or deductibles, excess limits, along with standalone policies covering risks unavailable or overpriced in the commercial market.

Captives have been addressing the changing needs of their insureds with more enterprise risk captives starting to provide coverage for various business interruption risks that often keep middle-market business owners up at night as well as 'newer' captive risks such as cyber and medical stop-loss.

There is an increased level of education and understanding of enterprise risk captives by potential captive owners and their insurance brokers or consultants. We often now spend less time on education and more on structure planning, which is nice to see.

## **How would a company incorporate cyber risk within an enterprise risk captive? What are the challenges specific to cyber?**

While the interest in insuring cyber risk in enterprise risk captives has been on the rise, and is likely to continue to rise, it is a risk that the market in general still knows very little about and it is therefore difficult to price or to compare pricing when commercial coverage is available. Also, there are limited claims or premium information available to actuaries to price the risk, and often the data is old. Considering how quickly technology evolves, are rate filings from three to four years ago appropriate?

It is also interesting to see that situations that have arisen at larger organisations that appeared to be significant in nature also appear to have

resulted in generally only small losses. Did they get lucky or are some of the costs still hidden? How will all of this translate to mid-size organisations that primarily use enterprise risk captives? Is their cyber risk exposure smaller or greater? These are many questions that will be answered over time. Meanwhile, if an organisation chooses to self-insure its cyber risk exposure, an enterprise risk captive could be a good vehicle to formalise this process.

We see cyber risk being insured in enterprise risk captives as part of standalone policies or DIC/DIL policies complementing commercial coverage in place. Some enterprise risk captive owners also may elect to participate in risk pools to obtain a level of risk transfer in the event of large claims.

## **What advantages are there to an enterprise risk captive? Are there any drawbacks?**

An enterprise risk captive can provide all the same risk management and other benefits that a 'traditional' captive can provide including: the ability to provide proof of insurance; pre-funding of self-insured risks for strengthening the balance sheet; better tracking of claims data; and access to the reinsurance market.

In addition, an enterprise risk captive, if meeting all the requirements to be considered an insurance company for tax purposes, can provide certain tax benefits. Under Section 831(b) of the tax code, property and casualty insurance companies that meet certain requirements are only taxed on their investment income, for example, underwriting profits are tax exempt. This election allows enterprise risk captives to pre-fund self-insured risks on a financially efficient

“

While the interest in insuring cyber risk in enterprise risk captives has been on the rise, and is likely to continue to rise, it is a risk that the market in general still knows very little about

”

**Patrick Theriault**, Managing director, Strategic Risk Solutions





basis, allowing them to grow their surplus more quickly and to be in a position to take on more risk over time.

It is, however, important to remember that this special tax election is not best for everyone and is irrevocable once made. Under 831(b), insurance companies that have made this election are no longer able to deduct claims paid and also cannot carry back or forward any net operating losses.

As such, in the event of bad claims experience, the captive, and its owners, are in effect forgiving large tax deductions that would have otherwise been available to them.

Also under the election, most general operating expenses are also not tax deductible, only investment expenses can be used to offset investment income for tax purposes. A detailed analysis should therefore be made before the election is made to avoid unexpected surprises.

### What other risks can companies use an enterprise risk captive for?

There is no real limitation in the type of risk that can be insured in enterprise risk captives. We are starting to see entities looking at more traditional coverages for their enterprise risk captives, and with the premium limitations increasing to \$2.2 million from \$1.2 million in 2017, we expect this trend to continue.

Also, while the structure has been mainly seen with single parent captives and cells to date, with the premium limitation increase we

also expect to start seeing more group programmes considering making the election.

However, before expanding the risks insured by their captives, owners should make sure they fully understand the potential impact on their programme. For example, including long tail lines such as workers' compensation in an enterprise risk captive that has historically only insured short-tail risk would materially affect the risk profile of the captive as well as its operations. A detailed analysis of the pros and cons should be performed before a decision is made to expand coverage, or for 'traditional' or group captives to make the election.

