July 2019

BEST’S CAPTIVE MARKETS UPDATE

News of the Alternative Risk Markets

IN THIS ISSUE:

• Captive Ratings Announcements
• Market News
• Domicile & Regulation
• Captive Strategy
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.

Contents

Rating Developments

AM Best Affirms Credit Ratings of Toyota Motor Insurance Company ............................................ 5
AM Best Affirms Credit Ratings of Solen Versicherungen AG and Noble Assurance Company ............................ 5
AM Best Affirms Credit Ratings of National Grid Insurance Company (Isle of Man) Limited ............................ 5
AM Best Affirms Credit Ratings of Junto Resseguros S.A. and Junto Seguros S.A. ........................................ 6
AM Best Removes From Under Review, Affirms Credit Ratings of ASSA Compania de Seguros S.A.; Affirms Credit Ratings of Affiliates .......................... 6
AM Best Assigns Credit Ratings to Centerline Property and Casualty Insurance Company ............................ 7
AM Best Withdraws Credit Ratings of SUMIT Insurance Company Ltd. .................................................. 8
AM Best Assigns Credit Ratings of Sura Re Ltd. .................................................................................. 8
AM Best Affirms Credit Ratings of Palms Insurance Company, Limited ................................................ 9
Methodology Sources ............................................................................................................... 9

Research

Best’s Market Segment Report: Asia-Pacific Captive Domiciles Poised for Growth ........................................ 9

Domiciles

Bermuda Finance Minister: Island Growing as Life Insurance Domicile .............................................. 10
Bermuda Business Development Authority CEO: When Facing Disruption, Think Captive Insurance .... 10
Vermont Lengthens Captive Insurance Examination Schedule to Five Years ........................................ 11
North Carolina Becomes Fourth-Largest US Captive Domicile ............................................................ 11
McPeak to Step Down as Tennessee Insurance Commissioner .................................................................... 12
Connecticut Commissioner Warns Companies on Homeowners Nonrenewals, Premium Hikes .... 12
Appeals Court Sides With Allstate in Coverage Dispute Over Crumbling Foundations ............................ 13

Regulation

US Tax Court Rules Against Syzygy Insurance, Microcaptive Arrangement ............................................. 13
Marsh Captives Practice Leader: Captives Under a Widening Range of Regulatory Oversight ................................. 14

Industry News

CICA President Outlines New Outreach to Next-Generation Captive Professionals ................................. 14

Copyright © 2019 A.M. Best Company, Inc. and/or its affiliates. ALL RIGHTS RESERVED. No portion of this content may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of AM Best. While the content was obtained from sources believed to be reliable, its accuracy is not guaranteed. For additional details, refer to our Terms of Use available at AM Best website: www.ambest.com/terms.
Panel: As Companies’ Understanding of Risk Evolves, So Do Their Captives ................................................................. 15
Walkers Partner: Captives Take on Role of ‘Risk Incubators’ .............................................................................................. 16
Marsh: Advances in Technology Boost Captive Insurers’ Third-Party Business ................................................................. 17
Aon Global Cyber Practice Leader: Cyberrisk Driving Premium Growth for Captives ....................................................... 17
Wilmington Trust Vice President: Trusts Gaining Ground Among Captives ................................................................. 18
Panel: Blockchain Already a Presence in Captive Insurance Sector ................................................................................... 18
Marsh: Transport Sector Most Exposed to Terrorism Risk in Asia-Pacific ....................................................................... 20
Oppenheimer Executive Director: Corporate Earnings May Slow, but Recession Less Likely ............................................ 21
American Contractors CEO: Captives Offer Better Control ............................................................................................ 22
Aon Bermuda Managing Director: Survey Shows Only 1-of-10 Top Risks Are Fully Insurable ........................................... 22
UK Risk Manager Group Warns of Emerging Risks in More ‘Volatile’ World ................................................................. 23
Silverstein’s Natovitz: Rebuilding World Trade Towers Requires Mix of Coverages .................................................... 24
Cyber Panel: Don’t Lose Sight of Overall Exposure Aggregation ..................................................................................... 26
Allianz Global Corporate & Specialty Expands Global Alternative Risk Transfer Effort .................................................. 27
Rating Developments

**AM Best Affirms Credit Ratings of Toyota Motor Insurance Company**

Oldwick -- AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of Toyota Motor Insurance Company (TMIC) (Cedar Rapids, IA). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect TMIC’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 (ERM).

TMIC continues to maintain balance sheet strength at the strongest level supported by risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), low underwriting leverage, organic and steady growth of policyholders’ surplus, excellent liquidity with metrics outperforming the industry, and positive cash flows. AM Best assesses the company’s operating performance as adequate and is expected to return to historical levels following the deterioration in profitability, which is attributed to losses from its guaranteed auto protection (GAP) business and the rise in frequency and severity, mitigated by rate increases to address the issue. TMIC’s neutral business profile supports the Toyota organization as a wholly owned subsidiary and single-parent captive of Toyota Motor Insurance Services, Inc., a California corporation. TMIC provides vehicle service agreements, GAP agreements, excess wear and use coverage, and tire and wheel protection coverage for Toyota and Lexus customers, dealers, and affiliated companies. AM Best considers TMIC’s ERM to be appropriate, as the captive has leveraged the robust and formal corporate management practices that have been established and implemented by its U.S. parent, Toyota Motor Credit Corporation.

The stable outlooks reflect AM Best’s expectation that the company will maintain its strongest assessed balance sheet strength, adequate operating performance attending to its volatile GAP product line, and neutral business profile without divergence from its risk profile.

**AM Best Affirms Credit Ratings of Solen Versicherungen AG and Noble Assurance Company**

London -- AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a+” of Solen Versicherungen AG (SVAG) (Switzerland) and Noble Assurance Company (Noble) (Texas, U.S.A.). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect SVAG’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). The ratings factor in rating enhancement from SVAG’s ultimate parent, Royal Dutch Shell plc (Shell), reflecting SVAG’s importance as a group risk management tool. Shell provides explicit support to SVAG in the form of a contingent capital facility that would allow SVAG to replenish its capital position quickly following a sequence of very large losses.

SVAG’s balance sheet strength is underpinned by its risk-adjusted capitalisation, which remained at the very strong level at year-end 2018, as measured by Best’s Capital Adequacy Ratio (BCAR). Risk-adjusted capitalisation is supported by good internal capital generation and a relatively stable risk profile. The balance sheet strength assessment takes into consideration the concentration of assets in intra-group deposits.

SVAG has a track record of strong operating performance, largely driven by robust underwriting results, as demonstrated by a five-year (2014-2018) weighted average combined ratio of 38.2%. Prospective performance is subject to volatility from exposure to high severity, low frequency losses, reflecting the type of business underwritten and the captive’s large gross and net maximum line sizes. SVAG does not purchase outward reinsurance cover for the majority of its risks.

SVAG’s business profile assessment reflects its key role in its ultimate parent’s overall risk management framework, as Shell’s principal captive. Non-life risks largely consist of offshore and onshore property and liability business, as well as the associated business interruption cover. SVAG also reinsures life business emanating from the group’s pension liabilities.

The ratings of Noble reflect its status as a member of the SVAG rating unit and a subsidiary of Shell. As a captive domiciled in Texas, U.S.A., Noble underwrites Shell’s U.S. business and cedes 100% of its risks to SVAG, its sister company, through a quota share reinsurance agreement.

**AM Best Affirms Credit Ratings of National Grid Insurance Company (Isle of Man) Limited**

London -- AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of National Grid Insurance Company (Isle of Man) Limited (NGICL), a captive insurer of National Grid plc (NG). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect NGICL’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.
AM Best Affirms Credit Ratings of Junto Resseguros S.A. and Junto Seguros S.A.

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Ratings of "a-" of Junto Resseguros S.A. (Junto Re) and Junto Seguros S.A. (Junto Seg) (collectively referred to as Junto). The outlook of these Credit Ratings (ratings) is stable. Both companies are domiciled in Brazil.

The ratings reflect Junto’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 (ERM).

Junto Re is classified as a local reinsurer in Brazil and mainly operates as a captive reinsurer for Junto Seg, an organization that has been writing surety business for more than 20 years. Junto Seg is the market-facing entity and a leading surety writer in Brazil. Junto benefits operationally from its minority shareholder, The Travelers Companies, Inc. (ownership is 49.5%). These benefits include collaboration on ERM, employee development, retrocession placement, claims handling, business development and other operational functions. Junto maintains low underwriting leverage and strong liquidity metrics, with a comprehensive retrocession program that provides additional capacity and reduces the company’s overall exposure.

Partially offsetting these positive rating factors is Junto’s concentration risk as essentially a mono-line surety writer with business concentration in a single country. Junto’s future plans to mitigate this risk include expansion into related lines of business and geographic diversification into other parts of Latin America.

Additionally, Brazil’s (re)insurance market continues to be highly competitive, with homegrown and global (re) insurers vying for market share. With Brazil’s economy showing mixed signs while awaiting growth to resume, companies are seeking international expansion while keeping an eye on growth opportunities in the domestic insurance market. Surety remains as one of the fastest-growing segments in the (re)insurance industry in Brazil.

Positive rating triggers include a successful long-term execution of the group’s growth and diversification strategy, a consistent operating performance, along with maintaining robust risk-adjusted capitalization. Negative rating triggers include a deterioration in either operating results or risk-adjusted capitalization, the inability to execute its growth and diversification strategy, a continued weakness in Brazil’s economy or a downgrade in Brazil’s country risk tier.
ASSA’s ratings were placed under review with negative implications following the Aug. 7, 2017, announcement that ASSA had entered into an asset purchase agreement to fully acquire Assicurazioni Generali S.p.A. (Generali) insurance operations in Panama. At that time, there were concerns about the financing structure of the acquisition, and its effect on the ASSA’s risk-adjusted capitalization and the financial leverage that could arise from the operation.

On April 12, 2018, the implications of the under review status were revised to developing, after the transaction’s financial structure was defined and its potential impact on risk-adjusted capitalization was revised, rendering results in terms of balance sheet strength, business profile and operating performance that were appropriate for the current rating. However, implementation risk and financial leverage at the company remained ongoing concerns at that time.

The under review status has been removed and ratings have been affirmed, as the company was able to meet its growth target, while maintaining underwriting quality, profitability and good capital management that allowed risk-adjusted capitalization to remain at supportive levels for the ratings. Additionally, the company has been able to maintain an adequate financial leverage by repaying most of the financing used in the transaction.

The stable outlooks reflect the stability of the capital, even with the intangibles created after acquiring Generali’s business. The outlooks also reflect AM Best’s expectation of the continued performance of the company, in terms of underwriting, profitability, capital management and importance within Panama’s insurance market.

Positive rating actions could take place if the company is able to continue to grow its capital base, while at the same time maintaining its operating performance. Additionally, the quality of assets remains a key component of AM Best’s evaluation, as any deterioration could impact the company’s risk-adjusted capitalization.

