News of the Alternative Risk Markets

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AM Best has been covering the captive sector for several decades. Today we rate approximately 200 captive ventures in over 40 jurisdictions, ranging from Hawaii in the West to Singapore in the East.

Although Best's captive rating is comparable to other AM Best's ratings, we recognize that captives serve special purposes and with an operating style that may differ from the conventional market.

A rating can benefit a captive by demonstrating its financial strength and its best practice performance to a variety of stakeholders, such as fronting insurers, reinsurers and a parent not otherwise engaged in insurance.

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Rating Actions

AM Best Affirms Credit Ratings of COSCO SHIPPING Captive Insurance Co., Ltd.

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of COSCO SHIPPING Captive Insurance Co., Ltd. (COSCO SHIPPING Captive) (China). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect COSCO SHIPPING Captive’s balance sheet strength, which AM Best categorizes as very strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management. The ratings also reflect the wide range of support the company receives from its parent, China COSCO SHIPPING Corporation Limited (COSCO SHIPPING), which AM Best perceives to benefit from strong government support.

COSCO SHIPPING Captive’s risk-adjusted capitalization remained at the strongest level in 2018, as measured by Best’s Capital Adequacy Ratio (BCAR), and is supported by very low underwriting leverage, a prudent reinsurance program and a conservative investment portfolio. Due to a large initial injection of RMB 2 billion (USD 283 million) in start-up capital, the captive insurer’s capital and surplus at year-end 2018 amounted to RMB 2.2 billion (USD 311 million), a level much higher than its regional peers. COSCO SHIPPING Captive has generated net operating profits each year since its inception in February 2017, which has contributed to organic growth in its capital and surplus. AM Best expects continued net profits from the company over the medium term, supported by its positive underwriting results and a stable stream of investment income.

COSCO SHIPPING Captive underwrites mainly marine-related business for the group and its affiliates, as well as other risks stemming from the group’s operations including cargo, liability, and commercial property. During fiscal year 2018, the captive achieved RMB 432 million (USD 61 million) in premium income, largely derived from its main line of business, marine hull, which is expected to remain as the company’s key revenue source over the medium term. As a strategically important member of COSCO SHIPPING, the captive receives various implicit and explicit support from its parent including business development, researching funding, managerial and capital support.

Offsetting rating factors include the captive’s small net premium base due to its high reinsurance dependency, as well as a high-severity, low-frequency product risk profile. As a result of the above, the captive is exposed to potential volatility in its underwriting results. However, this is mitigated partly through a robust reinsurance program with a high-quality reinsurer panel. As a start-up company, COSCO SHIPPING Captive faces execution risk in achieving its business plans, although this is mitigated through conservative assumptions and regular experience reviews.

Negative rating actions could occur if there is a reduced level of support from COSCO SHIPPING or a significant deterioration in COSCO SHIPPING’s financial strength or credit profile. Negative rating actions also could occur if there is a material decline in the captive’s risk-adjusted capitalization or if there is significant adverse deviation in the captive’s operating performance from its business plan.

September 20, 2019

AM Best Affirms Credit Ratings of Stellar Insurance, Ltd.

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of Stellar Insurance, Ltd. (Stellar) (Bermuda), a subsidiary of Saudi Arabian Oil Company (Saudi Aramco), the state-owned oil company of Saudi Arabia. The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect Stellar’s balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management (ERM).

Stellar’s balance sheet strength is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best expects Stellar’s risk-adjusted capitalisation to remain at the strongest level, supported by low underwriting leverage and full earnings retention.

Saudi Aramco has strengthened Stellar’s capital position by allowing the captive to retain all profits generated since its incorporation in 2001. This has enabled Stellar to increase its net underwriting capacity gradually. An offsetting rating factor remains the captive’s reliance on reinsurance to provide high limit energy cover. However, the credit risk to sizeable exposure is mitigated by Stellar’s use of a diversified panel of financially strong reinsurers.

Stellar has reported strong operating results over the past five years, mainly driven by robust underwriting profits in the absence of large losses. Prospective performance is subject to volatility due to the captive’s exposure to high severity, low frequency losses in its energy programme.

Stellar’s business profile and ERM capabilities reflect the key role it plays in Saudi Aramco’s overall risk management framework. As a single parent captive, its purpose is to provide financial risk transfer solutions for risks emanating from Saudi Aramco’s operations. Stellar’s business mix consists of energy onshore and offshore property, general liability risks and associated business interruption cover. The company has indicated that under
the terms and conditions of its property programme, it presently considers there to be no exposure to the damage sustained at the Saudi Aramco facilities at Abqaiq and Khurais in September 2019.

October 4, 2019

**AM Best Affirms Credit Ratings of The American Road Insurance Company**

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" of The American Road Insurance Company (TARIC) (Dearborn, MI). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect TARIC’s balance sheet strength, which AM Best categorizes as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

TARIC is part of an insurance holding company system wholly owned by Ford Motor Credit Company LLC (Ford Credit), which in turn is an indirect, wholly owned subsidiary of Ford Motor Company (Ford) [NYSE:F]. TARIC operates more like a captive insurance company for the Ford enterprise, and provides a variety of coverages directly to Ford or Ford Credit, primarily automobile wholesale, collateral protection, inland marine, extended service business and commercial auto liability. Ford’s strong brand recognition as one of the leading automobile providers in the United States and Canada benefits TARIC. TARIC is vulnerable to macroeconomic and market conditions that potentially could have a detrimental impact on Ford’s ability to sell automobiles and generate premium for TARIC; however, AM Best views the efficiencies gained by geographic diversification and immediate access to business as a strength for TARIC.

Significant deterioration in operating performance or risk-adjusted capitalization may result in downward movement in the ratings and/or outlooks. In addition, negative rating action also may occur if Ford’s credit profile deteriorates.

October 2, 2019

**AM Best Assigns Credit Ratings to American Transportation Group Insurance Risk Retention Group, Inc.**

AM Best has assigned the Financial Strength Rating of B (Fair) and the Long-Term Issuer Credit Rating of "bb" to American Transportation Group Insurance Risk Retention Group, Inc. (ATGI) (Raleigh, NC). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect ATGI’s balance sheet strength, which AM Best categorizes as weak, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management (ERM).

ATGI’s weak balance sheet assessment reflects the organization’s adequate risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), as of the second quarter of 2019 and its limited financial flexibility and scale of operations.

ATGI’s operating performance is assessed as adequate due to reasonable performance projections according to the organization’s five-year business plan. ATGI’s business profile is assessed as limited, due to product line concentration in commercial automobile liability coverages. Additionally, operations are spread geographically across a wide region of the United States. ATGI’s ERM is assessed as appropriate due to the organization’s evolving risk management framework, stringent underwriting criteria and prospective policyholder assessments that are utilized to identify and retain quality risks.

October 4, 2019

**AM Best Affirms Credit Ratings of Rembrandt Insurance Company, Ltd.**

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of Rembrandt Insurance Company, Ltd. (Rembrandt) (Bermuda), a captive (re)insurer of Vitol Holding B.V. (Vitol), a group engaged in trading of petroleum-related products. The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect Rembrandt’s balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, limited business profile and appropriate enterprise risk management (ERM).

Rembrandt's balance sheet strength is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best expects Rembrandt's risk-adjusted capitalisation to remain at the strongest level, supported by low net underwriting leverage, an outward reinsurance programme that is placed with a panel of financially strong reinsurers and excellent internal capital generation. Partially offsetting factors in the balance sheet strength assessment include the captive’s moderate reliance on reinsurance and its concentrated asset base, with a loan provided by Rembrandt to Vitol that represents approximately one half of the captive’s total assets. The risks associated with this loan are mitigated somewhat by terms that allow it to be redeemed on short notice, along with the good financial condition of Vitol itself.

Rembrandt's strong operating performance is demonstrated by its five-year average return on capital of 12.9% (2014-2018) and is driven primarily by its good underwriting results, with a five-year average combined ratio of 23.7% (2014-2018). Operating results are further

October 4, 2019
supported by stable, albeit modest, investment returns. Rembrandt’s business profile assessment reflects the company’s concentrated insurance portfolio, with approximately 90% of its premiums derived from marine cargo and liability risks. The captive’s ERM framework is considered to be developed, and is embedded in Vitol’s risk management processes.

September 20, 2019

AM Best Affirms Credit Ratings of Samsung Fire & Marine Ins Co., Ltd. and Subs; Revises Outlooks to Negative for Samsung Re Pte.

AM Best has affirmed the Financial Strength Rating (FSR) of A++ (Superior) and the Long-Term Issuer Credit Rating (Long-Term ICR) of “aa+” of Samsung Fire & Marine Insurance Co., Ltd. (SFM) (South Korea). Concurrently, AM Best has affirmed the FSR of A- (Excellent) and the Long-Term ICRs of “a-” of SFM’s subsidiaries, Samsung Vina Insurance Co., Ltd. (SVI) (Vietnam) and PT Asuransi Samsung Tugu (AST) (Indonesia). The outlook of these Credit Ratings (ratings) is stable.

AM Best also has revised the outlooks to negative from stable and affirmed the FSR of A- (Excellent) and the Long-Term ICR of “a” of SFM’s wholly owned subsidiary, Samsung Reinsurance Pte. Ltd. (SRE) (Singapore).

The ratings reflect SFM’s balance sheet strength, which AM Best categorizes as strongest, as well as its strong operating performance, very favorable business profile and very strong enterprise risk management (ERM).

SFM’s risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), is at the strongest level, supported by the company’s large absolute capital base, which reached USD 11 billion at the end of 2018; the lowest level of asset and underwriting leverage among its domestic peers; and the company’s prudent investment strategy. The company’s limited exposure to long-tail risks and tight internal capital monitoring practices add stability to its strong capitalization.

Over the past five years, SFM has been profitable; its operating income has been highly stable, and the company has outperformed the industry consistently. The combined ratio has shown very little volatility over the past five years and remained relatively stable in 2018, despite industry-wide deterioration in auto insurance profitability. The company’s stable investment income stream, which is composed mostly of interest and dividend yields, also supports its strong operating performance.

SFM is an undisputed market leader in South Korea’s non-life insurance industry, with strong brand recognition and approximately a 24% share of the market in terms of gross premium written (GPW). The company also has demonstrated its leadership in the auto insurance segment by introducing a highly cost-efficient online channel ahead of its domestic peers. SFM’s large network of exclusive agents gives the company strong control over distribution.

With a group-wide risk management culture that is entrenched in the organization through a robust governance structure, AM Best believes SFM’s risk management capabilities are superior to domestic and international peers with similar business profiles.

Negative rating actions for SFM could occur if there is consistent deterioration in the company’s operating performance or a material decrease in the company’s capitalization.

The ratings of SVI reflect its balance sheet strength, which AM Best categorizes as strong, as well as its strong operating performance, limited business profile and appropriate ERM. These ratings recognize the wide range of implicit and explicit support provided by the company’s ultimate parent, SFM.

Balance sheet strength is supported by SVI’s very low net underwriting leverage and its conservative investment policy. Due to SVI’s relatively small capital and surplus base of USD 46 million at year-end 2018, along with its high dependency on reinsurance, the company is exposed to potentially high credit risk in post-major loss scenarios. However, this risk is mitigated largely by the company’s well-diversified reinsurance panel, made up mostly of highly rated reinsurers.