### What does the future of enterprise risk captives look like?

The industry is currently going through a 'pause and analysis' phase, still trying to digest the changes passed in 2015 that will come into effect in 2017. The industry is also hoping for further clarification on the new wording so that we can best serve our clients. So, while many existing enterprise risk captives may restructure or cease operation in light of upcoming changes, especially those that included an estate-planning component, we feel the environment remains favourable overall.

The changes that will come from the new rules should benefit the environment by bringing the focus back to what it should have been all along. The enterprise risk captive provides an efficient way for an organisation to improve its risk management programme through the pre-funding of certain self-insured risks. **CIT**

## Madison SCOTTSDALE

*Managing Assets for Captive Insurers for Over 20 Years*

- Fully Customized Investment Management
- Asset Allocation, ALM, & IPS Development
- Fixed Income, Equity & Alternative Strategies
- Stress Testing & Interest Rate Sensitivity Analysis
- 24/7 On-Line Portfolio Accounting
- Direct Interface with Portfolio Managers

800-767-8020 | 480-596-3338

[info@madisonscottsdale.com](mailto:info@madisonscottsdale.com)

[www.madisonscottsdale.com](http://www.madisonscottsdale.com)

Madison Scottsdale is the Insurance Asset Management Division of Madison Investment Advisors, LLC.





# Is your Manager listening?

THE RELATIONSHIP BETWEEN A CAPTIVE AND ITS MANAGER CAN DETERMINE A CAPTIVE'S SUCCESS.

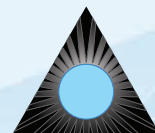
Active Captive Management provides the following services:

- Captive consultation and risk analysis
- Feasibility studies
- Domicile recommendation
- Capital and collateral evaluation
- Access to national service provider network
- Company licensing and formation
- Underwriting and policy administration
- Captive accounting
- Claims processing
- Annual compliance and regulatory management
- Annual risk analysis review



To request a risk analysis, visit us online at: [www.activecaptive.com](http://www.activecaptive.com) or call 800-921-0155

Active Captive Management provides management services in the onshore domiciles of: Alabama, Delaware, District of Columbia, Florida, Kentucky, Hawaii, Montana, Missouri, Nevada, New Jersey, North Carolina, Oregon, Oklahoma, South Carolina, Tennessee, and Utah. Off-shore domiciles include: Anguilla and Nevis.



**ACTIVE  
CAPTIVE**  
MANAGEMENT



Since the TRIA extension in 2015, there has been an increase in captives writing terrorism risk. But Chris Varin of Marsh suggests captive owners should always explore commercial insurance options while simultaneously exploring use of their captive insurer for a terrorism-specific programme

### How complicated a risk to write is terrorism?

Writing a terrorism-specific programme in captive insurance has historically had similar requirements to writing other programme lines. Prior to the Terrorism Risk Insurance Act (TRIA), doing so in the US generally just required the advance approval of the domicile regulator, which could typically be secured by proposing the programme and detailing the plans in a letter to the regulator and then answering any follow-up questions to the regulator's satisfaction. There usually aren't any policy forms or rate filing requirements, so those elements can be customised to meet the needs of the captive insurer and policyholders, subject only to any specific requirements accompanying the domicile regulator's approval.

Upon passage of TRIA in 2002, writing terrorism-specific programmes became more complex, because TRIA imposed additional requirements on all US-based insurers. Those requirements increased again with the 2015 extension. The key special requirements imposed by TRIA, on any subject programme including terrorism-specific programmes, currently includes certain notice and disclosure requirements beginning at the time of offer, and also accumulating and reporting detailed exposure data to the Federal Insurance Office.

### After the reauthorisation of TRIA in 2015, was there an uptick in captives writing terrorism risk, and why?

Yes, there was an uptick in writing terrorism-specific programmes in captive insurance, because the uncertainty regarding TRIA's future was resolved. As the expiration date approached, many captive insurers that were writing terrorism-specific programmes ensured the policies they issued had terms that took into account the possibility that TRIA would not be extended after the scheduled sunset on 31 December 2014. For example, some ensured their policies contained an option to cancel or reduce coverage if TRIA expired.

Others that were evaluating adding terrorism, for various reasons, for the year or two preceding the expiration pursued those plans only tentatively, in general, and in some cases put those plans on hold.