Negative rating actions could occur if the company is not able to support its risks through its level of capital, especially given the high intangibles present because of the transaction with Generali. If asset quality deteriorates without any additional capital, risk-adjusted capitalization could become affected, which would then potentially affect the ratings of the company.

Lion Re has continued to post adequate operating performance from its affiliated insurance companies in the region and from new strategic business alliances, while maintaining very strong risk-adjusted capitalization. The company continues to support ASSA Tenedora’s strategy while producing positive bottom-line results amid healthy prospects for growth. AM Best expects Lion Re to continue playing an important role in ASSA Tenedora’s strategy, as it consolidates operations in new regions by providing reinsurance capacity while maintaining its good capital position.

Factors that could lead to an upgrade of the ratings or positive outlooks for Lion Re include consistently positive bottom-line results that can contribute to further strengthening of its risk-adjusted capitalization over the next few years. Factors that could lead to negative rating action include a material loss of capital from either claims or investments, leading to a reduced level of capital that does not support its ratings. RAM Re is registered as a segregated portfolio company, licensed as a Class B(i) insurer under the Cayman Islands’ insurance law. RAM Re’s ratings are based on the steady performance of its operations and the nature of the portfolios it manages. During 2018 and 2019 there were important developments on its portfolios that could affect its operation as a whole. While measures have been taken to offset these developments, such efforts have not yet materialized. AM Best expects the company to be ready to undertake those measures. Capitalization currently is adequate for RAM Re’s current ratings; however, revenue-generating capabilities could become affected, and in tandem, the ability to generate capital. If the business volume continues to grow, or as new portfolios are integrated, Ram Re’s ratings could become pressured at the resulting capital levels. RAM Re has explicit support from its parent company through a commitment letter provided by Grupo ASSA, enhancing AM Best’s view of its financial strength.

AM Best considers the ratings to be appropriate for the current rating levels. Factors that could lead to negative rating action include a more limited business profile, lower risk-adjusted capitalization and consistent underwriting losses.

AM Best Assigns Credit Ratings to Centerline Property and Casualty Insurance Company

AM Best has assigned a Financial Strength Rating of B++ (Good) and a Long-Term Issuer Credit Rating of “bbb+” to Centerline Property and Casualty Insurance Company (Centerline) (Knoxville, TN). The outlook assigned to these Credit Ratings (ratings) is stable.

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

Centerline was founded in 1970 as a licensed commercial insurer, and primarily and successfully covered affiliated insurance risks in-house for its parent, Watkins Associated Industries, Inc. (WAI) until 2014, when it registered as a Tennessee-domiciled pure captive for WAI. It has expanded its scope to that of a fully licensed commercial insurer domiciled in Tennessee as of Jan. 1, 2019. WAI is an 85-year-old Florida-incorporated,

June 8, 2019
family-owned conglomerate engaged in five major activities: trucking, food processing, building material manufacturing, real estate development and operations, and insurance services throughout the United States. WAI ownership and Centerline’s executive management are interlocked, developing attributes over time of a methodical and risk-averse culture in synergistic, long-term ventures.

In its risk management role for WAI, Centerline’s underwriting performance has been very good as a small, niche commercial lines insurer providing insurance products concentrated in the commercial transportation sector. Products written by Centerline include affiliated commercial auto liability/physical damage, general liability and cargo. The company has two primary lines of business: affiliated company business for WAI; and non-affiliated small fleet trucking coverage fronted through State National Insurance Company, Inc. It is currently developing a new third party cargo product with low insurance risk and a short tail, the largest risk of which is execution with innovative distribution plans. AM Best will monitor management’s execution of its business plans for take-up and profitability, especially as it relates to the new third party cargo product.

Positive rating action could occur in the near to medium term if underwriting and operating results continue to outperform the company’s peers and achieve management’s projections, as it transitions from a captive to a fully licensed commercial insurance writer or if it maintains its strongest Best’s Capital Adequacy Ratio (BCAR) scores while materially growing its surplus over time through underwriting and operating earnings. Negative rating action could occur if the company’s risk-adjusted capitalization, as measured by BCAR, or surplus size declines materially; if the company’s underwriting or operating performance weakens and negatively impacts surplus or risk-based capitalization; or if underwriting and operating results underperform materially or differ from management forecasts.

May 29, 2019

AM Best Withdraws Credit Ratings of SUMIT Insurance Company Ltd.

AM Best has downgraded the Financial Strength Rating (FSR) to A- (Excellent) from A (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) to “a¬-” from “a” of SUMIT Insurance Company Ltd. (SUMIT) (Pembroke, Bermuda). The outlook of these Credit Ratings (rating) is stable. Concurrently, AM Best has withdrawn the ratings at the request of the company to no longer participate in AM Best’s interactive rating process.

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

The downgrades reflect a material decline in surplus during the company’s fiscal-year 2018 due to significant adverse development on medical professional liability (MPL) claims as well as a dividend payment. Reserves increased by 45% from the prior year while surplus declined by 33%, which increased underwriting leverage metrics. Commensurately, risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), declined significantly. SUMIT effectively retains $10 million per claim, which is high relative to surplus, and leaves the company exposed to increases in frequency and severity of claims.

Operating performance has been very volatile, with underwriting losses reported in four of the most recent five years, including a substantial loss in 2018. Nevertheless, the company serves an important strategic purpose as a captive insurance vehicle for Stanford Health Care and benefits from the robust financial strength of its ultimate parent, Stanford University.

May 4, 2019

AM Best Affirms Credit Ratings of Sura Re Ltd.

Mexico City -- AM Best has affirmed the Financial Strength Rating of B++ (Good) and the Long-Term Issuer Credit Rating of “bbb” of Sura Re Ltd. (Sura Re) (Bermuda). The outlook of these Credit Ratings (ratings) remains stable.

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

Sura Re is the wholly owned start-up captive reinsurer of Suramericana S.A. (Sura), which in turn is 81.13% owned by Grupo de Inversiones Suramericana S.A. The company was established in Bermuda as a Class 3A insurer in December 2015. Its main purpose is to participate in property business underwritten by Sura’s affiliates across Latin America (Argentina, Brazil, Chile, Costa Rica, El Salvador, México, Panamá, Dominican Republic and Uruguay). AM Best recognizes the strategic role that Sura Re aims to achieve in Sura’s overall regional strategy; however, Sura Re’s business profile is considered limited given its accessibility to markets when compared with other commercial reinsurers.

AM Best categorizes the company’s balance sheet strength as very strong, as risk-adjusted capitalization is more than adequate for the risks it holds. Its capital base was further strengthened by a USD 10 million capital contribution during 2018; no dividend payments are expected in the medium term. Asset-liability management follows a very conservative investment policy focused on maintaining liquidity to cover its obligations in terms of tenure and currencies. Additionally, ERM is considered appropriate as it is completely supported by Sura’s expertise and management team.
As of December 2018, operating performance still reflects a strong dependence on investment income to cover administrative expenses. As the strategy of the company continues to evolve, AM Best expects technical income to be able to cover these expenses and produce positive net income. When compared with other start-ups and commercial reinsurers, the captive nature of the company guarantees a portion of well-underwritten risks by its affiliated companies. This provides flexibility in terms of growth and premium risk to efficiently manage its capital and return positions in the future. AM Best therefore considers operating performance to be adequate for the current ratings.

Positive rating actions could take place in the medium term if Sura Re is able to achieve its targeted geographic premium distribution with good quality underwriting coupled with a very strong balance sheet assessment. Negative rating actions could take place if the company’s financial performance falls to a level that affects capital and therefore its risk-adjusted capitalization.

AM Best Affirms Credit Ratings of Palms Insurance Company, Limited

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” of Palms Insurance Company, Limited (Palms) (George Town, Cayman Islands). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect Palms’ 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 reflect Palms’ solid risk-adjusted capitalization, history of consistently positive operating performance and conservative balance sheet strategies, as well as its significant role within the risk management structure of its parent, NextEra Energy Capital Holdings, Inc. (NEECH). The ratings also recognize Palms’ history of maintaining sufficient capital and financial resources to support its ongoing obligations.

Partially offsetting these positive rating factors are Palms’ limited market scope and high net loss potential stemming from a single, severe occurrence relative to surplus. This is somewhat mitigated by the company’s excellent loss history, favorable geographic spread of risk and Palms’ history of strong surplus position. Additionally, while Palms depends on third parties for processing, servicing and administration, the senior management of its ultimate parent, NextEra Energy, Inc. (NEE) [NYSE: NEE], is closely involved in these operations.

Palms is a single parent or pure captive insurer wholly owned by NEECH, which in turn is wholly owned by NEE. Palms accepts insurance risks only from NEE and its affiliates, providing specialized direct and assumed property and casualty coverages, workers’ compensation, automobile liability, employers’ liability and property risk. Although Palms participates in a range of coverages for very large risks, these risks are underwritten with tight guidelines and significant loss control measures by the insured affiliates as evidenced by favorable loss ratios over the past five years. Nonetheless, prospective underwriting performance remains subject to volatility, due to exposure to low frequency, high severity claims in its property program, as the renewable energy industry that it operates within is fundamentally volatile.

Methodology Sources

The methodology used in determining these ratings is Best’s Credit Rating Methodology (BCRM), 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.

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

Ratings are communicated to rated entities prior to publication. Unless stated otherwise, the ratings were not amended subsequent to that communication.

These press release relate to Credit Ratings that have been published on AM Best’s website. For all rating information relating to the release 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. For additional information regarding the use and limitations of Credit Rating opinions, please view Understanding Best’s Credit Ratings. For information on the proper media use of Best’s Credit Ratings and AM Best press releases, please view Guide for Media - Proper Use of Best’s Credit Ratings and AM Best Rating Action Press Releases.

Research

Best’s Market Segment Report: Asia-Pacific Captive Domiciles Poised for Growth

Hong Kong -- AM Best expects to see significant growth of captive formations in Asia-Pacific domiciles as economies grow and businesses seek new and more sophisticated ways of risk management and control.

In a new Best's Market Segment Report, titled, “Asia-Pacific Captive Domiciles Poised for Growth,” AM Best
Captive Markets Update

looks at the state of Asia-Pacific captive domiciles. According to the report, captive insurer growth in the region to date has remained relatively slow, mainly due to the persistently competitive insurance market. With abundant capacity available at cheaper costs, the benefits of establishing a captive may not seem particularly attractive. A lack of knowledge and understanding about captive insurance also pervades the Asia-Pacific region. Not only is there limited information available on captive insurance and its benefits in Asia, but also there are few avenues for businesses to turn to for more information. This general lack of awareness also has contributed to the low captive insurer count in this region.

However, businesses have expanded their use of captive insurance past providing cover for traditional property and liability risks into non-traditional classes of risk, such as cyber and trade credit. The introduction of the Belt and Road Initiative in China also has increased demand for specialty insurance.