The company’s strong operating performance is driven mainly by a low net expense ratio, attributed to low acquisition costs from direct distribution, as well as reinsurance commission income. Loss experience has improved due to lower claim frequency during 2018, with a five-year average loss ratio of less than 30%.

SVI is a non-major player in Vietnam’s non-life insurance segment, with just a 3% share of the market based on GPW in 2018. The company has limited exposure to the local market, as most of its revenue comes from Samsung Group-related business and Korean Interests Abroad (KIA) business, which in total account for more than 90% of its GPW. The company also concentrates on short-tail commercial business lines, but this is limited to property and marine cargo lines, due to its lean business model.

SVI is 75% owned by SFM, shares the Samsung brand name and is highly integrated into its parent company. SFM continually provides support to SVI in major areas such as marketing, actuarial, underwriting and risk management. Furthermore, SVI is important strategically to SFM because it offers coverage to Samsung Group companies and other KIA business in Vietnam, which is a major destination of South Korean investments in Southeast Asia.

While positive rating action is unlikely for SVI over the near term, negative rating actions could be triggered by
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a substantial deterioration in the company’s risk-adjusted capitalization.

The ratings of AST reflect its balance sheet strength, which AM Best categorizes as strong, as well as its strong operating performance, limited business profile and appropriate ERM. These ratings also recognize the wide range of implicit and explicit support provided by the company’s ultimate parent, SFM.

AST’s balance sheet strength is supported by its low net underwriting leverage and conservative investment policy. An offsetting factor of balance sheet strength is its high dependency on reinsurance, which is provided by a reinsurance panel of relatively low credit profile, due to local cession requirements; this potentially exposes the company to high credit risk after major losses. Nonetheless, AM Best considers AST’s available capital to be sufficient to support such risk, as measured by its BCAR stress test.

AST is a joint venture between SFM and PT Asuransi Tugu Pratama Indonesia, Tbk, which have 70% and 30% ownership, respectively. It has a small market share in Indonesia’s non-life insurance market, as the company has a niche business strategy of mostly underwriting Samsung Group and KIA business in Indonesia, while expanding gradually in its domestic market.

The company’s strong operating performance is upheld by favorable underwriting results from this niche business steered by strict underwriting guidelines, coupled with a stable stream of interest income from deposits and government bonds. During 2018, the net investment income and favorable foreign exchange gains offset the underwriting loss attributed to earthquake loss in 2018, and allowed the company to deliver a 7.8% return on equity.

AST shares the Samsung brand and is highly integrated into SFM, receiving support in marketing, pricing, underwriting and risk management. Most of AST’s business is related to SFM’s business relationships. AST also receives reinsurance support from SFM directly.

Positive rating action for AST is unlikely over the near term. Negative rating actions could be triggered by a substantial deterioration in the company’s risk-adjusted capitalization, due to material losses; a significant increase in credit risk; or if the company’s operating performance continues to deteriorate.

The ratings of SRE reflect its balance sheet strength, which AM Best categorizes as strong, as well as its adequate operating performance, limited business profile and appropriate ERM. These ratings also recognize the high degree of integration and wide range of implicit and explicit support the company receives from its parent, SFM.

The revision of the outlooks to negative reflects the increasing negative trend in SRE’s combined ratio over recent years, with elevated volatility in its underwriting performance while investment performance provides a thin buffer. While the company is implementing various initiatives to lower the volatility and improve profitability, concerns remain over the execution risk from its new business plan.

Operating performance has been mostly profitable over the past five years, with a five-year average operating ratio of 83.9%. However, there was higher volatility in SRE’s underwriting performance over recent years, partially driven by the company’s changing strategies on its retention level in 2017, as well as an increase in large loss cases. Although SRE reported a marginal profit in 2018 after its first-in-history net loss in 2017, its underwriting performance deteriorated again during the first half of 2019. SRE’s plans to grow its treaty and third-party businesses add uncertainties to its operating performance. The current business profile is considered as a relatively profitable captive business to the third-party competitive reinsurance space that the company is entering into. In addition, the net premium base will remain small according to the business plan, and as a result, underwriting performance will remain sensitive to the frequency of medium to large claims without scale.

Nonetheless, SRE’s risk-adjusted capitalization remains solid, supported by a moderate net underwriting leverage. The offsetting factors include a relatively small absolute size of capital and surplus of USD 67 million at year-end 2018, as well as high retrocession dependency. Nevertheless, SFM represents the largest share in SRE’s retrocession program as per its group strategy.

Established in 2011, SRE is a small reinsurer domiciled in Singapore with a focus on Southeast Asia. It has high business concentration in facultative and captive business from the Samsung group. As a wholly owned subsidiary of SFM, SRE shares the Samsung brand and is highly integrated within the parent company. It is strategically important to SFM in its efforts to expand internationally and diversify its business into reinsurance. Given the high level of integration with the group, SRE receives a wide range of support from SFM in areas such as retrocession, actuarial, underwriting, pricing, risk management and technology.

Negative rating actions for SRE could occur if the company’s underwriting performance continues to deteriorate while executing its new business plan. Negative rating actions also could occur if SFM reduces the level of support to SRE, or if SRE’s risk-adjusted capitalization declines sharply due to a material operating loss.

September 21, 2019

AM Best Upgrades Credit Ratings of Restoration Risk Retention Group, Incorporated

AM Best has upgraded the Financial Strength Rating to A (Excellent) from A- (Excellent) and the Long-Term
AM Best Downgrades Credit Ratings of Aegon N.V.’s U.S. Subsidiaries

AM Best has downgraded the Financial Strength Rating (FSR) to A (Excellent) from A+ (Superior) and the Long-Term Issuer Credit Ratings (Long-Term ICR) to “a+” from “aa-” of the U.S. life/health subsidiaries of Aegon N.V. (Aegon) (Netherlands) [NYSE: AEG]. Aegon’s U.S. life/health companies are referred to collectively as Aegon USA Group (Aegon USA). The outlook of these Credit Ratings (ratings) has been revised to stable from positive.

The ratings reflect Aegon USA’s balance sheet strength, which AM Best categorizes as very strong, as well as its adequate operating performance, favorable business profile and appropriate enterprise risk management.

The downgrades reflect a deterioration in AM Best’s assessment of Aegon’s consolidated operating performance. AM Best specifically notes that Aegon’s operating performance has been characterized by relatively flat top-line trends, together with returns on equity that do not compare favorably with its similarly-rated European peers.

The ratings of Aegon USA reflect that its U.S. operations maintain the strongest level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), although the quality of capital is diminished from the historical reliance on special purpose captives to finance reserves generated from term life and universal life insurance with secondary guarantees. Aegon USA has additional access to liquidity as a member of the Federal Home Loan Banks, which together with its access to capital markets provides Aegon USA with substantial financial flexibility. While the asset allocation within Aegon USA’s investment portfolio is typical for the U.S. life industry, there is some continued exposure to higher risk assets.

Current year operating performance was affected by lower fee revenue due to declining equity markets along with unfavorable mortality experience and adverse persistency, but offset by aggressive expense reductions. The ratings also reflect Aegon USA’s continued profitability with good margins on new business.

Aegon USA’s product lines contribute to the company’s diversified earnings, including traditional life, variable life, variable annuities, mutual funds, pensions and accident and health insurance. While there is some volatility in Aegon USA’s operating performance, the U.S. entities maintain an underlying trend of profitability on both a statutory and IFRS basis. In addition, the organization’s increasing exposure to variable annuities exposes its earnings to volatility, and while hedged, Aegon USA’s earnings remain somewhat correlated to capital market performance. AM Best notes that overall top-line growth has been inconsistent, with direct premium declining in each of the past three years, even though ordinary life insurance premiums have grown modestly in the same period. Additionally, returns on equity have been generally in line with industry averages, albeit with some volatility. Aegon USA’s business profile continues to remain favorable, with competitive market positions in the U.S. life and annuity arenas, supported by a large and diversified distribution system and an integrated worksite strategy that leverages the group’s broad market presence.

There has been increasing commercial momentum in the United States, with some new business expense strain from the individual life business, along with a challenging market environment in employee benefits. AM Best notes that the company has made a strategic shift to focus more heavily on fee-based products, especially variable annuities, and has de-emphasized spread-based products, particularly fixed annuities. However, AM Best views variable annuities with living benefit riders as displaying some of the highest risk characteristics, as well as being vulnerable to tail risks, which could lead
to an increase in required capital. Although the portfolio includes some products viewed as less creditworthy by AM Best, Aegon USA enjoys good diversification geographically and by product type.

The FSR has been downgraded to A (Excellent) from A+ (Superior) and the Long-Term ICRs have been downgraded to "a+" from "aa-" for the following members of the Aegon USA Group:

- Transamerica Life Insurance Company
- Transamerica Financial Life Insurance Company
- Transamerica Premier Life Insurance Company

August 31, 2019

AM Best Affirms Credit Ratings of Maxseguros EPM Ltd.

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" of Maxseguros EPM Ltd. (Maxseguros) (Bermuda). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Maxseguros' balance sheet strength, which AM Best categorizes as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

The ratings also reflect Maxseguros' strong risk-adjusted capitalization, supported by a comprehensive and adequate reinsurance program coupled with a conservative investment policy and limited premium risk exposure. The ratings recognize the important role of the company within its corporate parent structure, Empresas Públicas de Medellin E.S.P. (EPM), which is owned by the Colombian municipality of Medellin. EPM is the largest power generation and multi-utility company in Colombia. Maxseguros is a single-parent captive insurer wholly owned by EPM and provides reinsurance to the EPM group, covering property damage and business interruption, commercial crime, construction all risk, cyber risk, directors and officers, errors and omissions and general liability exposures.

These positive rating factors are offset partially by EPM's substantial financial leverage and Maxseguros' limited business and market scope, which is somewhat mitigated by the company's stable results, favorable geographic spread of risk and the history of Maxseguros' growing surplus position. Additionally, while Maxseguros depends on reinsurance, EPM's senior management is involved intimately in the captive's operations.

The stable outlooks are derived from Maxseguros' ability to sustain an adequate level of operating performance due to its demonstrated risk management expertise and conservative underwriting criteria. This held true during the last three years, when the company presented net claims while producing constant and increasing positive

Bottom line results. AM Best has a favorable view of Maxseguros' overall profile within the ultimate parent's structure; however, EPM's credit profile and financial leverage remain key factors for future reviews on Maxseguros.

Negative rating actions could occur if the credit profile of EPM becomes pressured by its financial leverage and interest coverage metrics, affecting Maxseguros profile. Additionally, negative rating actions could also arise if underwriting performance presents volatility affecting earnings and capitalization over time, or if there is a material shift in risk profile that potentially could undermine the stability and profitability of the company. Positive rating triggers could include sustained positive operating results and improved risk-adjusted capitalization, as well as excellent claim management.

September 13, 2019

AM Best Affirms Credit Ratings of GreenStars BNP Paribas S.A.