Once TRIA was renewed, they proceeded with feasibility and, in many cases implemented those changes, resulting in an uptick in captive insurers writing terrorism-specific programmes.

### Do you think a captive is an effective solution for managing terrorism exposures, now TRIA is live?

Two key TRIA objectives that captive insurers support are: to create a coverage option where commercial options are limited or non-existent, for example nuclear, biological, chemical and radiological (NBCR) coverages and coverages for so-called trophy properties; and to help create competition in the market.

From a captive owner's perspective, three key values include: a risk transfer option where such an option might not otherwise exist; greater flexibility in customising policy language to meet specific requirements than exists with commercial placements; and, that if no loss occurs, the premium paid to the captive insurer stays with the consolidated group.

### How should captives access TRIA following last year's reauthorisation?

The key steps are to ensure the captive has a licence issued by a US-domicile, to secure the domicile regulator's approval to write the programmes and to ensure the offer and policy issuance processes incorporate all the required disclosure and associated provisioning rules imposed by TRIA.

They must then confirm that the underwriting files of the captive insurer include the appropriate information to comply with the annual TRIA data call that is expected to be mandatory from the beginning of 2017 for policies issued in 2016. Once they issue the policy, they just have to make sure subsequent renewals of the programme follow the disclosure and associated provisioning rules imposed by TRIA.

### Is there anything else captives should consider?

Captive owners should always explore commercial insurance options simultaneous to exploring use of their captive insurer for a terrorism-specific programme. These options can include direct commercial insurance programmes and reinsurance programmes available via the captive insurer. In some cases the commercial options are very attractive, and the best structure could be a combination of a commercial programme and a captive programme. For example, a commercial programme is secured, providing

coverage for conventional losses of terrorism, and the captive can operate parallel to the commercial programme, providing NBCR and difference in conditions coverage, thus making the combined programme more comprehensive.

At the very least, exploring commercial options is good due diligence, since it will inform the scope and pricing of the captive insurance programme, which is a good way to demonstrate that the captive insurer isn't being unduly influenced by the policyholder regarding important terms such as the amount of premium.

Since TRIA's share of a loss is partly a function of the premium earned by participating insurers, it is important to ensure the premium isn't set inappropriately low.

### **What are the advantages of using a captive to access the programme? Are there any implications or drawbacks that they should be aware of?**

The key advantages are that there is a risk transfer option where a risk transfer option might not otherwise exist—there is greater flexibility in crafting policy language than exists with commercial placements. Also, if no loss occurs, the premium paid to the captive insurer stays with the consolidated group.

One of the key drawbacks is that there is uncertainty related to the programme—no losses have ever been paid, so it remains to be seen how effective the claims process will be and what complications may arise.

In short, the full expected recovery can't be guaranteed by the professionals involved in implementing a captive TRIA programme.

Another implication is the opportunity cost of any portion of the premium, capital and surplus maintained in the captive to support the risk that could otherwise be used for operations of the captive insurer's sponsor.

There are also compliance aspects of TRIA, particularly the significantly increased burden provisioned in the 2015 renewal related to annual data collection.

Finally, TRIA contains a \$100 billion programme cap, so if aggregate insured terrorism losses exceed that amount, both participating insurers and the US government will limit their payments to an aggregate of \$100 billion, potentially resulting in only partial payments of the policy limits to policyholders. **CIT**



**Chris Varin,**  
Managing director and deputy head of the  
Burlington, Vermont, office  
Marsh Captive Solutions Group

# Experience. Missouri.

Angling to find the right domicile?

To learn more about starting your Missouri captive insurance company, please contact Captive Program Manager John Talley @ 573-522-9932.  
John.Talley@insurance.mo.gov  
insurance.mo.gov/captive



**DIFP**

Missouri Department of Insurance,  
Financial Institutions & Professional Registration / John M. Huff, Director

Lake of the Ozarks: 55,000 acres & 1,150 miles of shoreline.