As Asia’s economies rise in prominence, fueled by the growth of small and medium-sized enterprises, captive domiciles in Asia-Pacific will thrive. Singapore, Labuan and the Federated States of Micronesia stand out as established captive domiciles. In recent years, China and Hong Kong have emerged as regulators have been keen to develop captive insurance in their jurisdictions. Hong Kong’s considerably lower capital requirements, friendlier regulatory environment, common law legal system, and free and open financial economy currently make it a more attractive domicile than China. However, captive interest is growing in China as local companies grow in sophistication and look to make captives part of their risk management strategies.

“As the capacity in China for new risks related to the Belt and Road also is insufficient, businesses with captives in this region would be well-placed to take advantage of the domiciles’ geographical locations and comprehensive insurance ecosystems to connect with foreign insurers and reinsurers and transfer these risks to the international market,” said Christie Lee, director of analytics.

To access the full copy of this special report, please visit http://www3.ambest.com/bestweek/purchase.asp?record_code=285542.

May 17, 2019

Domiciles

Bermuda Finance Minister: Island Growing as Life Insurance Domicile

BOSTON -- Curtis Dickinson, Bermuda’s finance minister, estimated capital committed to life insurance has reached about $300 million, rivaling the amount devoted to property/casualty coverage. Dickinson spoke with AMBestTV at the Risk and Insurance Management Society’s annual conference in Boston.

View the video version of this interview at: http://www.ambest.com/v.asp?v=dickinson419

Following is an edited transcript of the interview.

Q: How is the Bermuda insurance market doing? Are you seeing much growth?

A: It’s doing very well. It’s the largest leg of our economy. We’ve seen M&A activity. We’ve seen a number of new companies start. The business is growing. We have a reputation and a track record of being a center for innovation. As insurance evolves, our economy does, as well.

Q: What are you seeing in terms of innovation?

A: Bermuda back in the 1960s was the world’s largest captive insurance market. That business has evolved to full-fledged insurance companies in the P&C space. We also have, over the course of the last few years, a number of life companies. I think now the capital committed to life is around $300 billion, almost as much, if not more, than that committed to the P&C space.

One of the stalwarts of the Bermuda insurance market, Steve Catlin, announced that he’s forming a new company, potentially bringing up to 50 new jobs to Bermuda. We’re encouraged. We’re looking forward to the business growing.

Q: Bermuda was named on the EU’s list of non-cooperative tax jurisdictions this year. How did you respond to that?

A: We obviously were disappointed, but immediately sprung into action to work on a strategy to get ourselves delisted. We engaged the EU. We had a week of meetings in Europe with various stakeholder groups, the EU code group, Commissioner Moscovici, member states like France and Germany.

The occurrence was the result of an unfortunate omission. We went to explain the situation. We had actually corrected the omission subsequent to our final submission, and were received very well, and were given assurances that our regime met the standards and that we would be put forth, recommended for delisting, taking us off of the list of non-cooperative jurisdictions. Looking forward to getting a positive outcome from this process on May 17.

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

(BY Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) May 4, 2019

Bermuda Business Development Authority CEO: When Facing Disruption, Think Captive Insurance

SOUTHAMPTON, Bermuda -- Roland “Andy” Burrows, chief executive officer, Bermuda Business Development Authority, said organizations are responding to a widening array of geopolitical, trade and other risks through captive insurers. Burrows spoke with
Captive Markets Update

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=burrows619

Following is an edited transcript of the interview.

Q: What is the state of the captive market here in Bermuda?

A: In Bermuda, the captive market is quite large. We have over 700 captives here, generating over $40 billion in premiums. It is a significant market for Bermuda. We were the first in the space. What we're seeing is a continuing importance of the captive and captive formations in Bermuda.

Q: Are you seeing new opportunities for captives?

A: In the current world, where there is disruption from geopolitical risks, trade risks, captives are an alternative vehicle for people to manage their risk.

If we look in the regular market, where commercial rates and reinsurance rates are what we would call a softening market, relatively saying, and things are going well, captives are usually a difficult thing to sell to a risk manager or a financial officer.

In a market where we are having some of the risk that we're seeing globally, captives are an alternative where rates are hardening and people in executive suites want to manage their risk more closely to what they are doing, especially in a place where you are not seeing any sort of loss history in your own book of business.

It's an alternative to how you take advantage of your risk history and the premiums that you are paying.

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

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

Vermont Lengthens Captive Insurance Examination Schedule to Five Years

MONTPELIER, Vt. -- Vermont is pushing back its timetable for full examinations of captive insurance companies from three to five years under an updated law signed by Gov. Phil Scott.

The amended law includes several updates to the captive law, which the legislature regularly tweaks to keep Vermont's position as the No. 1 U.S. domicile for captives, regulators said.

"Part of what makes Vermont a leading domicile for captive insurance is our work to continuously modernize our regulations in this area," Scott said in a statement.

According to the updated law, the state insurance commissioner can examine any captive insurance company whenever it is deemed "prudent," but at least once every five years. It had been mandatory every three years before the update.

Deputy Commissioner David Provost earlier said five years would be the default for companies that have low-risk profiles. "If we're examining you more frequently than five years, it means there's something that has come to our attention, or looking at your risk we think you need it more often," he said (Best's News Service, March 14, 2019).

Vermont's new law also gives companies the flexibility to either adhere to current investment rules or develop their own investment plan for approval by Department of Financial Regulation, the statement said.

"For certain captives, the old law required companies to follow prescriptive, often strict investment statutes," said Director of Financial Services Ian Davis. "This move will allow Vermont statutes to keep pace with the rapid changes in the investment environment."

The law still requires approval of the policy, and gives the commissioner the authority to review investment diversification, and whether the company's investment policy reasonably supports the management of assets, it said. The new amendment also said the commissioner retains authority to order companies to withdraw or limit certain investments.

The bill also allows captives to use any organizational form permitted by Vermont law, ensuring the captive statute will automatically stay current when future changes occur, it said.

Additional changes, the statement said, include clarifying the definition of an independent director, requiring National Association of Insurance Commissioners statutory accounting for affiliated reinsurance companies and a specific inclusion of sole proprietorships among eligible businesses to be cell participants.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com) April 23, 2019

North Carolina Becomes Fourth-Largest US Captive Domicile

RALEIGH, N.C. -- Five years into its existence, North Carolina’s captive insurance program has become a major domicile for insurers, according to a report from state Insurance Commissioner Mike Causey.

The state has 244 captives as of April 1, up from 232 in 2018, according to statistics released by the North Carolina Department of Insurance. That makes it the fourth-largest U.S. domicile, it said. Of those 244 captives, 185 are single-parent captives, 29 are protected cell captives, 20 are special purpose captives, and 10 are risk retention groups.

In 2018, the 232 active captive insurers were comprised of 180 pure captive insurers; 26 protected cell captive


insurers; six risk retention groups and 20 special purpose captive insurers, it said.

North Carolina Captive Insurance Association Vice President for Governmental Affairs Lane Brown said last year it has been the state’s policy since the program started to encourage captives to re-domesticate to the state (Best’s News Service, July 5, 2018).

Growth of the program is attributed to the formation of new captive insurers and the transfer of other captive insurers to this state from other U.S. and off-shore domiciles, the department said.

Although the growth of small captive insurers continues to be strong, North Carolina is also seeing an increase in the licensing of larger captive insurers and risk-retention groups, mainly writing property/casualty lines of business. However, the department also is seeing an upward trend in the formation of medical stop-loss captive insurers, it said. Other lines of business written by recently formed North Carolina captive insurers include tenant liability, surety, commercial automobile, and warranty liability insurance, it said.

Lawrence previously served as the department’s deputy commissioner overseeing its administration as well as the Division of Regulatory Boards, it said.

Connecticut Commissioner Warns Companies on Homeowners Nonrenewals, Premium Hikes

HARTFORD, Conn. -- The Connecticut Insurance Department has directed insurers to not cancel or nonrenew homeowners’ insurance coverage because of a crumbling foundation.

The notice, first issued in 2015 and updated in 2017, was sent to all insurers writing homeowners and condominium insurance in Connecticut. In the latest update, Insurance Commissioner Andrew Mais warned insurers not to take action against homeowners just for asking about crumbling foundations.

“The cancellation or nonrenewal of a homeowners insurance policy or an increase in the premium of such policy is prohibited if the cancellation, nonrenewal or increase is based solely on inquiries made on such policy or a claim filed under such policy that resulted in a loss coverage payment by the insurer of less than $500 or in no loss coverage payment,” it said.

Federal courts have ruled insurers do not have to cover the cost of fixing crumbling foundations in the state (Best’s News Service, April 3, 2019). Connecticut homeowners sued after their foundations became defective because they improperly contain pyrrhotite – an iron sulfide mineral that accelerates foundation decay. Insurers have argued they are not responsible for the long-term foundation decay that may take years to develop (Best’s News Service, May 7, 2018).

Mais said in a statement he had heard about the latest problem from some homeowners.

“It has come to my attention that affected homeowners who have filed a claim on their insurance policy because of a crumbling foundation or suspicion of having a crumbling foundation, or even just made an inquiry to their insurer on the topic, could have this held against them,” he said. “I am taking this opportunity to inform both insurers and homeowners that this will not be allowed. Homeowners should not be afraid to file a claim or ask a question related to crumbling foundations. Under this notice, the denial that you are required to present to the Connecticut Foundation Solutions Indemnity Co. to receive funding will not be held against you.”

The nonprofit captive Connecticut Foundation Solutions Indemnity Co. was created by law in August, 2018. It has until June 30, 2022 to help homeowners address crumbling household foundations, but will need more funding (Best’s News Service, Oct. 30, 2018).
The updated notice said the department will also not approve company underwriting guidelines that would allow a homeowner to be cancelled or nonrenewed or have a premium increase based solely on unrepaired crumbling foundation damage.

The top five writers of direct premiums in Connecticut for homeowners multiperil insurance in 2017 were Liberty Mutual Insurance Cos., with 11.25% market share; Chubb INA Group, with 10.86%; Travelers Group, with 8.67%, Allstate Insurance Group, with 5.99%; and State Farm Group, with 5.6%, according to BestLink.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com) April 13, 2019

Appeals Court Sides With Allstate in Coverage Dispute Over Crumbling Foundations

NEW YORK -- A federal appeals court ruled Allstate Insurance Co. does not have to cover the cost of fixing policyholders’ crumbling foundations that are decaying due to faulty concrete. It ruled in three cases brought by Connecticut homeowners.

The Second U.S. Circuit Court of Appeals ruled the “collapse” provision in the Allstate policies does not cover the homeowners’ basements, which are slowly decomposing. The unanimous decision in a case brought by homeowners William A. Valls and Christine C. Valls applied to two related cases.

“This case presents a single question: Whether the ‘collapse’ provision in the instant Allstate homeowner’s insurance policy affords coverage for basement walls that exhibit significant cracking but remain standing,” the court ruling said. “We conclude that, unfortunate as the Vallses’ circumstances may be, their policy terms do not afford coverage.”

Connecticut homeowners sued after their foundations became defective because they improperly contain pyrrhotite an iron sulfide mineral that accelerates foundation decay. Insurers have argued they are not responsible for the long-term foundation decay that may take years to develop (Best’s News Service, May 7, 2018).