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a+" of GreenStars BNP Paribas S.A. (GreenStars) (Luxembourg), a subsidiary of BNP Paribas S.A. (BNP Paribas). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect GreenStars' balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

The ratings also consider, in the form of rating lift, AM Best's expectation that BNP Paribas will provide financial support to the company, should it need it. The shareholder has allowed GreenStars to retain all of its earnings since its incorporation in 2009.

GreenStars' balance sheet strength is supported by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best expects GreenStars' risk-adjusted capitalisation to remain at the strongest level, supported by good internal capital generation and low net underwriting leverage. An offsetting rating factor remains the company's high reliance on reinsurance; however, this is mitigated partially by GreenStars' diversified and well-rated reinsurance panel.

GreenStars' strong operating performance is demonstrated by its five-year average return on capital and surplus of 16.3%. Performance is driven largely by the company's low loss experience, which helps it to obtain high inwards ceding and profit commissions. Over the longer term, performance is subject to potential volatility due to the company's exposure to a possible accumulation of losses and to the impact of fluctuations in reinsurance market conditions. The company
partly mitigates the potential aggregation of losses by purchasing extensive reinsurance.

GreenStars provides support for BNP Paribas’ lending operations, as a credit-risk management tool. The company’s business profile benefits from having direct access to the group’s good quality credit risks. While GreenStars is concentrated in credit insurance, its business profile assessment reflects its diversification by geography, type of credit risk and obligor.

August 21, 2019

AM Best Affirms Credit Ratings of Delvag Versicherungs-AG

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of Delvag Versicherungs-AG (Delvag) (Germany). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect Delvag’s balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Delvag is the captive insurer for Deutsche Lufthansa Aktiengesellschaft (Lufthansa), a global aviation group domiciled in Germany.

Delvag’s balance sheet strength is underpinned by risk-adjusted capitalisation that AM Best expects to be maintained at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), and supported by a profit and loss absorption agreement with Lufthansa that provides balance sheet protection, as well as a track record of modest annual earnings retention. The balance sheet strength assessment also factors in Delvag’s conservative and prudent reserving practices, as well as its good liquidity profile. A partly offsetting rating factor is Delvag’s moderately high dependence on reinsurance to protect its aviation fleet business. However, the associated credit risk is mitigated by the use of a financially strong and diverse reinsurance panel.

Delvag has a good historical earnings track record, as demonstrated by a five-year weighted average return on equity of 10% (2014-2018), supported by a good balance of underwriting and investment income. The company reported a combined ratio of 78% in 2018. AM Best expects prospective operating performance to remain strong, although a reallocation of expenses from the non-technical account to the technical account is likely to lead to a higher reported combined ratio going forward.

Delvag’s profile is enhanced by its strategic importance to and integration within the Lufthansa group. It continues to leverage its expertise in the aviation and transport sectors to write a book of third-party business alongside its core Lufthansa fleet portfolio.

August 21, 2019

AM Best Affirms Credit Ratings of Jupiter Insurance Limited

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of Jupiter Insurance Limited (Jupiter) (Guernsey), a captive of BP p.l.c. (BP), an integrated global oil and gas company. The outlook of the Credit Ratings (ratings) remains stable.

The ratings reflect Jupiter’s balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Jupiter’s balance sheet strength is supported by its risk-adjusted capitalisation being at the strongest level, as measured by Best’s Capital Adequacy Ratio (BCAR). Offsetting rating factors include the captive’s high underwriting limits provided to a number of different locations and facilities, as well as its concentrated investment portfolio, which predominantly consists of financial instruments linked to BP, its ultimate parent.

AM Best expects Jupiter’s risk-adjusted capitalisation to remain at the strongest level, supported by strong internal capital generation. A capital base of approximately USD 6.5 billion at year-end 2018 supports the captive’s high maximum line size of USD 1.5 billion. The captive does not purchase any outward reinsurance cover. Jupiter’s investments are highly concentrated, with 98% accounted for by discount notes issued by BP International Limited, with durations of between one and 12 months. Consequently, AM Best considers Jupiter’s financial strength to be linked closely to that of BP.

The captive has reported strong operating results over the past five years, mainly driven by strong underwriting profits in the absence of large losses. However, soft market conditions, lower insured values due to BP’s divestments and lower oil prices have put significant downward pressure on Jupiter’s premium income.

Jupiter’s business profile assessment reflects its key role in BP’s overall risk management framework, as its principal captive. Jupiter’s underwritten risks consist largely of offshore and onshore property and business interruption cover. The captive allows BP to optimise its insurance protection in terms of scope and cost. In addition, Jupiter provides reinsurance to its sister captive, Saturn Insurance Inc.

July 23, 2019

AM Best Affirms Credit Ratings of Saturn Insurance Inc.

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” of Saturn Insurance Inc. (Saturn) (Burlington, Vermont) and the Long-Term Issuer Credit Rating of “a-” of Saturn Insurance Inc. (Saturn) (Burlington, Vermont).
VT). Saturn is a captive of BP p.l.c. (BP), an integrated global oil and gas company. The outlook of the Credit Ratings (ratings) remains stable.

The ratings reflect Saturn's balance sheet strength, which AM Best categorises as strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management. The ratings also consider rating lift from Saturn’s reinsurer, Jupiter Insurance Limited (Jupiter), which is the principal captive of the BP group and provides substantial reinsurance support to Saturn.

Saturn’s balance sheet strength is supported by its risk-adjusted capitalisation categorised as strongest, as measured by Best's Capital Adequacy Ratio (BCAR). Saturn writes large gross lines relative to the size of its capital base. However, reinsurance protects its balance sheet against high severity, low frequency losses. Offsetting rating factors continue to be the captive's high reinsurance dependence and relatively small capital base, which exposes the risk-adjusted capitalisation to potential volatility following large losses.

Saturn benefits from low investment risk, with approximately half of its assets invested in cash and cash equivalents. The remainder of the portfolio is composed of callable short-term loans to a BP affiliate, with excellent liquidity terms.

Saturn recorded solid operating results in the 2014-2018 period, as demonstrated by a five-year weighted average return on equity of 7.1%, which was achieved despite a large workers’ compensation claim that negatively impacted its performance in 2017. The claim also demonstrates the exposure of the captive’s performance to volatility, which is an offsetting rating factor. Saturn’s track record of strong performance and full retention of earnings have supported growth in capital and surplus of 51% since the company’s incorporation in 2011.

Saturn’s business profile is assessed as limited, reflecting its small and concentrated portfolio of high-risk business emanating from the BP group in the United States. Saturn's portfolio consists primarily of terrorism cover, certificate of financial responsibility, workers’ compensation insurance and environmental protection agency cover. The soft rate environment over the past four years has led to a decline in the captive’s gross written premiums, by approximately 60% since 2014.

AM Best Affirms Credit Ratings of Enel Insurance N.V.

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” of Enel Insurance N.V. (EINV) (Netherlands), a captive of Enel S.p.A. (Enel), a multinational electric utility company based in Italy. The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect EINV’s balance sheet strength, which AM Best categorises as very strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

EINV’s balance sheet strength assessment is underpinned by the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR). The captive maintains good liquidity, with investments composed almost entirely of fixed-income securities and cash funds. An offsetting rating factor is EINV’s high reliance on reinsurance, although the risks associated with this dependence are mitigated partially by the captive’s use of reinsurers of excellent credit quality. Following losses in 2017 mainly driven by reserve strengthening on its property business, the captive reported a net profit of EUR 8.6 million in 2018, stemming from good underwriting performance with a combined ratio of 91.5%. EINV’s underwriting performance over the past five years (2014-2018) compares positively with its targeted through-the-cycle combined ratio of 95% to 100%. Prospectively, AM Best expects the captive to achieve near break-even underwriting results and low-single digit returns on equity.

As a single-parent captive, EINV is well-integrated within the Enel group and plays a fundamental role in managing the group’s risk exposures. The captive’s risk management capabilities are in line with its risk profile.

July 17, 2019

Methodology Sources

AM Best remains the leading rating agency of alternative risk transfer entities, with more than 200 such vehicles rated throughout the world. For current AM Best’s Credit Ratings and independent data on the captive and alternative risk transfer insurance market, please visit www.ambest.com/captive.

The methodology used in determining these ratings is Best’s Credit Rating Methodology, which provides a comprehensive explanation of AM Best’s rating process and contains the different rating criteria employed in the rating process. Best’s Credit Rating Methodology can be found at www.ambest.com/ratings/methodology.

View a general description of the policies and procedures used to determine credit ratings. For information on the meaning of ratings, structure, voting and the committee process for determining the ratings and monitoring activities, please refer to Understanding Best’s Credit Ratings.

July 23, 2019
These press releases relate to rating(s) that have been published on AM Best’s website. For additional rating information relating to these releases and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this document, please see AM Best’s Recent Rating Activity web page.

AM Best does not validate or certify the information provided by the client in order to issue a credit rating.

While the information obtained from the material source(s) is believed to be reliable, its accuracy is not guaranteed. AM Best does not audit the company’s financial records or statements, or otherwise independently verify the accuracy and reliability of the information; therefore, AM Best cannot attest as to the accuracy of the information provided.

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AM Best is a global rating agency and information provider with a unique focus on the insurance industry.

Research

Best’s Special Report: Rated U.S. Captives Build Upon Strengths to Achieve Another Strong Full-Year Result in 2018

U.S. captive insurance companies rated by AM Best continued their run of strong financial results in 2018, as well as their outperformance of the segment’s counterparts in the commercial casualty sector, according to an AM Best special report.

The new Best’s Special Report, titled, “Rated Captives Continue to Build Upon Strengths,” states that the rated captive composite reported a pretax profit of approximately $1.1 billion. Although this result is down 16% from the $1.3 billion reported in 2017, the market remained profitable. The composite posted a post-dividend combined ratio of 96.0% in 2018 and a net underwriting profit of $160.0 million. Net premiums written increased in 2018 by 4.4% as well, reversing the 6.7% decline reported in the previous year, driven mainly by premium increases in medical professional liability and commercial multi-peril insurance lines of business.

AM Best’s favorable view of the captive segment is driven partly by the segment’s continuously positive underwriting results every year. These strong results are testament to the segment’s close alignment of interests with stakeholders and deeply ingrained risk management culture. The favorable view also reflects the composite companies’ exceptionally conservative reserve philosophies and their close proximity to insureds, which allows them the ability to quickly identify and manage risk as it emerges. AM Best’s captive composite also continues to outperform the broader commercial market, as the 88.8% five-year combined ratio average compares favorably with the 99.9% posted by the commercial composite.

Between 2014 and 2018, captives added $3.1 billion to their year-end surplus and paid $1.6 billion in stockholder dividends and $1.9 billion in policyholder dividends. Therefore, $6.6 billion during this period remained with the captives or was paid back to their policyholders and stockholders instead of going to the commercial market.

Risk retention groups (representing 15% of AM Best's captive composite premium) saw its performance weaken in 2018 compared with 2017, with a combined ratio of 100.3%, nearly six percentage points worse than the previous year, owing to higher loss ratios and soft market pricing.

Captive insurers remain nimble and stable despite headwinds from low interest rates, changes in U.S. tax law and prolonged periods of soft market conditions, which also demonstrates how well these companies readily identify emerging risks, as well as their ability to take advantage of reinsurance pricing when opportunities arise. Captives in general tend to stay away from alternative investment strategies despite the low interest rate environment. Capital preservation is the main goal of captives, which they achieve via conservative investment. AM Best continues to monitor captives’ investment portfolios, diversification efforts and strategies.