# BERMUDA CAPTIVE CONFERENCE

Excellence in Global Risk Financing

**JUNE 13–15, 2016**

*Fairmont Southampton Resort, Bermuda*



## Joe Flower

Healthcare and Technology Futurist

With nearly 30 years' experience, Joe Flower has emerged as a premier observer and thought leader on the deep forces changing healthcare in the United States and around the world.

# REGISTER TODAY!

[bermudacaptiveconference.com](http://bermudacaptiveconference.com)

*See you there!*

**HOT TOPICS:**  
CYBERATTACKS  
HEALTHCARE  
EMPLOYEE BENEFITS  
CLIMATE CHANGE





## People moves

### Comings and goings at BIMA, QBE, Hanover Stone Partners and more

QBE North America has appointed **Russell Johnston** as the new CEO of its North American operations. He will be based in New York.

Johnston will succeed **David Duclos**, who is retiring. Duclos has agreed to remain with QBE as a non-executive director of QBE Emerging Markets and Equator Re, as well as offering his market expertise to operational initiatives across the group.

Johnston brings more than 25 years of experience in the insurance industry in North America.

John Neal, group CEO of QBE, said: "I am delighted to welcome Johnston to QBE, bringing his depth of industry experience at some of the most global insurers to build on the firm foundations established by Duclos."

Hanover Stone Partners has recruited **Daniel Labrie** as a senior risk advisor.

Labrie, the former president and CEO of HAI Group, will be based in Berlin and will play a prominent role in the HSP CaptiveGuard practice.

He will provide governance and related advisory services for captive insurance companies and their parent organisations.

In addition, he will work directly with the firm's growing number of clients in the real estate sector, as well as those in other industries.

John Kelly, founder and CEO of Hanover Stone Partners, said: "While captive insurance companies continue to gain popularity as critical elements of an effective corporate risk financing strategy, strong governance and compliance have become vital to their ongoing success given the increasing complexity of risk and evolving regulatory environment."

The Bermuda Insurance Management Association (BIMA) has named **Grainne Richmond** of Dyna Management Services as the new president of the board.

Richmond will replace **Robert Paton** of Aon Insurance Managers, who is stepping down as president of BIMA. Paton has been elected to the role of vice president, along with **Lawrence Bird** of Marsh IAS Management Services, who remains in the same position as in 2015.

Chubb's **Richard Keane** was elected as board secretary and **Richard Daley**, who serves at JLT Insurance Management, will stay in his role as treasurer.

Willis Towers Watson has appointed **Vincent Lien** as managing director of Hong Kong for Willis Capital Markets & Advisory (WCMA), the firm's investment banking business.



Lien will report to WCMA Co-CEOs Michael Guo and Rafal Walkiewicz. Based in Hong Kong, he will focus on expanding WCMA's relationship with multinational insurers, Asian institutional investors and financial institutions in the region.

Guo said: "Lien is an excellent addition to our team in Asia and I am delighted to have him on board."

"His extensive investment banking experience with global and regional financial institutions in the US and Asia will significantly strengthen our team's expertise and capabilities."

Aspen Insurance has appointed **Raheila Nazir** as head of international cyber risk.

In his new role, Nazir will be located in London.

Previously, he served at AIG Europe as a professional indemnity manager for Europe, the Middle East and Africa.

Ann Haugh, president of Aspen International Insurance and chief operating officer of Aspen Insurance, said: "Nazir brings further depth to the Aspen international cyber team and her expertise and extensive experience will be fundamental in our strategy of driving growth in this important line of business."

Aspen has also appointed **Nicholas Lang** as underwriter for cyber. He joins from Principia Underwriting and has held previous roles at Barbican Insurance and Endurance Worldwide Insurance.

**Michael Sapnar**, president and CEO of Transatlantic Re, has been elected chair of the Reinsurance Association of America's board of directors.

The election, which took place at the 48th Annual Meeting of Members on 28 April, also saw **Kean Driscoll**, CEO of Validus Re, elected as vice chair.

At the meeting, **Steven Levy**, president of the Reinsurance Division of Munich Reinsurance America, was elected secretary-treasurer and **Robert Hatcher**, executive vice president of Willis Re, was elected co-chair of the council of reinsurers and brokers.

The Reinsurance Association of America is a trade association of property and casualty reinsurers doing business in the US.