The Allstate policy language in this case includes the qualifying words “sudden,” and “accidental,” to more narrowly define the collapse provision.

“The gradual erosion and cracking of the basement walls was not sudden,” the court said. “Thus, the inclusion of the words “sudden and accidental” in the collapse provision is sufficient to bar coverage under the policy for the damage sustained to the Vallses’ basement walls.”

While the concrete in the Vallses’ basement walls may be gradually deteriorating, there has been no sudden entire collapse, and there is no coverage for gradual decay unless it has caused such a collapse,” the court said.

Attempts to reach attorneys for either party in the case for comment were unsuccessful.

Last year, the state created the nonprofit captive Connecticut Foundation Solutions Indemnity Co. Inc. to provide financial assistance to homeowners grappling with crumbling foundations. It was launched with $137.5 million in funding to address a problem that could cost up to $1 billion to fix (Best’s News Service, Oct. 30, 2018).

In an April 1 statement, the captive said it was due to receive a new round of funding from the state Department of Housing.

“We’re pleased to report that CFSIC’s current fiscal year bond allotment is expected to be considered and approved,” it said.

Most operating entities of Allstate Corp. currently have a Best’s Financial Strength Ratings of A+ (Superior).

Shares of Allstate Corp. (NYSE: ALL) were trading the afternoon of April 3 at $95.36, up 0.57% from the previous close.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com) April 4, 2019

US Tax Court Rules Against Syzygy Insurance, Microcaptive Arrangement

WASHINGTON -- A U.S. Tax Court judge has 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.

Tax Court Judge Robert Ruwe ruled against the arrangement between Syzygy and Highland Tank & Manufacturing Co., a family-owned Pennsylvania manufacturer of above-ground and below-ground steel tanks.

Because Syzygy regulated by the Delaware Department of Insurance did not qualify as an insurance company, Ruwe said its 831(b) election was invalid and the premiums it received from Highland Tank were taxable income.

Captives that lawfully make the 831(b) election or microcaptive are not subject to tax on their earned premiums, he said. Traditional captive insurance typically allows a taxpayer or company to reduce the total cost of insurance and loss events.

“Although Syzygy was organized and regulated as an insurance company, met Delaware’s minimum capitalization requirements, and paid a claim, these insurance-like traits do not overcome the arrangement’s other failings,” Ruwe said. “Syzygy was not operated like an insurance company.”
Under the arrangement, Syzygy distributed risk by participating in the U.S. Risk and Newport Re captive insurance pools, the judge said. Typically, participants did not directly purchase policies from their captive insurance companies but from the fronting carriers, Ruwe said.

However, Ruwe found premiums were not actuarially determined and the underwriting report had no calculations showing how it arrived at the premium prices. Ruwe determined U.S. Risk and Newport Re were not bona fide insurance companies and they did not issue insurance policies.

“This means Syzygy’s reinsurance of those policies did not distribute risk; therefore, Syzygy did not accomplish sufficient risk distribution for federal income tax purposes through the fronting carriers,” Ruwe said. “The fronting carriers charged unreasonable premiums and late-issued policies with conflicting and ambiguous terms.”

Ruwé ordered Syzygy to pay about $485,000 in delinquent taxes and penalties.

Last year, the Internal Revenue Service listed the 831(b) captives on its “dirty dozen” list of taxation scams. The IRS at the time said it was concerned some 831(b) captives were being marketed for abusive purposes in estate planning rather than risk mitigation (Best’s News Service, April 6, 2018).

And, the IRS has again placed the 831(b) captives on this year’s “dirty dozen” list, according to the agency’s website.

Attempts to reach Syzygy or Highland Tank for comment were unsuccessful.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com) April 13, 2019

Marsh Captives Practice Leader: Captives Under a Widening Range of Regulatory Oversight

SOUTHAMPTON, Bermuda – Julie Boucher, captive solutions practice leader, islands, Marsh, said captives in offshore domiciles not only must answer to the jurisdiction but must consider issues of economic substance and other new rules. Boucher 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=boucher619

Following is an edited transcript of the interview.

Q: This is a new role for you. I’m used to seeing you in Vermont. What are your impressions of the conference in Bermuda?

A: My impressions thus far, not unexpectedly, is that Bermuda and the conference itself is really comprised of a lot of experienced captive professionals and captive owners. You would expect that with Bermuda. It was the first domicile and clearly the most established.

That’s reflective in this conference in the quality of the presentations, the captive owners that are here, what’s on their mind, and their focused attention to learning. So far, what I’ve seen is a great group of captive owners and great captive community that’s very knowledgeable and experienced.

Q: What are the captives focused on?

A: A lot of the captives are focused on the same types of things that any other captive would be focused on in any other jurisdiction, like capital deployment, like the top business risk, and how a captive can support that.

Then always looking at other uses of captives. Those are probably the top things they’re focused on today.

Q: Could you tell us what new risks you’re hearing about going into captives?

A: The top new risk is probably cyber. There’s a lot of discussion around cyber and how a captive can fit into cyber needs. Some type of cyber coverage can be purchased. Other types of captive are helping to fill gaps where the purchase cannot occur.

Then beyond just a brand new coverage is really an expansion of existing risk, as companies are going through their insurance renewals, looking at where a captive can best fit in for the best pricing, the best coverage, or really, both. That’s what’s happening.

Q: Do offshore captives have different regulatory concerns than onshore captives?

A: They do. That’s a great point, especially right now. Offshore captives in particular are very focused on all of the different frameworks that are coming out of the OECD, the risk management framework, things like economic substance.

That’s at the top of their mind in Bermuda, but in other offshore jurisdictions as well. Those countries are subject to those types of rules and regulations. Captive owners are very focused on that. They want to make sure they’re doing what they need to be doing. That’s a topic of discussion for everyone.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) June 22, 2019

Industry News

CICA President Outlines New Outreach to Next-Generation Captive Professionals

SOUTHAMPTON, Bermuda -- Dan Towle, president, Captive Insurance Companies Association, said the
organization is launching NextGen, a task force for young and new captive insurance professionals. Towle 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=towle619

Following is an edited transcript of the interview.

Q: I understand CICA had a big announcement today. Could you tell us about that?

A: We’re very excited at CICA, the Captive Insurance Companies Association, to announce the launch of a task force, which we’re calling NextGen, for young and new professionals, where we’re going to ask them to meet over the summer and give us recommendations.

CICA’s had a long commitment towards helping to grow and nurture this segment of the population. Our hope is to do an even better job. We want this group to come together to help advise us on better ways to provide educational opportunities, networking, social media, what have you. We’re very excited about this.

Q: Can you tell us who’s on the task force?

A: We’re not announcing that yet, in part because their work hasn’t really even begun, but we have a broad representation of service providers, captive owners, domiciles/regulator representatives. We’re excited about this group getting together.

We think it’s going to be a very important part of making sure that we’re on the cutting edge of this. I look forward to having this group advise me on how we can better meet the needs of the younger and new professionals.

Q: What else have you done in this space to help forward the career of people new to the captive industry?

A: A couple years ago, we launched our mentorship program, which was the first of its kind. I certainly encourage other associations to get involved with this as well, where we pair up more senior individuals with younger professionals to help them better navigate the marketplace, and help them grow in their career.

We’ve had great results with that so far. We also this past year launched our student essay contest, which was a great way to get risk management and actuarial science students at many universities throughout the country and around the world, actually, interested in career opportunities where those students were allowed to...

The finalists came to our conference and presented. They were published, and they receive cash prizes. We are very excited about the momentum we built last year and hope to continue with that this year.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) June 19, 2019

Panel: As Companies’ Understanding of Risk Evolves, So Do Their Captives

SOUTHAMPTON, Bermuda -- Attendees at the Bermuda Captive Conference, held in Southampton, Bermuda, said captive sponsors continue to find new ways to place their risk into insurance captives, including more third-party risk.

View the video version of this interview at: http://www.ambest.com/v.asp?v=bcc2619

Following is an edited transcript of the interview.

Scott Reynolds, Member Insurance: I think there’s going to be a great need for captives. The captive industry, compared to the insurance industry, is very young. Captives have only been in play since the 1960s. There’s been a growing level of expertise around captives, and it continues to be that way.

Nowadays, more and more business owners are going to have real, viable options to go into a captive to give them greater control of their exposure and their financial exposure.

Becky Vernon, ASW Law: I think that captives could evolve in the sense that, if we’re looking at businesses that are really digital-focused which obviously is a huge area, a growing area at the moment those types of businesses are experiencing a much higher risk in the areas of data protection and cyber.

I think that, because of the challenges faced by traditional insurance companies in pricing those types of risk, primarily because those insurance companies don’t actually own the data that would enable them to price effectively the data’s actually owned by the company that operates the digital business potentially, those companies are now going to be looking to insure those types of risk through a captive.

I think that could be a real developing area. Also, I’d like to see how the whole digital asset space pans out, because Bermuda now has a Digital Assets Business Act. We’ve got regulations here that relate specifically to that space.

We’ve also amended the Companies Act to enable companies to undertake initial coin offerings. I guess I’d like to see potentially captives incorporating digital assets into their business model. I’d like to see how that develops.

Anup Seth, Aon: As the property and casualty market begins to firm, we’re seeing companies looking at their captives as the underwriter of choice. They’re beginning to look to optimize the capital within the captive to ensure that they can reduce the total cost of risk.

As I said earlier, particularly when the market is firming. Over the next 12 to 18 months, I think we will see captive retentions increase. We will see the captive being utilized
for difficult risks that are emerging as well, and generally being used as a strategic risk management tool.

Ellen Charnley, Marsh Captive Solutions: Captives will always evolve, and they always are a nimble and a brilliant tool to allow companies to react to market changes. I think one trend we’re going to continue to see is the growing increase that captives write third party business for.

About 22% of captives today write some form of third-party business, whether that’s employee benefits, whether that’s contractor risk or customer risk. I can see that continuing to grow more and more, particularly, for example, in the tech industry.

I think that’s how we’re going to see captives become a little bit more sophisticated in the years to come.

Dan Towle, Captive Insurance Companies Association: I’ve been in this space for about 20 years, and it’s one of the most exciting things about the captive industry, is it doesn’t stand still. With new risks coming out all the time, who would have thought we’d have things like terrorism risk, cyber risk, or what have you?

Captives always fill that unique need, and are often ahead of the traditional marketplace. Who better knows the risk than the companies themselves? It’s one of the beautiful things about captives, is whether the market gets hard, soft, or what have you, companies continue to better understand their own risk.

In many cases, can do a better job of managing that risk, which is the essence of captive insurance.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) June 22, 2019

Walkers Partner: Captives Take on Role of ‘Risk Incubators’

SOUTHAMPTON, Bermuda -- Peter Dunlop, partner, Walkers Bermuda, said organizations are employing captive insurance to cover unique risks, such as specific types of cyber, cryptocurrency and other exposures.

Dunlop 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=dunlop619

Following is an edited transcript of the interview.

Q: How are you seeing captives develop in Bermuda?