To access the full copy of this special report, please visit http://www3.ambest.com/bestweek/purchase.asp?record_code=288168.

July 30, 2019
Washington Commissioner Orders Alaska Air Group Captive to Pay $2.5 Million

Washington state Insurance Commissioner Mike Kreidler has ordered ASA Assurance Inc., a captive insurer for Alaska Air Group, to pay more than $2.5 million in unpaid premium taxes and penalties.

ASA Assurance is the latest captive to come under the department’s scrutiny after Kreidler declared last year that many large companies in Washington were using captives to avoid paying premium taxes, the insurance department said in a statement.

ASA Assurance issued four policies for Alaska Air Group and its subsidiaries, Alaska Airlines Inc., Horizon Air Industries Inc., and McGee Air Services Inc., collecting $91 million in premiums. Washington assesses a 2% tax on premiums, the department said.

Domiciled in Honolulu, ASA Assurance has demanded a hearing before an administrative law judge. A prehearing telephone conference has been scheduled for Sept. 30, the department said.

A company representative said Alaska Air had no comment about the order.

At the time the company demanded the meeting, the department calculated the fines and taxes as $1.8 million in unpaid premium taxes, $228,354 in interest, $364,698 in penalties and a $100,000 fine (Best’s News Service, Sept. 10, 2019).

Alaska Air then said it believed the office will take the position that its out-of-state workers’ compensation risks will be treated as “risks or exposures” located within the state of Washington and will be taxed as such.

But the department, it said, does not have the authority to regulate companies that insure their own risk. “Alaska Air Group’s use of a pure captive insurer like ASA is not a mechanism for risk sharing as the risk is ultimately retained by the insured,” it said.

ASA also is not in “the business of making insurance contracts,” it said, because its sole job is to cover Alaska Air and its subsidiaries leaving it outside the office’s purview. Additionally, the state cannot tax Alaska Air because the office’s authority over it is barred by federal law, the letter said.

Finally, if the office does have any authority to tax premiums paid to ASA, it must apportion the tax to exclude premiums related to risks located outside of Washington state, it said.

Klotz said more of the office’s documentation of the case would be made public in the coming days.

NW Re Ltd., the captive insurer whose parent company is Costco Wholesale Corp., has paid back taxes and fines totaling $3.6 million for providing services in Washington state without authorization (Best’s News Service, March 11, 2019).

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)

Delaware Captive Director: Data Security Model Law Will Indirectly Affect Captives

Steve Kinion, captive insurance director, Delaware, said the NAIC model law on data security is aimed at consumer protection. Many captives are set up to insure themselves, but may have issues via third-party vendors. Kinion spoke with AMBestTV at the annual conference of the Vermont
Captive Insurance Association, held in Burlington.

View the video version of this interview at: http://www.ambest.com/v.asp?v=kinion819

Following is an edited transcript of the interview.

Q: Delaware just adopted the NAIC Data Security Model Law. What was the reason for doing so?

A: The reason for doing so was consumer protection. Insurance Commissioner (Trinidad) Navarro believes that it is his job, and the job of the Delaware Insurance Department, to protect the consumer.

Whether that means by ensuring that insurance companies fairly treat their policy holders and pay claims when they should pay, but also to ensure that when insurance companies and any other person who’s a licensee under this new law receives private consumer information, that’s what we call non-public information, by consumers that they protect it.

After all, policy holder, applicants, or anyone who provides that kind of information to an insurance company, an insurance agent, managing general agent, third-party administrator has an obligation to protect that private information about consumers. That’s what the commissioner expects.

Q: Who would be impacted by the law?

A: I’ll use the technical term licensee as it is used in the law. A licensee means any person or organization that receives a license to conduct the business of insurance in Delaware.

Q: That would include insurance companies, agents, brokers, MGAs.

A: Absolutely correct.

Q: Does this place new responsibilities on boards of directors of those entities?

A: Yes, it does. It does place new responsibilities on the governing bodies of what I’ll call the licensees. For the benefit of your audience, I’ll use the context of insurance companies because it’s the easiest way to explain it.

The new law mandates that insurance company boards of directors, or if they decide to delegate that authority to a committee of the board of directors, to adopt, implement, and then continue to monitor a program that safeguards and keeps secure consumer information.

By doing that, the law requires that obligation, and also the law requires an annual certification to the commissioner that the board, or a committee of the board, is doing exactly that. In future years, this will be an examinable item.

Q: This increases the liability of boards of directors.

A: It increases the regulatory liability for the boards of directors. It certainly does because we want boards of directors and any kind of governing body for a licensee to be involved in the data security program. We want them to understand and know what their organization is doing to safeguard consumer data.

Q: What happens if they’re found to not have kept that data secure? What if there is a breach? Is there a punishment?

A: If there is a breach, then that is called a cyber security event. It requires notification to the insurance commissioner. Could it be an event that possibly could result in regulatory sanctions of some type? Yes, that is possible.

Q: How about captives? Would it apply to your typical captive?

A: No. This particular law will not apply to captive insurance companies. One of the reasons and the rationales for not doing so is this. The vast majority of captive insurance companies do not hold or do not receive non-public information about consumers.

The captive insurance companies are a form of self-insurance. They’re formed by businesses to insure their own liabilities. In the very small instances where a captive insurer may hold consumer information, and that would be a very, very small subset of captive insurers...Overall, it does not apply to captive insurers.

However, there is a provision within the law that requires the governing bodies, as I mentioned a moment ago, to have a program that they monitor their third-party vendors. That program requires this.

When you’re looking at third-party vendors you want to make sure that when information is sent to those third-party vendors, such as consumer data, that those third-party vendors have their own programs to safeguard that information.

As a result, if a captive insurer is contracting with a licensee, again, a company that is now subject to the act, then that licensee has an obligation to make sure that captive is safeguarding that consumer information.

Something of it may be a backdoor of saying that captives are subject to the law even though, from a legal perspective, they’re not. By the power of the freedom of contract, they are. Again, licensees have an obligation to look, to make sure that a captive insurer is safeguarding consumer information.

There’s one more aspect in terms of these new responsibilities on boards. I think it can be a plus or a benefit for these governing bodies, for insurance companies from this perspective.

One of the most common exclusions in cyber liability insurance policies is that when you share information with a third-party vendor and that vendor has a breach of that data, that can be an exclusion under a cyber liability...
policy. Again, boards now have the obligation to look at their third-party vendors.

Also from the perspective of having a system that implementation, continuous monitoring, annual certification. Another exclusion under a cyber liability policy can be the failure to not properly monitor your data security system.

Let’s look at Equifax, where there was a patch that could have been adopted and placed on the software. It was not, even though the Department of Homeland Security had given notice to the industries to do so. Again, that could be a system where we have, now, a new method of board involvement, board oversight to make sure that patches are adopted and boards should be asking that question.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 14, 2019

Vermont Deputy Commissioner: Regulatory Sandbox, Blockchain Help Risk Exploration

Dave Provost, deputy commissioner, Vermont Captive Insurance Division, said regulators are encouraging new initiatives while keeping a focus on solvency. Provost spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=provost819

Following is an edited transcript of the interview.

Q: Can you tell us about the regulatory sandbox you just launched?

A: Sure, that’s actually not in the captive side, but in the traditional side. It is intended to provide a regulatory environment for companies to try new products. I really hate to use the word relaxed, but it is slightly less-stringent regulation, we’re still watching, but allowing companies to try some new products. It’s very tough to balance that with consumer protection.

We don’t have that concern in captive insurance, you own the insurance company, you want to experiment, we’re happy to let you experiment and work with you. This is kind of new, a number of states have opened up a regulatory sandbox, is what it’s called, and just letting insurance companies do some experimenting while we keep pretty close eye on them.

Q: Is it more along the lines of existing companies trying new products, or is it new companies trying to come to market?

A: It’s a little bit of both, I think, but mostly existing companies trying new products so they can keep up with the new companies that are trying to bust in and the same time.

Q: How do you balance that need to protect the policyholders with relaxing the regulations?

A: Primarily with good financial solvency, what we call surveillance. Keeping an eye on the company. As they’re doing this, we will be reading the policies along with them, and watching the experience, and seeing how it works out. Rather than waiting for a yearly or quarterly report, we’ll be almost in the sandbox with them at the same time.

Q: Can you tell us about your blockchain project?

A: Everybody wants to do blockchain for something, it’s the next best thing, so we’re doing a very cautious approach with an experiment with the Secretary of State’s office on developing a blockchain to help companies register their captives with the Secretary of State. As part of the process now, and it’s a pretty straightforward process, so we picked a simple process that doesn’t have a huge transaction volume.

Sandy Bigglestone is the primary driver of that in our department, she’s prepared a request for information and got information back from blockchain programmers and is now working on a request for proposal to actually do the work and set up the project. We’re kind of looking forward to that to see how it works.

It will give us some experience in auditing a blockchain program, and testing the results in a pretty safe environment where if this doesn’t work out, fine, we can still do a manual process tomorrow. It’s already a short process, so it’s not going to mess anybody up if the blockchain project doesn’t work out.

Q: These would just be for new companies forming captives?

A: It might also work for a company that’s changing its bylaws or articles of association that needed to go through Secretary of State as well. It’s just meant to make that a live process where we all get the same information at the same time. That’s the bonus of blockchain, if you will, that people are all seeing the same thing at the same time. Things don’t get altered along the way.

Q: Could you see a future where companies are filing their financials through blockchain?

A: I could, in fact if they were doing already, I wouldn’t even know the difference. That I think is one thing that people are thinking blockchain’s the next best wonderful thing, but frankly it will just be another way of doing much of the same work. A lot of it will be some incredible changes, I can’t think of any off the top of my head, some of the projects that I’ve heard of that are done with blockchain.
We’ve all heard about the Maersk program with keeping track of their shipping containers, makes perfect sense. A lot of these things just make sense, and it’s just the evolution and the use of computers and artificial intelligence. The smart contracts will be part of that too.

They’re looking at work-life balance, and they’re looking to enhance their day-to-day and not sit behind a desk. It’s different ways that the insurance industry and particularly, the captive insurance industry, can contribute to that and make it a good place for young people to come and to stay within the industry.

View this and other interviews at http://www.ambest.tv
(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 31, 2019

Industry News

AM Best Director: Hardening Rates, Emerging Exclusions Spur Interest in Captives

Susan Molineux, director, AM Best, said difficulties in finding coverage would motivate sponsors to form new captives, bring dormant captives back to life, and add coverage to existing captives. Molineux spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington.

View the video version of this interview at: http://www.ambest.com/v.asp?v=molineux819

Following is an edited transcript of the interview.

Q: How would you describe the overall captive market today?
A: I think it’s pretty clear from the conference that the captive industry is alive and well, and as we see rates hardening in the market and exclusions coming up that hadn’t been excluded before, there’s tremendous opportunity for captives to not only be formed but existing captives to come out of dormancy and even to grow and add lines of coverage.