Capsicum Re has launched Capsicum Re Latin America (CRLA) and appointed **Joe Smith** to lead the new business as CEO.

In addition, **Luiz Araripe** has been appointed as managing partner of CRLA and CEO of CRLA Brazil.

He will be located in Rio de Janeiro, while Smith will be based in Miami.

Previously, Smith was CEO of Aon Benfield Chile. He brings more than 20 years of reinsurance broking experience to his new role.

Araripe also joins from Aon Benfield, where he was chief commercial officer for Brazil.

Rupert Swallow, CEO of Capsicum Re, said: "Launching CRLA heralds a new chapter in the Capsicum Re story."

He added: "I look forward to working with [Smith and Araripe] and collaborating with Arthur J. Gallagher's Latin America team to deliver innovative solutions that fulfil the growing demand for specialist reinsurance products in this market." **CIT**

# CIT

## CaptiveInsuranceTimes

### Editor: Mark Dugdale

markdugdale@captiveinsurancetimes.com  
+44 (0)203 750 6022

### Deputy Editor: Stephanie Palmer

stephaniepalmer@blackknightmedialtd.com  
+44 (0)203 750 6019

### Reporter: Becky Butcher

beckybutcher@blackknightmedialtd.com  
+44 (0)203 750 6018

**Contributors:** Drew Nicol and Tammy Facey

### Business Development and Design: John Savage

johnsavage@captiveinsurancetimes.com  
+44 (0)203 750 6021

### Publisher: Justin Lawson

justinlawson@captiveinsurancetimes.com  
+44 (0)203 750 6019

### Designer: Steven Lafferty

design@securitieslendingtimes.com  
+44 (0)203 750 6021

### Recruitment Manager: Chris Lafferty

chris@assetservicingtimes.com  
+44 (0)208 663 9624

### Office Manager: Chelsea Bowles

accounts@securitieslendingtimes.com  
+44 (0)203 750 6020

Office fax: +44 (0)20 8711 5985

Published by Black Knight Media Ltd

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

Company reg: 0719464

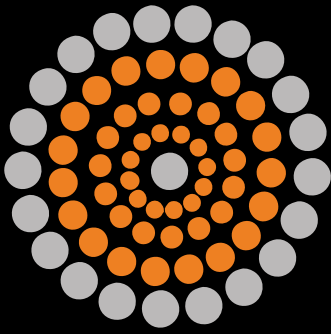
Copyright © 2016 Black Knight Media Ltd

All rights reserved

Stay connected with Captive Insurance Times on Twitter, Facebook and LinkedIn

[www.captiveinsurancetimes.com](http://www.captiveinsurancetimes.com)





# airc

## Africa Insurance and Reinsurance Conference

### 28th - 29th June 2016

Venue: Crowne Plaza Hotel Nairobi Kenya



To attend as a Speaker  
[claire@aidembs.com](mailto:claire@aidembs.com)



To attend as a Sponsor:  
[hellen@aidembs.com](mailto:hellen@aidembs.com)



To attend as Media  
[kelvin@aidembs.com](mailto:kelvin@aidembs.com)



To attend as a Delegate  
[elizabeth@aidembs.com](mailto:elizabeth@aidembs.com)

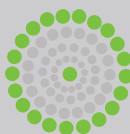
#### Media Partners



# AFRICAoutlook



Scan with QR & Read Details



abs  
Aidem Business Solutions

#### To Participate

Bringing the Industry Leaders on One Platform - That is what we do!  
P.O. Box 64451, Nairobi, Kenya | t. +254 202218114 | f. +254 20 2228325  
Email: [airc@aidembs.com](mailto:airc@aidembs.com)  
Website: [www.aidembs.com/insurance\\_conference/](http://www.aidembs.com/insurance_conference/)  
Leading Brands!



#insurance\_conference



@insurance\_conference

#### 2015 AIRC Sponsors

Endorsed by

MICROENSURE

Break Out Session - Sponsor

## LLOYD'S

Lanyard Sponsor

ALEXANDERFORBES

Corporate Exhibitor



BlueOrchard  
Microfinance Investment Managers