A: Captives nowadays, they’ve moved a long ways since their advent in the ‘80s. It’s less of a capacity play now as we see it. Our clients are now approaching us to set up captives not to find extra capacity they can’t find elsewhere, but rather to find capacity that’s better priced and more tailored to their industries.

In particular, we all know the growth of cyber insurance has been enormous, and that’s a very mature market onshore in terms of specific products, but when you’re looking at say crypto assets, theft of cold wallet, hot wallet, understanding the technology and understanding the risks involved is a very specialized process.

It’s generally only understood by the insureds, so if they can set up captives that are tailored to their specific needs and their technologies, that’s a win/win for them. They can also use those captives as risk incubators, they can allocate capital properly to those risks and help their businesses grow without the punitive commercial side of buying insurance onshore from a traditional insurer, which probably doesn’t even offer the kind of coverage they’re after.

Q: Let me follow up there. I’ve never heard that term hot wallet, cold wallet?

A: If you’re going to be storing some kind of cryptocurrency you can store in a physical wallet, and if it’s not connected to the internet, that’s called a cold wallet. If it is connected and therefore there’s an increased risk of theft of that crypto asset, then that’s called a hot wallet. Obviously insuring against that is very tough. There’s a lot of hackers out there, and a lot of cyber thefts. Insuring against that happening is a really important thing to be doing.

Q: You’re speaking of crypto currency like blockchain? I thought blockchain was unhackable.

A: I’m not a distributed ledger technology expert, but apparently it is hackable. These are real losses that are happening now. The problem is there’s not enough data either on the losses or in any way to be able to properly model it, and therefore to go to an insurer and say look, this is the risk of loss and therefore this is the kind of pricing that I can tolerate. It’s just not happening.

That’s why captives owned in part or in total by the owners of this technology is a far better solution for these guys.

Q: What other new types of risks are you seeing going into captives?

A: It’s a digital age, so anything related to that. Self-driving cars, any kind of technology like that. Again, very difficult to understand, but it comes with a good degree of risk. We’re seeing that kind of development taking place in captive space. On the more legal side, if you’re looking at the legalization of cannabis in Canada, which is federally legal in Canada but is not federally legal in the States.

Again, it’s very difficult to be insuring against any operational or property losses relating to that. Again, theft as well is a big risk there. That’s another big area for captive insurance.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) June 19, 2019
Marsh: Advances in Technology Boost Captive Insurers’ Third-Party Business

Advances in technology are making it easier for captive insurers to write third-party business, according to Marsh’s annual captive landscape report.

Captive managed by Marsh amassed more than $108.3 billion in total shareholders’ funds.

“More risk professionals today are embracing captives as a tool to secure their organization’s futures, whether it’s generating profits by underwriting third-party risks, accessing reinsurance or providing cost efficiencies,” captive solutions President Ellen Charnley, whose unit oversees 1,100 companies, said in a statement.

Globally, 22% of Marsh-managed captives, with a combined value of $18.7 billion in premium, covered some risk for third parties such as customers and suppliers, the report said. Common third-party coverages include extended warranties, theft, travel accident, automobile liability and independent contractor/customer risk vendor policies.

Its managed captives wrote more than $3 billion of extended warranty alone, for assets such as computers and vehicles.

Marsh found solid growth in Asia-Pacific, where it said gross premiums climbed 116% over five years to $1.1 billion while the number of captives increased 24%.

Results were mixed in Europe, the Middle East and Africa. Gross premium increased 4% over five years to $5.7 billion but the number of captives declined 4%.

“Innovations such as blockchain and mobile applications represent new risks to insure. They can also reduce operating expenses by facilitating the distribution of policy information, proof of insurance and claims payments,” the report noted.

Cyberrisk fueled growth with the number of captives insuring cyber-liability rising 95% over five years. Capital and surplus can fund analytics and cyberrisk assessment services and the structure facilitates the sharing of risk data, Marsh said.

Independent contractor/customer risk writing jumped 138% over the past five years to more than $162 million in net premiums in 2018. Offering the third-party coverage for general or professional liability can help contractors or vendors comply with contractual requirements, it said.

An increasing number of captives provide medical stop-loss coverage and life insurance reinsurance. Managed captives wrote almost $1 billion in medical stop-loss premiums last year, leading Marsh recently to create MedPool Re. Marsh said the pooling facility helps captives to lower costs and increase financial certainty.

Earlier, Charnley said more companies are writing some form of employee benefit risk as they try to reign in rising global medical costs (Best’s News Service, July 26, 2018).

This year’s report said participation in captives in multinational benefits rose 243% over five years.

Marsh Inc. is a unit of Marsh & McLennan Cos.

According to Best’s Review, Marsh & McLennan Cos. is the largest insurance broker with 2017 total revenue of $14.02 billion.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com) June 1, 2019

Aon Global Cyber Practice Leader: Cyberrisk Driving Premium Growth for Captives

SOUTHAMPTON, Bermuda -- Adam Peckman, global practice leader, cyber, Aon, said parent organizations are building up their cyber coverage through insurance captives, with additional cyber-related growth ahead.

Peckman 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=peckman619

Following is an edited transcript of the interview.

Q: What are you seeing in cyber and captives today?

A: We're seeing a lot of growth in the captive space at the moment. Premium growth is about 250% at the moment in the captive space. That's not illustrative of a move away from the traditional market. The traditional market's still growing exponentially.

More an addressing of a need that a lot of clients are starting to realize, which is they've got an uninsured exposure on their balance sheet which is totalling about $550 billion every year. There's an inefficiency there in how they allocate capital.

So increasing use of the captives and that book is growing about 250%.

Q: What role are the captives playing? Are they fronting, are they serving as reinsurers?

A: Captives are, at the moment, in quite an emergent space, playing all manner of roles. Some are playing a fronting role. Others are playing more of a reinsurance role or higher up in the tower.

It's more deploying the captive to address the needs of the parent at the moment. Some are playing a fronting role. Others are playing more of a reinsurance role or higher up in the tower.

Q: What barriers are there to putting cyber in a captive?

A: Barriers at the moment, there's a lot of potential there that's untapped when we talk about that $550 billion in...
losses. The barriers are less around the captive as a vehicle or a tool and more around how companies are engaging to understand what the needs are.

Still, a majority of companies are judging their exposure and their captive need or captive utilization by management intuition, not by actual data and a well-thought-out process. We’re encouraging more captive owners to think about applying the same rigor that they look at other lines of business to cyber.

When they’re doing that, they’re able to unlock value in the captive by using it as a vehicle to manage more of the cyberrisk.

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

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

Wilmington Trust Vice President: Trusts Gaining Ground Among Captives

SOUTHAMPTON, Bermuda -- Robert Quinn, vice president, Wilmington Trust, said many captive insurers traditionally have employed letters of credit as guarantees, but trusts are often less expensive and carry other benefits. Quinn 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=robertquinn619

Following is an edited transcript of the interview.

Q: You’ve been in the insurance collateral business for 20 years, but always with trusts, not letters of credit. Why is that?

A: I would have to say that there’s a conundrum between the two alternative collaterals. There’s letters of credit, and then there’s the trust concept. With a letter of credit, generally speaking, they might cost between, I’ll say, 50 and 75 basis points.

With 50 or 75 basis points on a $10 million collateral requirement letter of credit, that’s been $50,000 and $75,000 per year. Looking at the letter of credit, they are almost invariably cash-collateralized. It’s a redundant collateral. You have to collateralize our collateral to get this program off the ground.

With the trust concept, it’s considerably different. You would take the same cash that would go into a collateral account for a letter of credit, place it in a trust, and you’re done. The cash is the collateral. Then it becomes a cost-benefit analysis.

With the $50,000 to $75,000 letter of credit, a trust might cost you $5,000. There’s a considerable benefit to that. Having said that, I guess my point is that if I were out there, looking out for the best interests of my clients on a consistent basis, why would I even talk about letters of credit?

I don’t like to use the expression no-brainer, because a lot of people have legitimate reasons for needing to use letters of credit. There’s regulatory requirements or whatever. Absent that, if you’re looking at simply the cost-benefit analysis, the trust wins every time.

One last thing I’ll say on that is that if you’ve ever purchased a house, like I’ve purchased a home before, the credit review process for buying a house is tremendous. That’s my personal home, which is nowhere near $10 million.

If you go to a bank as a shell corporation, such as a captive, that is simply established by hoarding cash, it’s very difficult to go through the credit review process. You have to do it every year, or every three years, depending on the letter of credit requirements.

With the trust, once it’s in-place, first, you don’t have to go through a credit review process. It’s very simple and straightforward. We can have accounts set up in two days, but you don’t have to renew them every year.

Once it’s in-place, it’s done. You earn the interest from the account. You just don’t have to think about it.

Q: What percentage of captives have trusts, versus letters of credit?

A: That’s hard to say. We’ve been trying to analyze that since I started this job. In 1999 when I started, it was probably 95% to 5% in favor of letters of credit. Now, it’s probably closer to 35% using trusts, 65% letters of credit.

Q: Why aren’t they more popular?

A: I think it’s just a matter of inertia. Captives have been around for a long time. Captives are very lucrative. Excuse me, letters of credit are very lucrative for letter of credit-issuing banks. You’re making 50 to 75 basis points on basically a cash-collateralized letter of credit. There’s no risk.

That’s good business. The letter of credit providers continue to further the thought of letter of credit. “Let’s just renew this. Let’s just renew this. Let’s just get this out of the way. We’ll make it easy.” Part of it is because there is an onus on people like me, who go out and market the trust concept, to just get out there and continue to tell people, as many people as you can. That’s why I’m here today.

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

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

Panel: Blockchain Already a Presence in Captive Insurance Sector

TUCSON, Ariz. -- A panel of captive insurance experts gathered by AMBestTV at the Captive Insurance Companies Association’s International Conference in Tucson, Arizona, said blockchain technology is already
helping a logistics company better manage its captive-insured risks.

View the video version of this interview at: http://www.ambest.com/v.asp?v=cica3319

Following is an edited transcript of the interview.

Meg Green: Joining us is a panel to discuss blockchain in captives: Steve McElhinney, chief executive officer of EWI Re, Barbara Ingraham, managing director of ISO, of Verisk Co., and Marcus Schmalbach, CEO, Ryskex. Steve, could we start with you? How can captives use blockchain?

McElhinney: I think first of all, blockchain is here to stay as a technology. When you look at captives, there’s a perfect alignment, I think, of retained exposures and a better need to analyze those irrespective of type of captive.

I think there’s going to be a lot of demand and take-up for the technology as it becomes available. Supply chain companies, I think, are naturally moving in that direction. There’s a strong risk component to that.

You look at a variety of other captives. Risk retention groups operate, in many ways, like an insurance company, so the need to safeguard information through smart contracts.

On the claims side, I think for all captives, blockchain brings a host of new technologies to better contain that information and to port it along the cycle to insurance companies, reinsurers, and beyond. I see a lot of need for the technology. I think the take-up should be very good as it goes forward.

Q: Could you give us an example of how blockchain might work within a captive?