Q: Were there any big themes that came out at the conference this week?
A: There were a few sessions focused on young talent. How do we attract young talent to the industry? It’s not really one of those top majors that someone would seek out as a university student. A couple of sessions, one I was involved in, explored what we can do from an outreach and education perspective with risk management programs in some of the universities, but then just as advocates of our industry to get out there and really spread the word.

Then, I was involved in another session where they were talking about using captives themselves to offer coverages to employees, particularly young employees that might be interested in things like cell phone insurance and trip insurance and things that they desire because studies have shown that the younger generation is more interested in benefits relative to salary, which I found to be particularly interesting.

AM Best’s Riggs: Medical Professional Liability Risk Finding Home in Captives, RRGs

Vicky Riggs, senior financial analyst, AM Best, said captive growth is also coming in warranty and vehicle service coverage. Riggs spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=riggs819

Following is an edited transcript of the interview.

Q: What new ways are you seeing captives being used today?
A: In particular, I’m seeing an expansion in captives and risk retention groups in the medical professional liability lines. Companies are expanding their geographic footprint through the use of their captives and RRGs [risk retention groups] to write in other states outside of their home state and for other products and services.

Q: Are you seeing captives being used today to write risks that used to be uninsurable?
A: I’m seeing a lot of captives write more warranties and vehicle service contracts in particular.

Q: Looking forward, do you see the potential for captives to grow into other areas?
A: I do. Sadly, I think there’s going to be a strong use of captive solutions for active assailant coverages, and child victim compensation laws, and the impact that’s having on schools, religious organizations. I think we’re going to see a lot of risk pooling.

View this and other interviews at http://www.ambest.tv
(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 31, 2019

IRS Launches Crackdown on Abusive Microcaptives, Offers Settlements

The Internal Revenue Service sent out letters offering settlement agreements to up to 200 companies under
agency investigation for allegedly using abusive microcaptive insurance arrangements as illegal tax dodges.

“We encourage taxpayers under exam and their advisers to take a realistic look at their matter and carefully review the settlement offer, which we believe is the best option for them given recent court cases,” IRS Commissioner Chuck Rettig said in a statement. “We will continue to vigorously pursue these and other similar abusive transactions going forward.”

The companies are accused of abusing the 831(b) captive rules. Abusive microcaptive transactions have appeared on the IRS “dirty dozen” list of taxation scams since 2014, the IRS said. The IRS is concerned some 831(b) captives are being marketed for abusive purposes in estate planning rather than risk mitigation (Best’s News Service, April 6, 2018).

Under the proposed settlement, companies would have to forego their claimed tax benefits and agree to the imposition of some penalties, the IRS said. Those who reject the offer were warned they could not expect a better deal later on. Exact settlement terms would vary from company to company and the names of the companies were not released.

“Given the current state of the law, it is the view of the IRS Independent Office of Appeals that these terms generally reflect the hazards of litigation faced by taxpayers,” the IRS said, “and taxpayers should not expect to receive better terms in appeals than those offered under this initiative.”

“Taxpayers who are offered this private resolution and decline to participate will not be eligible for any potential future settlement initiatives,” the IRS said.

The IRS launched the settlement initiative after three consecutive U.S. Tax Court wins in cases, which sought to overturn the IRS interpretation of the 831(b) captive rules.

“Although some taxpayers have challenged the IRS position in court, none have been successful,” the IRS said. “To the contrary, the tax court has now sustained the IRS’ disallowance of the claimed tax benefits in three different cases.”

In one closely watched case, a tax court judge this year disallowed tax deductions received by Syzygy Insurance Co. under an 831(b) microcaptive arrangement, finding it did not engage in insurance transactions and the arrangement failed to appropriately distribute risk while charging excessive premiums (Best’s News Service, April 12, 2019).

The 831(b) captives also known as microcaptive or enterprise risk captives emerged from tax law changes in 1986 as an effort to help farm mutuals and small- and medium-size businesses mitigate risks they couldn’t necessarily do in the commercial market. Since then, the

831(b) captive space has grown beyond just the farm

mutuals. It’s now used as a much larger risk mitigation
tool for family-owned small businesses and medium-size
businesses (Best’s News Service, Jan. 5, 2016).

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)

September 17, 2019

Bankrupt Purdue Pharma Seeking to Create Captive Insurer With Expiration of Current Policies

Unable to secure traditional liability insurance, bankrupt opioid maker Purdue Pharma is attempting to create a captive insurer to underwrite $10 million in required product liability insurance and about $27 million in general liability cover, according to a court filing.

“A commercial solution to the debtors’ product and general liability coverage requirements has been challenging to obtain with a third-party insurer,” according to a motion filed by the company’s attorneys with Judge Robert D. Drain, of the U.S. Bankruptcy Court for the Southern District of New York.

“The debtors are therefore in the process of evaluating captive options to insure the debtors’ product and general liability risks,” the motion said, “including creating a captive insurance company that will be a wholly owned, non-debtor subsidiary of (Purdue Pharma) in the alternative, creating a segregated account within a licensed insurer.”

The motion sought the judge’s permission to move ahead with an alternate coverage plan because some of the policies expire Oct. 1, according to the motion filed by attorney Eli J. Vonnegut, representing Purdue Pharma. Without the appropriate coverage, the company could be found in violation of state and federal laws, resulting in a loss of their license to operate.

The company paid about $3.2 million in annual insurance premiums for all the policies, Vonnegut said. Vonnegut listed 15 carriers that currently provide a range of cover for the company. The insurance companies listed include Liberty Mutual, for general liability and excess casualty cover; those policies expire on Oct. 1

Other carriers listed include Chubb, for umbrella liability; National Union Fire Insurance Co. of Pittsburgh, Pa. (an American International Group Inc. unit), for employment practices liability and fiduciary liability; Zurich American Insurance Co., for employment practices liability and fiduciary liability excess coverage; Factory Mutual Insurance Co. for property; and FM Global Transit for marine cargo coverage.

Individual policy limits and a breakdown of premiums were not included in the court filing. The judge has yet to rule on Vonnegut’s motion. Liberty Mutual declined
News of the Alternative Risk Markets

comment and attempts to obtain comment from other carriers named were unsuccessful.

Nearly every state and 2,000 cities, towns, counties and Native American tribes have filed lawsuits against the manufacturers and distributors of opioids such as oxycodone and hydrocodone. They claim those companies fueled the crisis by strategically inundating communities with billions of pills, using deceptive marketing that concealed their highly addictive qualities and failing to control the flow of the powerful narcotics (Best’s News Service, Aug. 27, 2019).

The state of Oklahoma won a $572 million judgment against health care giant Johnson & Johnson on Aug. 26 in the first ruling holding a drug manufacturer accountable for its role in the opioids epidemic.

Another trial is set for next month when lawyers for two Ohio counties will argue that a range of defendants, including Purdue Pharma, created a “public nuisance” by saturating the region with opioids.

Purdue faces more than 2,600 lawsuits over its marketing and sale of opioid medications, according to court documents.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)
A: We’re seeing a lot of growth in captives today for a number of different factors, but particularly around employee benefits and companies wanting to use a captive to help them control the ever-rising cost of employee benefits.

Q: Are these existing captives or new captives?

A: Both. Brand new inquiries of companies just forming a captive purely for that purpose, but also companies that already have an existing captive and perhaps some P&C risks using a captive to expand it into employee benefit risks, as well.

Q: How big are these companies?

A: It can be large companies, Fortune 500 companies looking, perhaps, to use a captive to aggregate international pooling for employee benefits. It could be smaller companies, perhaps looking to control their costs in a rising environment in the U.S. Also using a captive to write voluntary benefits, as well. Using that benefit to offer it to employees as a true real benefit.

Q: What is driving that growth? You mentioned U.S. Would it be health care?

A: Yes. Health care costs globally are rising. We see that all the time, more so in the more recent years. I think it’s an ever-rising cost. Sometimes in the property and casualty market we get peaks and troughs in the market, cycles, but with employee benefits it continues to rise up, and up, and up so a captive is a good solution.

Q: Where are you seeing growth opportunities for captives today?

A: We’re seeing a lot of growth opportunities. In particular now, in several lines of business it’s a firming market place for insurance rates. I think as rates firm, you’re going to see more captive utilization in those lines of business. I think we’re seeing that, we’re talking to our clients about that, and if you think of it, that’s a perfect way to use a captive.

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Q: How are you seeing companies expand their use of captives?

A: We’ve come to such a great place with captives, because captives can be really used for anything. The captive is so much more comfortable now in the corporate structure, that captives are almost becoming like an enterprise risk management vehicle. Some companies have 10, 20, 30 lines of business in their captive, and what point is it really the enterprise risk management vehicle?

That’s kind of a nice goal for everybody, and I think more and more companies are putting more and more risk in their captive, just on a very broad spectrum.

Q: What potential emerging risks do you see going into captives in the future?

A: I think captives are great for emerging risks. There’s a long history of captive utilization around emerging risks, and now is no different. I think cyber, cyber into captives is a natural fit. It’s probably a good area where a captive can start slow, and then pick up with more risk.

Buying reinsurance early on, and getting themselves into a risk, and then building up over time. I think cyber’s a great example of that, and I think we’re going to see much, much more cyber going to the captives for that reason.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 31, 2019

Axa XL North America Head of Global Programs: Captives Become Early Homes for Emerging Risks

Steve Bauman, head of global programs and captive management for North America, Axa XL, said captives have shown they can adapt to emerging risks such as cyber, starting with smaller levels and building up over time. Bauman spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=bauman819

Following is an edited transcript of the interview.

Q: Where are you seeing growth opportunities for captives today?

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When it gets more expensive for an insured, they take on more of their own risk, and then they can offset some of those increases. I think we’re going to see a lot more of that, as that may develop out to other lines of business, great way to use a captive.

Q: How are you seeing companies expand their use of captives?

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View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 27, 2019
Citadel Risk CEO: Captive Management Firms Make Uncertain Acquisition Targets

Tony Weller, chief executive officer, Citadel Risk, said captive management firms need scale to deal with regulators, but buying companies can backfire if personnel doesn’t remain. Weller spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=weller819

Following is an edited transcript of the interview.

Q: There’s been a number of mergers and acquisitions among captive managers offshore. What’s driving that?

A: I think the main issue at the moment is that the compliance becomes more and more onerous as time goes by. Larger firms, for them, it’s easy to justify having a person, or a group of people, who are solely in charge of compliance.

For a smaller to medium-size firm of captive managers, that obviously doesn’t make as much sense. The economies of scale works with a big company, and it doesn’t with a smaller company.

I think the other thing is that, with the growth in captives, although there’s an argument it may be starting to be regenerated, if you want to have a situation where you want a large number of new clients pretty quickly, the only way to go about it is to acquire other companies.

Q: What does it take for a merger to be successful, or what goes wrong when it’s unsuccessful?

A: I think ultimately, it’s the fundamentals, as with managing any company the same. The secret’s in captive management, you’ve got to be able to manage the captives, and you’ve got to have adequate staff.

When you acquire, if you can hold onto the key staff, that obviously works, because often, the relationship is with the person, rather than the company. People might want to stay with Tony Weller, rather than with Citadel, if I was to move on.

I think the idea that a private equity firm or a hedge fund can just come in and make money out of captive management, only just to make a profit in five year’s time, that doesn’t necessarily work. It will, if you get the fundamentals right over a five-year period, you may do.

Certainly, there’s been a well-documented case recently with a private equity fund who bought a captive manager who had its tentacles all throughout the offshore and onshore parts of the captive industry.

I think that they really didn’t know how to control a captive management company well. When people start leaving, and things start going awry, then it won’t be successful.

It’s just a question of keeping on top of it, and making sure that ultimately, clients are happy.

You get the important things right. Are accounts lodged on-time? Are the client aware of their regulatory responsibilities? Those things don’t change if you buy somebody. They’re the things that have really got to be done well for it to work properly.

Q: How does a small, independent firm compete against, say, the big three brokers?

A: The problem is this. Your first question is the compliance things. It’s are you big enough to justify having somebody who is in charge of compliance? It’s hard for all the accountants to know all the issues that are involved.

Ultimately, I think a smaller to independent firm, the advantage that they do have is they do tend to know their clients a bit better. They do have more continuity of staff. It’s a question of loyalty and making sure the clients are kept happy.

It’s a question of making sure that you as a captive manager maintain a good relationship with the regulator. If all those things can be done, it can still work.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) August 31, 2019

Aon Managing Director: Captive Insurers ‘Incubating’ Cyberrisk for Hard Market

Bill Mourelatos, managing director, Aon, estimated 41% of captive clients retain some amount of cyberrisk, a way to reduce overall exposure and to prepare for more difficult markets. Mourelatos spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=mourelatos819

Following is an edited transcript of the interview.

Q: What are you hearing from clients today?

A: I think for most of our clients, we’re hearing the same thing the markets aren’t responding like they have in the past. Either they’re reducing capacity, increasing pricing, being a little bit more restrictive in terms and conditions, or a multitude of those items. There’s a lot of changes in the market. For years, we’ve been talking about a soft market and when that hard market is coming, and it seems like it’s arrived.

Q: How are captives responding?
A: The good thing is that we’ve always said that captives are there for the hard market, and we’re seeing now captive owners looking at their captives a little bit differently, potentially taking on more risk, taking on more retentions, and really responding to the market’s inability to provide affordable coverages.

We’re seeing that really across different lines. Historically, we always think about the property market being the first market hardening, we’re seeing that in the property market. We’re seeing it now in the casualty lines, and that could just follow through to other lines as well.

Q: What do you see in terms of new businesses going into captives?

A: What we’re seeing, and we’ve been talking about it for a number of years is cyber insurance, cyber cover. Although there is capacity in the markets for many organizations, we just recently completed our cyber, captive cyber survey. It’s interesting to see that a lot of captives are now writing cyber insurance in their captive programs.

To date, I think we have 41% of our captives that are incubating that risk for potentially the hard market or potentially more restrictive terms and conditions. Although it’s kind of still exotic to some, cyber insurance, it’ll be more mainstream and I think we’re starting to see that as well.

Q: When they write it in the captive, is that instead of going to the commercial market or in addition to?

A: Typically, it’s in addition. It depends on the organization and type of sector and industry. Organizations that have significant exposure will not just retain the entire amount. If you think of healthcare, energy, typically they’ll buy limits. They need high limits, but they’ll also put some into captives. Other organizations with maybe a smaller risk profiles around cyber insurance are incubating potentially the entire tower, entire coverage that they’re looking to insure.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 27, 2019

WTW Director: Captive Cells Help Companies Segregate Risks by Unit, Line

Jason Palmer, director, Willis Towers Watson, said organizations that place risks into cells of a captive based on factors such as business unit and line have a better tool to correlate risk results by source. Palmer spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=palmer819

Following is an edited transcript of the interview.

Q: Are you seeing new uses for cell captives today?

A: We are. We’re seeing them in what would be more traditionally what you would consider a single-parent captive, where there’s a large corporate parent company that then owns its own insurance company.

What we’re seeing around cell captives is the same design, the same corporate parent company owning the cell captive, and then establishing independent cells for different lines of business, different business units, whatever it may be to allow those business units to segregate their risks from one another.

Q: Why would a business opt to do that?

A: It’s really about the intended ownership and the goals of the captive program. Specifically, we’ve seen business units who want to have an ownership in the success of that captive. Being able to isolate the risks within a segregated cell facility is proving to be very beneficial to their organization.

Q: Are they incorporating these cells?

A: What we have seen is the majority of them are incorporated. They don’t necessarily have to be. I would say that the reason for the incorporation is to ensure the segregation of the assets and liabilities from the other cells in the program.

Q: Any profit or loss from that captive cell would go right up to that business unit?

A: That’s correct. The business unit then has an intended purpose of utilizing that cell and the success of that cell.

Q: Are these mostly large, sophisticated companies that would do this?

A: Yes, they are. That’s what’s interesting about it. Again, we would more traditionally see them as a single-parent captive. In this case, they’re utilizing cell companies to isolate risk.

Q: Would you say this is the next evolution of captives for the industry?

A: I think it’s a great utilization of a statute that’s available to them. It allows the utilization of the captive to better match their business needs.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 27, 2019
**Optimum Quantvest Senior Portfolio Manager: Captive Investment Takes a Top-Down Approach**

Mark McDonnell, senior portfolio manager, Optimum Quantvest Corp., said developing an investment strategy begins with examining what’s happening in the world and continues with applying that understanding. McDonnell spoke with AMBestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: [http://www.ambest.com/v.asp?v=mcdonnell619](http://www.ambest.com/v.asp?v=mcdonnell619)

Following is an edited transcript of the interview.

Q: Is this a new company?

A: Yes and no. You might know us as Hillswick Asset Management. We’ve been a manager of captive assets for over 30 years. We recently partnered up with Optimum Group, an insurance and reinsurance company in Montreal.

They’ve been in business for 50 years, so the combination of the two of us hopefully will bring the same Hillswick to the captive industry, in addition to a tremendous amount of enhanced capability in the reinsurance and captive insurance business.

Q: The second part of your name, Quantvest, what does that mean?

A: Quantvest to those that remember Hillswick, and we hope you do, we were a macro-driven, meaning top-down. We started our investment process by looking at the world and trying to develop what we thought was going to happen in the world and how that applies to investments.

That top-down view will hopefully be merged with the capabilities that the Quant team up in Montreal brings to the table. The chief technology officer, for example, has a PhD in theoretical physics from Oxford. The chief investment officer has a degree in computational finance from Carnegie Mellon, which is one of the leaders in computational finance.

So together we bring the capability to tailor ideal solutions to the captive community.

Q: What will that mean for captives?

A: It would mean, in our view, the plan is to deliver better services, better suite of services, better investment choices, and tailor-make those choices to the exact needs of the client.

For example, if they’re a more mature captive that needs to review their LDI [liability-driven investing] strategies, we’ll be able to bring that into play. If they want to dial down into the actual investments and optimize them to their cash flow needs we’ll be able to bring a suite of tools in to make sure that happens.

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**Marsh US Practice Leader: Compliance Issues Growing for Captive Insurers**

Chris Varin, U.S. practice leader, Marsh Captive Solutions, said many U.S. captive insurers are subject to growing regulation of cybersecurity and data protection. Varin spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: [http://www.ambest.com/v.asp?v=varin819](http://www.ambest.com/v.asp?v=varin819)

Following is an edited transcript of the interview.

Q: How are compliance issues increasing today?

A: Compliance is an interesting area. I think it’s increasing across industries. We’re seeing in captives. I think captives still have the benefit of being on average less rigorous compliance than other industries. Still, it’s increasing. We have to pay attention to it, because there is cost and effort associated with compliance.

Q: Could you give us an example?

A: I think we’re seeing it in states, different states, and their changing sense of what rights they have to regulate and supervise captives. If you’re not domicile there, for example, we’re seeing...I think one of the biggest is cybersecurity right now. We have a lot of energy around cybersecurity and response necessary for that.

Q: We do hear a lot about cyber. How is that impacting captives?

A: Cybersecurity of course is impacting everybody. You see things like the recent breaches, for example, pretty serious stuff.

Even though the general public is getting aware of it, and you get...Some regulators have been very proactive, like New York state. Now, you see things like the California Privacy Act coming online.

Captives and their parents, or through their parents, become obligated to do certain things, better data hygiene. They got to make sure that they only have data in their systems that they need, inside your all-good healthy things for the industry. We are seeing it. We are feeling it. It’s creating energy in the direction of more compliance.

Q: What can captives do to meet the increasing compliance burden?


A: One of the things with all business, is you have to keep the cost sensible relative to the benefits provided. I think one of the most interesting things we see, it’s a bit overused it seems and the potential is high or expressively high like blockchain. They talk about it a lot, but actually there is potential there to be able to deal with an increased compliance burden, and actually potentially lower cost.

I am bit of a technologist myself, and get excited about this space. The more I look into it, I think we could do some interesting stuff there. We are looking at that.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 28, 2019

Born as Innovations, Captives Find New Ways to Provide Coverage, Services

A panel of rating and industry executives reviewed AM Best’s approach to insurance innovation and how captive insurers are finding their own ways to innovate. The panel spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, VT.

View the video version of this interview at: http://www.ambest.com/v.asp?v=innovationpanel819

Following is an edited transcript of the interview.

Q: John, what is AM Best doing? Can you tell us about your methodology?

John Andre, managing director at AM Best: As a lot of people know, last fall we put out a pretty extensive innovation survey following with a very intense, multiple page special report. Since then, we’ve been talking to constituents in the industry and our criteria team back in New Jersey has been working on a criteria that we’re going to ultimately use as part of our Best’s Credit Rating Methodology, the BCRM.

It was after a comment period, which ended mid-May, our criteria team is combing through all the comments now. We’re obliged to put out things for comment. Into next year, we’ll develop and train our team internally on how to apply innovation in their rating process but also speak more to the industry about how we’re ultimately going to use it.

Into next year, it’ll become part of what we do. This applies for all companies, not just captives. It’s reinsurers, and primaries, and health companies, and auto writers, and what have you. It runs across all our ratings around the world as our rating methodology that we have is global. To show you our results, anyway, we went to more than 90 or so countries with ratings now.

We got quite a number of answers from captives on how captives are innovating. The answer didn’t surprise us. Captives are innovative anyway. That’s the whole reason they started, whether it be here, or Bermuda, or Cayman, or wherever they might have started.

We see that as part of their whether it be a group captive like Tracy’s captive or a single parent captive need to control cost, the need to innovate, the need to change design and process. They could be more blocking and tackling.

It’s working in a process and procedures for, hopefully, long term, sustainable gain improving bottom line, improving processes and claims procedures that I guess Tracy will speak to. All in, we don’t see it changing a lot of ratings.

It always has been considered in our rating process but this could be more embedded going forward into our business profile building block. That’s a slide that we’ve spoken about at length when we updated our rating process a couple of years ago.

Q: Tracy, will you tell us about edHEALTH?

Tracy Hassett, president and chief executive officer, edHEALTH: Absolutely. edHEALTH itself is innovative in its start. Six years ago, a group of colleges and universities came together to bend the curve of health care costs and purposely did it in higher education because of the rising cost of tuition. In our first few years, the colleges and universities looked at this as a funding mechanism and a way to reduce fixed costs.