McElhinney: Yeah. One example I like to point to is when you look at the whole issue around food safety and more so what’s called food provenance and guaranteeing where food’s coming from. The supply chain community is moving very aggressively in that regard.

For insurance, it would be a way to much better analyze where contamination could be arising, who’s responsible for that, and to put better risk management around that.

I think that, to me, sings out as one of the key examples of where blockchain would be immediately embraced. The supply chain community’s moving very aggressively with new technologies in that regard.

Q: What obstacles do captives face when it comes to using blockchain?

Ingraham: Some of the biggest challenges that you have with blockchain have to do with the fact that the technology is still relatively young. With young technology, then the business models are not necessarily established yet.

The uses of blockchain are still being understood. Steve mentioned a few. The actual insurance use cases, there’s a lot of experimentation going on, but nobody has actually settled on anything like the killer app for blockchain for insurance yet. Those are some of the challenges that you have.

Q: Are you aware of any captives using blockchain today?

Ingraham: Yes. Actually, there’s a very large logistics company that everyone will have heard of that is experimenting with use cases in the captive. They’ve got active pilots going on. They’re actively seeking to find ways to make blockchain useful to them in the insurance space.

I think the focus is most on the use of the blockchain for claims, so understanding where the cargo was and what happened to it to speed the resolution of claims and to cut cost in the resolution of claims is one of the biggest areas they’re looking at.

Q: Looking out over the next 5 to 10 years, how do you see blockchain expanding in captives?

Schmalbach: As we have already heard, there are some piloting cases around, especially alongside the supply chain. This will definitely be the driver for the next years, I think. Especially when we look at the claim adjustment and stuff like that, from my personal point of view, I think the blockchain has its benefit in the parametric solutions area.

From our point of view, what we are doing on piloting cases around Europe with captives is looking for the whole value chain and where perhaps the technology can help creating something brand new or driving a new solution for the captive itself, not just as a technology, but also driving the possibility of handling emerging risk throughout parametric solutions or stuff like that.

From our point of view, it’s a holistic approach, the blockchain. It’s a technology, but you need a holistic approach to look on the value chain itself. This will, I think, take 5 to 10 years till we have the killer case, as Barbara mentioned, to say this serves as a blueprint for the rest of the world.

Exactly what’s happening at the moment, the corporate and the captives are interested in that topic. They will work on that, hopefully. This will bring a better understanding to the whole industry. This will serve as a major driver to make the blockchain technology itself public and implementing it in your existing value chain or creating a completely new one if it’s possible.

Ingraham: One of the things that I think where blockchain has a tremendous amount of value or potential in the insurance industry is when you think about blockchain as enabling different parties to work together in a trust-based relationship.

When you think about how the insurance transaction take place, there’s a lot of parties. You’ve got the captive
We can go new ways and define the risk management in the cyber environment or stuff like that, perhaps where that, but there are upcoming emerging risks, especially stuff like that because we have great solutions around it.

For captives especially, because there are so many parties involved, I think that avenue is one that will have a lot of promise in the future.

McElhinney: I would add I think the reinsurers will probably be one of the initial drivers of the technology because they’re so dependent on data coming up the chain. It varies in its quality.

I know when I worked at a reinsurer, that was our constant struggle, is to get quality data that’s timely for better exposure management, better pricing, better portfolio management. I think they’ll be driving the technology a lot initially. We’re seeing some of that in the industry right now.

Q: Marcus, can I follow up with you in the parametric aspect? Can you give us an example of how that might work?

Schmalbach: There’s an example around Europe called Fizzy. This is a small insurtech from France. What they do is a flight delay insurance. It has nothing to do with our exposures at the end of the day, but the idea they had is really smart.

If the flight is delayed for, let’s say, two hours, the blockchain receives the information directly from the airport that their flight is delayed. The claim adjustment is done completely through technology, without any handling or claim adjustment.

Perhaps this serves not, at the moment, as a blueprint for an exposure of $100 million, but the idea behind that is just the parametric thing. The blockchain is not really smart. The people who handle it have to be smart. The blockchain just understands a yes or a no. There’s no grey zone. It’s just a black or white.

That’s a reason why it should be driven parametrically, because that is just a black or white. The decision can be made on a technological basis, no claim adjustment necessary. This is something really interesting, I think, when we talk to captives, where might this be a solution for upcoming risks or our risk exposure?

I do not believe that will work out for liability or property or stuff like that because we have great solutions around that, but there are upcoming emerging risks, especially in the cyber environment or stuff like that, perhaps where we can go new ways and define the risk management or the captive management in a new way and take the parametric topic into account.

That is closely linked to the blockchain itself.

Ingraham: I think that’s one of the areas where people get confused when they’re thinking about the potential for blockchain. Using a property example, when you think about how complex a fronting program is for a large corporate with a captive behind it, reinsurance behind that, you’ve got multiple parties buying into that contract. They all have their own terms and conditions.

The classic insurance contract, you have the claim. First, you have to find out what happened. Then you have to look at the policy and see what’s covered. Right now, blockchain does not solve that problem. When I talk to people about blockchain, I believe they get hung up on that, thinking, “How do you solve that problem with blockchain?”

No, to Marcus’ point, things with simple yes or no. Something much more like an insurance-linked security which is parametric-based. Did the weather event happen? Did the earthquake happen? Were the parameters hit? Therefore, should the contract pay is a much more appropriate short-term focus for blockchain.

McElhinney: I think the expense savings that come from that will be a huge driver. Any way you can remove human touch from a transaction and do it more automated, that’s certainly going to really, I guess, help the overall economics of the transaction.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) April 12, 2019

Marsh: Transport Sector Most Exposed to Terrorism Risk in Asia-Pacific

HONG KONG -- The transport sector is most exposed to terrorism risk in Asia-Pacific, according to a recent report from insurance broker Marsh.

From 2014 to 2018, the report said road infrastructure was the business sector most affected by Islamist terrorist incidents in Asia-Pacific. In 2019, public transport systems in India will be a higher-risk target for Pakistan-based militants. Public spaces across the region are attractive targets for extremist Islamists, as well as right-wing actors in Australia and New Zealand, said Marsh.

Terrorism risks vary across Asia-Pacific, with three countries Afghanistan, India and Pakistan among the 10 most affected markets globally. “At the other end of the spectrum, countries including Australia and Japan offer superior risk profiles,” said Marsh.

Following the right-wing terrorist attack on two Christchurch mosques in March, there was an increased...
risk of retaliatory attacks by Islamist extremists. Globally, “the means and perpetrators of terrorist attacks continue to shift, with soft or relatively unprotected targets becoming a focal point,” said Marsh.

Sri Lanka’s Easter Sunday bombing attacks have increased attention to terrorism risk management for organizations in Asia-Pacific, including reviews for adequate insurance coverage and mitigation methods. In the wake of the bombings, “there is a huge demand from uninsured properties to insure, including terrorism, and also from those clients who are insured without terrorism to include such cover as well,” said Jagath Alwis, director and chief technical officer of Ceylinco General Insurance Ltd. (Best’s News Service, June 5, 2019).

The evolution of terrorism risk exposes many countries to complex threats from both international and home-grown groups, as well as individual actors acting on their own, known as lone wolves. Marsh said “insurers are continuing to develop and offer new and innovative solutions for risk professionals, who have been challenged to adopt new strategies to protect properties, employees and balance sheets in response to constantly evolving threats.”

Overall, the market for terrorism insurance remains competitive for most buyers due to a steady decline in the number of global terrorist incidents and minimal insurance claims in recent years, said Marsh. Shifting attack methodologies also lead to change in product design.

Globally, Marsh said “the predominant threat comes from Islamist extremists focused on inflicting mass casualties in low-capability attacks on crowded public spaces.” This new attack methodology relatively generates less property damage. Still, multiple businesses suffered significant revenue losses from various attacks.

For example, Marsh said the 2017 London Bridge attack led to limited physical damage, and many insureds were left without cover. Businesses lost an estimated £1.4 million (US$1.76 million) from the attack. However, extensive police cordons remained for 10 days, generating widespread business interruption losses.

Tourism and retail sectors are usually at risk for losses following terrorist attacks. These trends, together with proliferation of incidents that are not clearly described as acts of terrorism such as mass shootings, have promoted insurers to develop products such as those for active assailant coverage and non-damage business interruption coverage.

Multinational businesses may also consider political violence coverage to supplement terrorism insurance. Purchasing terrorism and or political violence coverage alone, however, can leave some buyers with gaps in coverage, as potential risks can extend beyond the threat of violence, said Marsh.

The United States is the world’s largest buyer of terrorism insurance, with take-up rates close to 60%. Marsh said U.S.-based operations continue to purchase coverage at a high rate.

Also, captives continue to write terrorism risks. Marsh said captive owners have often found total cost of implementing terrorism insurance programs comparatively favors to buying from commercial insurers. Captive insurers can generally offer broader coverage than commercial insurance policies.

(© Iris Lai, Hong Kong bureau manager; Iris.Lai@ambest.com)  
June 19, 2019

Oppenheimer Executive Director: Corporate Earnings May Slow, but Recession Less Likely

SOUTHAMPTON, Bermuda -- Jack Meskunas, executive director, Oppenheimer & Co., said major economic issues include whether trade disputes will be resolved. Meskunas 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=meskunas619

Following is an edited transcript of the interview.

Q: What are you hearing from clients and their concerns about the stock market versus the bond market?

A: Right now, there’s been a lot of volatility in the stock market. It started really in the fourth quarter of 2018, and the market, which had basically done nothing but go up for the last few years, all of the sudden had a gigantic sell-off.

There was concerns about recession, there were concerns about the trade wars, there were concerns about potential impeachment and political concerns. What we’ve seen is that we came into 2019, the market did very well in the first quarter, and we saw volatility return in May. May sold off.

Clients are very concerned about volatility, and I think what was a fear of missing out on investment returns all of the sudden had a gigantic sell-off. It’s a huge issue.

Q: What’s your advice to them as far as the bond market, with interest rates so low?

A: Right now, we don’t see a lot of value in U.S. treasuries. Interest rates have come way down, partly because people have sold stocks and put the money into bonds. We’ve seen the 10-year now trade just over 2%. It’s near a record low.

What we’re telling people is we still see opportunities in the bond market, but we see it more in high-yield, both high-yield municipal bonds and in high-yield corporate bonds.

Q: How about the threat of a recession? What are your thoughts there?

A: One would look at what’s happening in interest rates right now, and seeing that the overnight rate is around
two and a quarter percent, and the 10-year rate is actually lower than that.

Normally you would think this is a sign that a recession is around the corner. We don’t see that. We have seen corporate earnings slow down, but are still profitable, and we believe that certain overhangs in the market like potential trade wars seem to be headed toward resolution.

We definitely do not see a recession this year, nor do we see one next year. Beyond that, you really can’t predict.

Q: What is your advice to clients with that in mind?

A: Our advice to clients is to stay the course in equities. We prefer domestic over international. We’re market cap agnostic, so we like both large, mid, and small cap companies.

We think that you need to sort of close your eyes a little bit to the volatility, know what you own, know why you own it, and hold on.