As time has gone on over the last six years we’ve realized that there has to be other ways to save money. It truly is in the claims. What we’re doing, and it’s different than any other captive that we’re aware of, is that we are taking a deep-dive look into the claims themselves, analyzing them, and trying to reduce claims costs.

We’re doing that by looking at the data. We’re working with an expert in that area to help us do just that.

Q: Dean, tell us about the data. Why is that so important?

Dean Thompson, vice president for management and sales at HCMS Group: Certainly, yes. HCMS Group is a human capital management services group. That’s important because our history has been rooted in collecting data from large employers and seeing the impact of that. The real optimal opportunity for the captives is that we can look at that data and begin to predict who’s next into that risk cycle and that cost cycle and get in front of that claims curve.

We’ve been in an environment that has been reactive rather than predictive. If we’re going to bend cost curve and help organizations like Tracy’s and edHEALTH, then we have to be predictive. You have to have the data in order to do that.

Q: What are some of the key findings of the data?
Thompson: The most important finding is that it is a small percentage of the population that ends up spending most of the money. About 5% of most risk groups that we’re going to examine spend about 50% of the dollars. Critically important that we identify that group early and we help them through their season of challenge as it relates to the medical costs and expenses related to pharma.

Q: George, you had mentioned that this could apply to lines other than benefits.

George Levine, KPMG director: Yes. As an actuary, I work with workers’ compensation in my career. It’s pretty clear to me that workers’ compensation is a cost that can be controlled. By the same token, health care and, of course, workers’ compensation has a medical component to it, can be controlled as well.

I’ve been really interested and I’m intrigued the way that Tracy’s company, edHEALTH, is working with Dean’s and HCMS, and how they’re getting at peeling the onion and trying to understand the drivers for the cost very, very important. All captives should be doing it.

Andre: One area that’s outside the captive space is with auto writers. A lot of nationals that we’re all familiar with... they look at a miles driven now and driving behavior by using technology through people’s cell phones. They are trying to influence behavior with pricing, then using the tools that are out there.

Taking that data and analyzing it better than traditionally, years and years ago, how many miles a day do you drive to work? How many days a week do you commute? How much business use do you have in your car? It’s gotten way past that because of the data that those people are about to collect, much like the data that Dean spoke to a few minutes ago.

Hassett: In fact, I’ll add to that. Looking at the data, things like going to the dentist can help to identify cardiac events. They can predict cardiac events. Going to the eye doctor can identify high blood pressure or even the onset of diabetes.

Having that data from the get-go certainly helps us to predict high-cost claims and also to get in and help those people before they become a high-cost claimant.

Thompson: One other thing to add, we talked about the workers’ comp side of this. The metrics around those 5% of individuals normally have them seeing north of 10 doctors. They’re on that many medications. They have a medical test probably once a week and have about 15 different diagnoses.

That group is not only impactful as to how the organization is functioning, but also can impact things that have been mentioned such as property and casualty losses. If I’m an individual that’s on that much medication, the impact is not very clear.

If I’m driving a truck, it’s probably something an organization wants to be ahead of. It manifests itself in many ways as it relates to the human capital production of a company.

Andre: Anything they can do to cut down on their costs and their expense it’s college, universities, they have fairly limited budgets, obviously. They want it to go towards educating the students.

What they can save on the insurance side, which, of course, they need will go a long way to providing other services for the schools and universities. It’s like that with other member companies that we analyze.

Q: Tracy, the captive does more than provide insurance for the college and universities.

Hassett: It does. When edHEALTH started, as I mentioned, it was a funding mechanism. What we’re doing now is focusing on the participants. We’re helping them to make better decisions. We’re helping them to get access to the care that they need.

By doing that, it reduces claims costs which, in the end, reduces premiums and makes health care more affordable for the employer and for the employees themselves. It’s a win-win for everybody.

Levine: Meg, it’s important that people understand that captive insurance is a mechanism of self-insurance. There’s no doubt that that ownership and sense of control, not only about the cost but the management and understanding the cost, is so important for organizations as they go through their insurance process and try to get their arms around it.

If it’s somebody else’s problem as they perceive it like the insurance companies, we’re always going to be up against it. It’s something important. That’s a selling point for captives.

Thompson: I might add that Tracy hit on a really important point there. Every employer has employees that need support and assistance. We talked about the 5% group. One of the unique things that we also do is provide a clinical solution for that population. That becomes a very philanthropic approach to helping folks who are in a very tough season of life. That’s one of the things that we’ve appreciated with edHEALTH is that their member organizations are very interested in helping their employees. Tracy might want to add to that a little bit, too.

Hassett: Absolutely. It’s interesting in that there’s always a concern of people’s identities being shared and not necessarily wanting to hear from somebody who wants to help them. For this population who are in the top 5%, they are in a bad season of their life.

When they get a phone call to say, “There’s a lot going on here,” these people want the help. They need the help. As a former HR person, this is helping the HR offices as well. It’s also helping with productivity back at the office.
These people are getting better faster so that they can be in the office and also be available for their families.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 20, 2019

Wilmington Trust Development Officer: Captives Have Range of Choices on Collateral

Mike Ramsey, client development officer, Wilmington Trust, compares trusts with letters of credit. Ramsey spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=ramsey819

Following is an edited transcript of the interview.

Q: What have you seen in the captive industry space in the last, say, 10 years or so?

A: We’ve seen tremendous growth in captive industry across all domiciles, really. Due to that growth of the number of captives out there, we’ve seen a lot of the awareness of collateral and other obligations they have. The awareness of that has really increased as well.

Q: What options does a captive have when it comes to collateral?

A: Currently, there’s really three options. The main two are letters of credit and trusts. Third option is also what we typically refer to as funds withheld, and that’s when the carrier themselves would hold the actual collateral.

Q: Why might a captive want to pick a trust over a letter of credit?

A: Trusts have really gained a lot of awareness and popularity over the last 10 years. Mainly, there’s a lot of advantages, but some of the big ones are cost effectively trusts can be a lot less expensive than letters of credit. More recently, we’ve seen carriers are a little more flexible with collateral dollar amounts, which is also a very important topic with these captives.

With letters of credit they tend to be a little more rigid on the collateral requirements. Getting some of those old letters of credit released is a little more difficult. With a trust you have cash that is fluid, they can change the collateral amount and it’s just a simple process of wiring the difference out versus trying to cancel a letter of credit.

Q: Is that’s what’s driving the growth in trusts versus letter of credit?

A: I think that’s a big part of it. The awareness of the trust concept, 10-15 years ago really wasn’t that prevalent. These days it really is, and as the collateral managers get more savvy, they start looking for better alternatives, and that’s really what’s helped lead to the growth of trusts.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com)
August 27, 2019

Tennessee Captive Director: Changes Include Provisions for Foreign Currency

Michael Corbett, director, captive insurance, Tennessee, said the state will permit captive organizations to handle premiums and claims payments in foreign currencies. Corbett spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington.

View the video version of this interview at: http://www.ambest.com/v.asp?v=corbett819

Following is an edited transcript of the interview.

Q: Could you give us an overview of the captive market in Tennessee?

A: The overview of the industry has been really quite good for Tennessee again this year. We’re just about up to the 650 captive or risk-bearing entities mark. We differentiate between captive insurance companies and cell companies because we’re one of the few domiciles that permits the formation of protected cell captive insurance companies.

At the 650 mark, that’s about 650 chief executive officers of companies that have got their own insurance going in, which we think is a tremendous milestone for us.

For the third year in a row, premiums have broken over a billion dollars and the economic impact for the state of Tennessee, and Nashville in particular, has been substantial, exceeding $30 to $40 million a year of direct revenue and upwards of $800 million a year in independent investment activity.

Q: Have you seen much growth this year in terms of new captives?

A: It’s been about the same for the past two or three years. There’s been some slow growth. I call part of it the ARS Syndrome. Avrahami, Reserve Mechanical, and Syzygy. I think a good portion of the industry has gotten a little bit shell-shocked by it, but I think we’re going to come out on the other side and be quite strong.

We’ve added some very large Fortune 50 companies that have more than made up for any slowdown in the smaller sector.
HSBC Bank (UK) Pension Scheme announced the captive longevity reinsurance transaction with Prudential Financial to transfer longevity risk associated with £7 billion of pensioner liabilities, said Prudential in a separate statement.

According to Prudential, the HSBC longevity risk transfer is second only in size to a $27.7 billion transaction Prudential completed with the British Telecom Pension Scheme in 2014 “and signals a growing trend of large pension schemes employing captives in these deals.”

“This landmark transaction in which we supported HSBC in Bermuda represents another step forward in terms of innovation, with captive structures and other types of insurance structures now enabling even the very largest schemes to access the reinsurance market in an effective manner,” said Tom Scott, principal consultant in Aon’s risk settlement team, in a statement.

Aon said it used a multi-disciplinary team to help establish and license the new captive solution, and advised on the operational infrastructure required to service the deal.

“While HSBC is the latest pension scheme to take advantage of the captive solution, developed in 2014 for our landmark transaction with British Telecom, we have reached a pivotal moment,” said Amy Kessler, Prudential’s head of longevity risk transfer, in a statement. “The captive approach has become the strategy of choice for large pension schemes seeking to hedge longevity risk. The HSBC transaction demonstrates the level of credibility and success captive longevity risk transfer transactions enjoy in the current market.”

The HSBC arrangement covers half of the scheme’s pensioner liabilities and provides long-term protection if the pensioners or their dependents live longer than initially expected, said Prudential.

The transaction is structured as an insurance contract with an HSBC-owned captive insurer in Bermuda, which in turn reinsured the longevity risk to Prudential, Prudential said. “Creating a company-owned captive insurer allows the pension scheme to efficiently access the deep and liquid longevity reinsurance market. This is the first time that a pension scheme associated with a major bank has entered into such a transaction.”

David Lang, Prudential’s transaction leader on the deal, said that since 2011, Prudential has completed about $75 billion in international longevity reinsurance transactions. “Market demand for the certainty that comes with pension and longevity risk transfer has increased as Brexit nears,” he said in a statement. “The U.K. is experiencing the greatest level of pension de-risking activity in history.”

In a recent earnings conference call, Chairman and Chief Executive Officer Charles F. Lowrey said Prudential’s retirement business achieved strong results driven by what he called a “robust” pension risk transfer pipeline (Best’s News Service, Aug. 1, 2019).
Underwriting entities of Prudential Financial Inc. have current Best’s Financial Strength Ratings of A+ (Superior).

Shares of Prudential Financial Inc. (NYSE PRU) were trading at $84.01 on the afternoon of Aug. 13, up 1.51% from the previous close. Aon plc (NYSE: AON) shares were up 2.48% at $190.86.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com) 
August 14, 2019

WTW Global Captive Practice CEO: Next Round of Leaders Will Be Tested by Hard Market

Paul Owens, who is retiring as global captive practice chief executive officer at Willis Towers Watson, said he and others have rarely been challenged by an overall shrinking supply of available coverage. Owens spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington.

View the video version of this interview at: http://www.ambest.com/v.asp?v=owens819

Following is an edited transcript of the interview.

Q: What do you see is the biggest challenge facing the captive industry today?