In the bond market, be very, very careful where you enter, because if you’re out in long treasuries, we do think rates could back up, and that could cause negative marks in your treasury portfolio. We like, again, corporates and high-yield.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) June 21, 2019

American Contractors CEO: Captives Offer Better Control

TUCSON, Ariz. - Michael O’Neill, president and chief executive officer, American Contractors Insurance Group, said the number of captive domiciles has mushroomed since 1983, when he started with the captive insurer. O’Neill spoke with AMBestTV at the Captive Insurance Companies Association’s International Conference in Tucson, Arizona.

View the video version of this interview at: http://www.ambest.com/v.asp?v=oneill319

Following is an edited transcript of the interview.

Q: Can you tell us about the captive and what it is you do?

A: ACIG is a group captive that was formed in 1981. We have 38 commercial construction companies around the country that we insure their worker’s compensation, general liability, auto liability, and subcontractor default risk.

We’ve been an early entrant into the captive business with the captive in ‘81 in Bermuda that we started. Then in ‘86, we formed a risk purchasing group. We also have a licensed domestic insurance company that we own and operate as well.

Q: What trends are you seeing in the industry today?

A: In spite of a very benign market in terms of a lot of pricing increases, we just see a lot of interest in captives, predominantly for three reasons. No. 1, control. Control over the pricing in a captive, control over the coverages that are provided. Then probably most importantly, control over the claims handling. How the claims are going to be handled and settled in terms of the claims that we have. That’s been consistent with how captives have operated over the years, is the three Cs, we call them.

Q: What you seen change in the captive industry in your tenure?

A: I think the one thing that we’ve seen is the change with the domiciles. When we started ACIG in 1981, there were no domestic domiciles for captives. Now, it seems like 25 or 30 states have domiciles where you could actually form a captive and be subject to their regulatory requirements. At that time, Bermuda and the Cayman Islands were really the choices in the western hemisphere.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) June 21, 2019

Aon Bermuda Managing Director: Survey Shows Only 1-of-10 Top Risks Are Fully Insurable

BestWire

SOUTHAMPTON, Bermuda -- Anup Seth, managing director, Aon Bermuda, said respondents to a biannual global risk management survey report the top risk concern is economic slowdown. Seth 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=seth619

Following is an edited transcript of the interview.

Q: You recently released a global risk management survey. Can you tell us what the big takeaways are?

A: Aon conducts a global risk management survey once every two years. The key findings coming out of the 2019 survey were economic slowdown is the top risk. We had about 2,600 respondents, and these are risk managers around the world.

The top risk was the economic slowdown. The second-top risk was damage to reputation or brand. The third risk was very interesting which it ranked about 30 in the last survey, but it’s up to No. 3 and that is accelerated change in market forces.
What we mean by that is changes to the geopolitical landscape. Whether it’s trade policies, whether it’s Brexit, for example, in the U.K., in conjunction with talent changes the struggle that companies are finding in terms of finding the right talent and also, advancements in technology.

These are the accelerated market forces, and that risk has come up to No. 3. The other interesting finding is only one out of the top 10 risks is fully insurable. That’s the business interruption risk that ranked No. 4 in our survey.

Some great insights in that survey, and we’ve been discussing those insights with clients at the conference this year.

Q: Do you think there’ll be a move to extend coverage to those other areas? Is that a possibility?

A: It certainly is, and I think one of the areas that we’re looking at at Aon is not just focusing on the transfer of risk, but actually looking at how we can assess risk, how we can mitigate risk, how we can quantify risk, so we’re broadening that risk conversation.

The risk transfer, or the insurability, is certainly important, but it’s just one element now of that broader risk conversation.

Q: You also did a survey on cyberrisk. Can you tell us what you found there?

A: We did, yes. This was a cyber captive survey, and what we found is over the last 12 to 18 months, there has been a significant increase in the premiums that are flowing through captives to incubate cyberrisk.

It’s across all industry sectors, but certainly, led by the health care and the energy sector. I think we will continue to see that trend. It’s been a common theme at some of the meetings that I’ve attended at the conference, around how can companies utilize their captives for cyberrisk, or incubating cyberrisk.

Q: I know you’ve been having a lot of client meetings here. What are some of the other big themes you’re hearing?

A: Certainly, one of the themes that has come out is as the P&C market begins to firm, companies are looking at their captives as the underwriter of choice.

Looking to how they can optimize the capital within their captives, to ensure that they’re reducing that total cost of risk, particularly in the times when markets are firming.

UK Risk Manager Group Warns of Emerging Risks in More ‘Volatile’ World

LONDON -- Organizations that may have found themselves concentrating on obvious risks need to think more about the perils that are emerging in an "increasingly volatile" world, according to Airmic, the U.K. risk managers association.

“There is a danger that boards are spending too much of their limited time on more traditional risks, at the expense of emerging risks, which may be filed in the ‘too hard’ or ‘less important’ folder,” Airmic said in a statement accompanying a report it issued jointly with Marsh.

The report was released during Airmic’s June 3-5 annual conference in the Yorkshire resort town of Harrogate in northern England.
Captive Markets Update

“The world is increasingly volatile, uncertain, complex and ambiguous, the report notes,” Airmic said in a statement. “This context has triggered the need to recalibrate risk management and rebalance efforts between managing traditional risks and emerging risks.”

Organizations, Airmic suggested, tend to look at material threats if they have relevant data in hand and a sense of how these threats might be expected to play out. At the same time, the group added, organizations might be “spending too much of their limited time on more traditional risks, at the expense of emerging risks, which may be filed in the ‘too hard’ or ‘less important’ folder.”

Airmic said company boards are now required by the U.K. Corporate Governance Code to be aware of emerging risks to the point of detailing their procedures in their annual reports.

Noting the difficulty of spotting and measuring emerging risks, Airmic said businesses should prepare to “think the unthinkable and speak the unspeakable” in relation to these issues.

“Consideration of emerging risks is often relegated to the backseat, even though they can result in the biggest shock waves,” John Ludlow, Airmic’s chief executive officer, said in a statement.

Ludlow recalled how the United Kingdom’s impending departure from the European Union has developed as a risk for businesses since the U.K. electorate opted for withdrawal in the 2016 referendum.

“Three years ago, Brexit was an emerging risk that many ignored,” Ludlow said. “Today we have the international rise in protectionism, trade tensions between China and the U.S., the impact of climate change, plus many more. There is no excuse for boards to say they did not see these coming, but it will require a change in mind set emerging risks are more art than science.”

At the conference, Airmic said it is to team up with Aon plc to produce a guide for independent non-executive directors of captive insurance companies. In addition to providing advice for the directors, the guide will also consider the risks involved in appointing these directors and suggest how their performance might be assessed.

“This practical guide suggests a range of simple but really important steps that can be taken to ensure captive company board oversight is fit for purpose,” Julia Graham, Airmic’s deputy CEO and technical director, said in a statement. “Captive governance will continue to come under scrutiny as tax authorities maintain a keen interest.”

Airmic said the guide deals with such topics as the advantages of having an independent captive board; the kinds of experience needed on a board, and the creation of service level agreements.

Ann O’Keeffe, Aon’s chief risk officer for captive and insurance management, said the report considers that the director of a captive may lack a specific background in risk and insurance.

“A captive board should collectively have a balance of skills, and a broad range of experience,” O’Keeffe said in a statement.

Airmic also announced it has launched risk leadership program with Cass Business School in London. The focus will be on developing strategic skills within a digital environment. This will be the third year of the 12-month course.

Jonathan Blackhurst, head of risk management at Capita plc, stressed the emphasis on strategy. “My stakeholders increasingly rely on me being more than a ‘risk process’ expert,” Blackhurst said in a statement. “And so I need a broader skill set to be part of this corporate conversation.”

“This is a time of rapid change for business,” Airmic’s Graham said. “We are at a tipping point. It is also a golden age for the profession and an opportunity for Airmic to promote the benefits of pursuing a career in risk management.”

The conference itself was billed in advance as an examination of the changing risk environment, with discussions planned on such topics as threat assessment, geopolitics, governance and the use of data.

(By Robert O’Connor, London editor: Robert.OConnor@ambest.com) June 5, 2019

Silverstein’s Natovitz: Rebuilding World Trade Towers Requires Mix of Coverages

LEESBURG, Va. -- Shari Natovitz, director of risk management for Silverstein Properties, said the real estate developer addresses issues of builders’ risk, terrorism and other concerns tied to undertaking a high-profile project. Natovitz spoke with AMBestTV at the 89th Annual Meeting of the Inland Marine Underwriters Association, held in Leesburg, Virginia.

View the video version of this interview at: http://www.ambest.com/v.asp?v=natovitz519

Following is an edited transcript of the interview.

Q: Tell us a little bit about the Silverstein Properties.

A: We’re real estate developer and owner, so we also manage the properties that we build, and we provide ancillary services. We’re also in the mezzanine loan business to other developers, and we have other related services that we provide to tenants or to outside developers. Our main focus is development. We build.

Q: What brings you to the IMUA conference?

A: Exactly because we build. One of the major coverages that we look to purchase is builders risk coverage. While the basics of builders risk sounds just that, basic,
the reality is that the delay in startup coverage, and the advanced loss-of-profits coverage, is actually very complicated and requires a significant dialogue and transparency among broker, carrier, and client.

I thought by coming here I could learn even more about what kind of information I should be providing to assure we get the appropriate coverage.

Q: You do some very big projects. Could you tell us about that?

A: Yes, we do. The first thing that people may recognize with the Silverstein name is that we’re the developer that rebuilt World Trade Center towers 2, 3, 4, and 7. In fact, all of them are complete except Tower 2, and we’re waiting for an anchor tenant before we start building that.

We’ve built about $5 billion to $6 billion worth of towers, commercial towers, within a very small area down at the World Trade Center site. Then in addition we also do non-commercial. We do residential. We do significant properties on the residential side that can run in value roughly from including soft costs about half a billion to a billion dollars in total value.

Q: What challenges do you face trying to get an insurance program together for a property that big?

A: I think from the builder’s risk side, the first challenge is always, even though it’s been a long time, the name World Trade Center Properties as it’s related to Silverstein Properties, which is always a hurdle.

The even bigger hurdle is sometimes that we predominately build in New York City. New York is one of those states that is a fire-following state. Obviously also New York City is considered a tier one as respects to terrorism.

We have that challenge of carriers understandably being concerned about deploying capacity and being exposed on the terrorism side, their concern isn’t really the all risk side. We solved that problem by, on most of our midsize projects, the $500 million and less, we do embed terrorism, and we explain our security process and so on, which is fairly robust.

For the towers, when we were building them, we actually took the terrorism out of the program, and we created a captive to cover the terrorism. We made sure that all the terrorism exposure including fire following was outside the all risks, so our carriers could perform and deploy capital without worrying about any terrorism exposure.

Q: How many companies, how many underwriters might be involved on one of your programs?

A: It depends on, obviously, the size. For example, when we were building the World Trade Center, we had upwards of 30 carriers that were involved. We split it into two groups. We did a primary half a billion with all the domestic carriers, and that had about 13 to 15 carriers involved in it.

Then we placed the excess which could be anywhere from an additional half a billion excess of half a billion, all the way up to $2.5 billion because of the size of the projects. Those would predominately be in the London and the European markets.

Q: What are you seeing with the London market pulling back some?

A: We’re just about to go out on our next project, so we don’t have any current direct knowledge. We have some idea of what’s happening there, because we completed our operational insurance coverage which London participates in.

We’re seeing a little bit of a retraction in the amount of capacity being deployed, but we also heard when we went out in November, that there were going to be massive rate increases because three hurricanes had occurred.

The reality was that that wasn’t the case at all, that the underwriters actually underwrote coverage, which was refreshing, and I admire them for it. There wasn’t a knee-jerk reaction to what was going on, and I think on our part, and it’s not just me, but as buyers, we recognize there probably needs to be more rate.

I hate to say that, and I’m not inviting rate increases from anyone, but the reality is that we’ve not always followed the market all the way down, we keep partner markets. Even if they’re slightly off what the lowest rate in the market is, we don’t make them take them off the placement, but the market’s gotten bottomed out.

We understand that. Now we don’t have NatCat properties, and our major exposure if you’re going to think about it is terrorism, and we deal with that separately with the terrorism underwriters. We recognize that we’re probably going to be facing a slight uptick in the rates for this next project.

Q: When it comes to the policy language do you face challenges because of the uniqueness of the building?

A: Yeah, we do. On the basic coverage, although I’m here to learn what I’m missing on the basic coverages, which is part of why I’m here, our focus and our concern is really the way the delay in startup/soft cost advanced loss of profits is written. It’s written with a kind of generic understanding of what should happen in the market.

I think every client is different. They’re different in what goes into the development budget, and therefore what needs to be covered, and also the way they recognize revenue. For example, for many commercial buildings and manufacturing projects, when you complete the building you can start to generate revenue. That makes sense as a trigger date then, substantial completion.

For a condominium project, and we do have residential projects, completing the building or completing the units, is not the measure of when we lose revenue. We have to
wait until somebody closes on that particular unit before we realize revenue.

Because of that and the phasing, the language has to be different. I think that’s just a question of sitting down with our broker and underwriter, and explaining the business and the way we do that, so it can be captured properly.

Q: What do you do to educate the brokers or underwriters about the unique nature of the skyscrapers?

A: We are very transparent, and this was a very difficult thing when I first started. I came to Silverstein in 2005, and at the end of 2007, we were ready to start to look to place our builders risk coverage, for example, but this also applied to all the other coverages, but predominately builders risk. We also had massive security issues. We’re very protective of information, understandably.

The non-insurance people, non-risk management people in my company were incredibly reluctant to share information, because they felt that was part of the protection for the project. It took a while to convince them that what we really needed to do was be as transparent as possible, and we created a framework for doing that, besides the typical non-disclosure, which was the least of our concerns.

We created a reading room, and we opened everything up, so everybody could see the design, the protections, and so on. All engineering and underwriting staff were invited to the reading room. They couldn’t copy anything, but they could come in and make notes and they could talk to any of our professionals on staff.

We did that in order to be able to give them what they needed to underwrite the buildings. We also did walkthroughs with them, so they can understand how we did business.

Q: I know back in the day, contract certainty was an issue. Has that been resolved?

A: Actually, no, I think contract certainty is a process. It requires continued vigilance because many forms are different, or they evolve, or new edition dates come out. When I first joined Silverstein and we were getting ready to work on the builders risk, for example, we created a manuscript form that was our initial offering to the marketplace. We, my coverage counsel, my inside counsel, my broker and their counsel, reviewed every single word in the form.

Then when we put it out in the marketplace and we started negotiating with our lead carriers, they reviewed every single word in the form. When we began to reach agreement, we actually sat down together, including their claims person and their underwriting people, and we worked through the contract together, every word, to make sure what I thought I bought from the underwriter, and what he thought he sold me, was in fact what the claims person was seeing in the event of a loss, to make sure we were all on the same page.
we found that under both scenarios, some carriers actually might see by 2022 in the cyber market future as the market continues to grow, we actually did find a handful of carriers seeing more exposure from a single incident than their total policyholder surplus.

Eslami: Of course, we should note that the losses that Guidewire came up with were gross losses. We did not take into consideration the reinsurance that companies cede out to others. We didn’t entertain or incorporate the silent cyber, which tends to increase the aggregation.

Q: What would this mean for insurers?

Eslami: This exercise was done to confirm whether or not the companies are vulnerable to major cyberattacks. Compare the information that Guidewire and AM Best came up with to the natural catastrophes of earthquakes, hurricanes, fire. We didn’t see they’re comparable. A natural catastrophe could go to several billion for companies, whereas with this exercise, a couple of billion in losses, which couldn’t have had the negative impact on the rating that some other company may have. We are gathering this information towards the goal of creating a criteria report so that in a few years, we can exercise the same impact that a huge cyberattack may have on each individual insurance company.

Hammesfahr: Again, it’s interesting to think about just having an awareness of what these cyber accumulation paths are, how you might structure your operation to take into account their exposure, and acknowledge it now before these risks get larger is really critical.

Especially in the report, we really only modeled the affirmative cyber policies that are under the kind of coverage that you see today in the marketplace. Silent cyber exposures are going to be increasingly common. I think we’re seeing carriers begin to compete in the property market, offering affirmative cyber coverage for these property damages.

Also, insurers have a complex operation themselves. It’s their direct exposure to being attacked by a cyber incident, with all the data and the business critical systems that they have. We tried to begin to lay out a groundwork for how a carrier might think about cyber exposure, given the different ways that it could affect their operation.

Q: We’re at a Captive Insurance Conference today. What do captive insurers need to know about cyber?

Eslami: Captives, because of their proximity to the parent company and I’m talking about these single-parent captives in particular, because they have the knowledge, and because they have information on all aspects of how the parent operates, their proximity to the IT, for example, to the risk management, to the treasury, they are best-suited to decide whether or not they can take a layer of cyber exposure that they may have, and buy reinsurance on top of it to make themselves protected against cyber. That’s the lesson that they can take. We have seen a number of captives having done that already. They take limited attention on cyber, and then they buy over and above it on the reinsurance side.

Hammesfahr: Just to share with these captives, the perspective of insurers and reinsurers who struggle with cyberrisk in their own way, give them the opportunity to approach the market more thoughtfully and leverage the fact that they’re using the captive perhaps to retain more of that attritional exposure, to keep more skin in the game in general, and to approach the market in a way that can help convince the market that they’re well-managed with respects to the accumulation paths that the carriers and reinsurers are worried about, will allow them to potentially get better terms and conditions in the marketplace.

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

(By Meg Green, senior associate editor, AMBestTV: Meg.Green@ambest.com) April 6, 2019

Allianz Global Corporate & Specialty Expands Global Alternative Risk Transfer Effort

LONDON -- Grant Maxwell was named head of underwriting and portfolio management at Allianz Global Corporate & Specialty S.E. as the commercial lines segment of Allianz further revamps its alternative risk transfer business.

As he fills the newly created global role, Maxwell reports to Michael Hohmann, global head of alternative risk transfer, AGCS said in a statement. Maxwell will oversee the global ART and capital solutions underwriting process and shared services, as well as portfolio management for the ART line of business, the company said.

Dan Tomlinson succeeds Maxwell as head of alternative risk transfer, regional unit London. Tomlinson is currently a senior ART underwriter in London. The rural unit London region includes the United Kingdom, Ireland, Dubai, Russia and the Nordic region, the company said.

In his new role, Tomlinson will report to Tracey Hunt, deputy chief executive officer, AGCS UK.

Tomlinson will work closely with Maxwell and the ART leadership team, including regional heads Karsten Berlage in North America, Richard Green in Asia-Pacific, and Rob Makelaar in Europe, the Middle East and Africa, AGCS said.

Both appointments are effectively immediately, the company said.

“An increasing number of our multinational customers demand more customized and sophisticated risk transfer solutions particularly around their more complex or ‘intangible’ risks,” said Hunt in a statement. The appointments of Maxwell and Tomlinson “will position us well to strengthen our bespoke solutions beyond traditional risk transfer.”
In October 2018, AGCS said it would restructure its ART business into two specialist teams. The insurance-linked markets team became a standalone line of business known as Capital Solutions, led by Richard Boyd. The remaining ART practice groups providing corporate solutions, reinsurance and climate solutions continue under the Alternative Risk Transfer name, led by Hohmann, the company said.

The company said ART serves corporate clients looking to combine nontraditional solutions with its traditional product range. “The ART offering typically includes nontraditional covers on a multiline, multiyear basis, as well as services such as fronting for captive programs for large corporate customers, as well as specialist reinsurance and bespoke weather insurance,” AGCS said.

Maxwell joined AGCS in March 2008 and has been regional head of ART for regional uni London and head of ART deal management since February 2010. Before that, he held senior roles at XL Capital and Tillinghast, a unit of Willis Towers Watson specializing in risk management and actuarial consulting.

Tomlinson joined AGCS and the ART team in 2011, and built the area of weather risk into “a growing and very successful part of the ART line of business,” the company said. He previously held senior roles at Galileo Weather & Energy and XL Capital as well as Deutsche Bank and other financial markets positions.

In March, AGCS said it made a number of changes to its board of management as it reorganizes responsibilities (Best’s News Service, March 19, 2019). On April 1, Hartmut Mai became chief regions and markets officer for the business units Central and Eastern Europe, Mediterranean and Africa, the company said. Mai took over from Chris Fischer Hirs, AGCS’s CEO, who had overseen the regions role since October 2018 on an interim basis after Andreas Berger left the company to join Swiss Re.

Also effective April 1, Thomas Sepp, at the time head of the mid-corporate business for Allianz Re, joined the AGCS board of management and succeeded Mai as chief underwriting officer corporate, based in Munich.

Allianz Global Corporate & Specialty S.E. has a current Best’s Financial Strength Rating of A+ (Superior).

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com) May 14, 2019
For comments or questions about AM Best’s rating of captive insurers, please contact:

**Americas** -
Business Development, (Oldwick, NJ) +1 908 439 2200, ext. 5576
ratings@ambest.com

**Europe, Middle East and Africa (EMEA)** -
William Mills, Director, Market Development, (London) + 44 207 397 0323
William.Mills@ambest.com
or
Riccardo Ciccozzi, Director, Market Development, (London) +44 207 397 0309
Riccardo.Ciccozzi@ambest.com

**Asia-Pacific (South East Asia), Oceania** -
Scott Ryrie, Commercial Director, Market Development (Singapore) +65 6303 5014
Scott.Ryrie@ambest.com

**Asia-Pacific (East Asia)** -
Steven Fan, Director, Market Development (Hong Kong) +852 2827 3410
Steven.Fan@ambest.com

**Middle East and North Africa** -
Vasilis Katsipis, General Manager, Market Development (Dubai) +971 4375 2780
Vasilis.Katsipis@ambest.com