A: Announcing my retirement and coming up to retirement, it really crystallizes my thoughts, and it’s about talent I think. Lots of the leaders are men my age, gray hair, and then, you’ve got a lot of millennials at the bottom end of the age structure. It’s the middle piece. These are the future leaders in the short term and the millennials are in the long term. I think that’s a challenge for us. It’s how we prepare and get people into this industry.

Q: What should the industry be doing about that?

A: I think we need to publicize our industry for the insurance world in total. The captive industry is very unknown. It’s a very small business, but it’s really exciting and a great business. The other one is insurance. Insurance doesn’t sound sexy. It doesn’t sound that attractive to the youngsters nowadays, but it is. It’s a lifetime career choice. We need to get out there and explain what we do and not beef it up, but actually tell people that this is a great career and it’s an important career whereas other industries like banks just open the door and people flood in.

Q: With the dawn of what some are saying is a hardening market, is that going to be an issue? A lot of people in the industry today have never experienced a hard market before.

A: I think absolutely. I’ve been in the industry 30-plus years, and I’m not sure I’ve seen an overall hard market. We all know it’s coming. It’s really, really challenging for the industry as a whole. I’m not sure we have the people who are prepared for this. I think, as an industry, we all need to come together to create solutions for our clients.

In simple terms, I’ve always thought that the insurance industry is a perfect economic model. It’s pure supply and demand. Up to recently, we’ve had lots of supply and capital and the demand is relatively flat so prices are low. Now, we’re getting to the point of supply is shrinking.

Take Lloyd’s. Lloyd’s is cutting down capacity. Demand is there, if not increasing, so therefore, prices are increasing. We, as an industry, need to come together. We need to work together with our clients and the market and deliver solutions in this environment.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) 
August 15, 2019

UK Managing Agency Takes Aim at Midsize US Captive Market

Specialist London-based captive insurance and reinsurance managing general agency International Re has established a vehicle to cater to captives that are owned by “high-performing” midsize businesses in the United States.

The entity, known as I-RE, is a Lloyd’s coverholder that now underwrites 18 categories of commercial risk for clients’ captives.

While I-RE’s early concentration will be on the United States, the group expects to develop opportunities on a wider geographical scale.

“We have developed a product program targeted at high-performing mid-market businesses,” Andy Jeckells, co-founder and chief executive officer of I-RE, told Best’s News Service. “Those business owners could be paying quite a lot of money in insurance premiums.”

I-RE defines a midmarket business as one that is paying from US$250,000 up to as high as $4 million for their insurance. “Midmarket U.S. businesses have scale,” Jeckells said.

A “high-performing” business, in his view, would have an insurance loss ratio of below 40%.

“We see a direct correlation between high-performing businesses that make a profit and those that have a low loss ratio,” he said.

The theory is that profitable businesses have demonstrated their ability to manage risk. “They are the ones that we’re looking at,” he said.

Another common characteristic of this target market, Jeckells said, is “they hate buying insurance.” Their low loss ratios makes them feel that they are
subsidizing other businesses, he said. These businesses also view insurers as being determined to avoid paying claims and the insurance market itself as offering them few options. At the same time, the captives structure was often viewed as inflexible.

Since I-RE began trading at the beginning of 2019, the group said in a statement, it “has completed a number of transactions with U.S. captives.” I-RE, the group said, will offer access to A+ rated underwriting capacity. This, the company added, is an avenue that had previously been open only to large captives. The new entity will also provide a means for captive managers and brokers to increase their own clients lists.

Businesses will be able to retain up to 50% of their premium outlay. International Re sees this as an incentive for business to establish captives.

“I-RE’s mission is to open up market access to insurance and reinsurance solutions for high-performing midsize captive businesses,” the company said in a statement.

In addition to scale, Jeckells said, the most attractive segment of the midsize U.S. business sector is characterized by owner-managers, who are close to their employees, their customers and their operations. “They really are well-placed to know what's going on,” he said. “To my mind, they are genuine entrepreneurs.”

All of the companies on I-RE’s client list, Jeckells said, are privately held. None is listed on a stock exchange. Many of these firms, he said, have the added advantage of being family-run, sometimes over several generations.

I-RE does not try to compete on price and terms. “We just seek to match existing terms,” he said. This involves working with the programs that have been designed by their clients’ brokers.

Jeckells said the policy uses commercial underwriting models, supported by a finite reinsurance exposure. “What that does is give them skin in the game,” he said.

I-RE underwrites on behalf of Liberty Specialty Markets at Lloyd’s, which is Syndicate 4472. I-RE also has a small reinsurance company, in Bermuda, which contracts with all of the captives with which I-RE deals.

Lloyd’s has a current Best’s Financial Strength Rating of A (Excellent).

(AES Program Director: Changing Energy Sector Drives Risk Protection Needs)

Andrew Baillie, program director, global insurance-property, AES Corp., said focusing more on sustainable sources of energy means the company is moving from large, to collections of smaller assets. Baillie spoke with AMBestTV at the annual conference of the Vermont Captive Insurance Association, held in Burlington, Vermont.

View the video version of this interview at: http://www.ambest.com/v.asp?v=baillie819

Following is an edited transcript of the interview.

Q: You represent an energy company, can you tell us a little about that and what it is you do?

A: AES is a global power producer and distributor. We have more than a hundred power stations in 15 countries around the world, using all forms of energy from coal, gas, oil, and then moving into renewable energy as well, hydro, wind, solar, and battery. A very diverse portfolio across a diverse footprint.

My role is to look after insurance arrangements for the company, and that includes the oversight of two captives that we run as part of our toolbox of managing that efficiently.

Q: Can you tell us about the transition to green energy, what are you seeing there?

A: Certainly, all of those working in the power space are having to respond to environmental pressure to be more sustainable, to have cleaner output from our power plants. We’re in the process of changing our fleet, moving away from coal towards more environmentally friendly and sustainable power sources such as solar, battery, and wind.

That's changing our portfolio largely across the world from large assets to bigger collection of small assets. It's new challenges in terms of managing and maintaining insurance on that different spread of assets.

Q: What kind of risk do you put in your two captives?

A: The main captive we’re running property and revenue protection risks. We do a little bit of workers' compensation deductible buy down, but the majority of the premium is related to the physical assets and the revenue protection. Another captive that we bought as part of an acquisition, we have some legacy property and casualty lines, but that’s much smaller and really more in the form of a deductible buy down rather than any material level of self-exposure.

Q: Are you looking to expand those captives?

A: The smaller captive probably not, we're probably in the view of moving towards closing that down over the next few years as that business need has changed. The larger captive we’re looking to take advantage of market opportunities as market rates are hardening. We’ll look again to see if there’s other lines that it’s
News of the Alternative Risk Markets

more efficient for us to retain rather than transfer to the outside markets.

View this and other interviews at http://www.ambest.tv

(By Meg Green, senior associate editor, AMBestTV; Meg.Green@ambest.com)
August 27, 2019

ASW Senior Counsel: Bermuda’s New Licenses Aimed at Innovation, Ease of Entry

Becky Vernon, senior counsel, ASW Law, said Bermuda’s new licenses allow a temporary waiver of some capital requirements for greater digital flexibility. Vernon spoke with AMBestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.tv/v.asp?v=vernon619

Following is an edited transcript of the interview.

Q: What is the Bermuda Monetary Authority doing in terms of innovation today?

A: We’re seeing a lot of change in that space at the moment. The BMA has recently introduced a regulatory sandbox in Bermuda, which is aimed at new, fledgling technology companies that want to test out new technology on a limited group of policyholders within a confined space under guidance from the BMA.

The idea is that they enter the sandbox for a period of six to 12 months, and during that time they work through their proof of concept. If everything goes according to plan at the end of that period, they will be able to apply for a full insurance license.

That insurance license could be in either one of the captive classes that we currently have, or in the commercial classes, or in fact in one of the new innovative insurer classes that the BMA is currently considering introducing.

Q: Can you tell us a little bit about those new classes and how they might work?

A: Sure. The IGB and ILT insurance licenses are the sandbox licenses. The IGB is the general business license and the ILT is the long-term business license.

The companies that apply for this sandbox entry can at the time of their application seek certain regulatory exemptions from provisions of the Insurance Act. They will operate in the sandbox under a less-stringent regulation than they would if they had applied for a full license.

The purpose of this is to try and encourage innovation. It may be that the capital requirements are reduced for the sandbox period, but the BMA also makes it clear that there are other provisions of the legislation they won’t be exempted from.

For example, anti-money laundering provisions, anti-terrorist finance provisions, they will still have to comply with those. It’s really aimed at reducing capital costs for these entities while they’re operating within the sandbox.

The new innovative insurer class is an interesting one. This is really going to be focused on companies that are graduating from the sandbox, or new insurers that want to incorporate digital assets into their business model.

This class is intended to operate very similar in terms of regulation to a Class 3A in a commercial insurer. It will be subject to a head office requirement. It will have to prepare a risk-based capital model that’s very similar to the BSCR.

That’s currently under consultation with the BMA. It hasn’t yet been introduced but we’re watching this space and looking forward to seeing how that develops.

Q: The sandbox is focused on fintech or insurtech?

A: Our sandbox in Bermuda is insurtech-focused, which is different I think to a lot of sandboxes that you see in other jurisdictions.

For example, Project Innovate, the London version, basically is much broader. There are a lot of companies in there but that’s fintech in general. This Bermuda one is currently insurtech-focused, so it does make it different.

I think the ultimate goal is for this insurtech one to be expanded to cover other sectors as well. For the moment, we’re focused on the insurance and obviously that’s where Bermuda as a jurisdiction really excels.

Q: I hear a lot about economic substance at the conference. Can you tell us why that’s important in regulatory terms?

A: Economic substance is a big change that we’ve seen introduced. It was introduced at the end of last year. The Economic Substance Act and the Economic Substance Regulations, it’s not just affecting Bermuda, it’s affecting a lot of other global, other offshore jurisdictions.

The aim of the legislation is for companies to demonstrate that where they’re incorporated is where they actually are generating their profits and that they actually have an economic substance on the island where they say that they’re incorporated.

It’s been an EU-driven initiative. A lot of companies have implemented new legislation to do this. The insurance sector is affected in the sense that insurance is a regulated activity for the purposes of the legislation.

We’re hoping that for a majority of the companies, it’s not going to result in too many changes that they’ll need to make, particularly because the Insurance Act, some of the provisions there are drafted in such a way that companies here have to already have economic substance for the purposes of that legislation.

The period for implementing any changes for existing entities was June 30.
Q: It could impact captives more than regular commercial insurers?

A: I think it could potentially affect them more because captives aren’t subject to the head office requirement of the Insurance Act which the commercials insurers are. Captives can demonstrate substance in various other ways.

Pretty much most of the captives will have a Bermuda-based insurance manager. They’ll have a Bermuda-based corporate services provider. They will have Bermuda resident directors.

From that perspective, they are demonstrating that they have substance here. They travel to Bermuda. They hold their board meetings.

One of the key factors in demonstrating economic substance is that the company is managed and directed from Bermuda. It’s important that the key decisions are taking place here, the underwriting is taking place here.

I think although captives face a greater challenge than the commercial insurers, it’s not going to be a huge mountain for them to climb in order to comply.

View this and other interviews at http://www.ambest.tv

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