July 2018

BEST'S CAPTIVE MARKETS UPDATE

News of the Alternative Risk Markets

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News of the Alternative Risk Markets from A.M. Best

A.M. 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 A.M. Best's ratings, we recognize that captives serve special purposes and with an operating style that may differ from the conventional market.

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

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Rating Actions

A.M. Best Affirms Credit Ratings of Solen Versicherungen AG and Noble Assurance Company

A.M. 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 A.M. Best categorises as strongest, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

SVAG’s balance sheet strength is supported by its risk-adjusted capitalisation being at the very strong level, as measured by Best’s Capital Adequacy Ratio (BCAR). The balance sheet strength assessment benefits from a positive holding company impact, which reflects SVAG’s affiliation with its ultimate parent, Royal Dutch Shell plc (Shell), to which it remains important as a risk management tool. Shell provides explicit sup-port to SVAG in the form of a contingent capital facility that will allow SVAG to replenish its capital quickly following a sequence of very large losses.

A.M. Best expects SVAG’s risk-adjusted capitalisation to remain very strong, supported by internal capital generation. The captive has a strong operating performance track record, largely driven by robust under-writing results, as demonstrated by a five-year average combined ratio of 35.6%. 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 size. The captive does not purchase outward reinsurance cover for the majority of its risks.

SVAG’s business profile assessment reflects its key role in the 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 FSR of A (Excellent) and the Long-Term ICR of “a+” have been affirmed, each with a stable outlook, for Noble, a member of the SVAG rating unit and a subsidiary of Shell. As a captive domiciled in Texas, U.S.A., Noble writes Shell’s U.S. business and cedes 100% of its risks to SVAG through a quota share reinsurance agreement.

June 22,2018

A.M. Best Affirms Credit Ratings of National Guaranty Insurance Company of Vermont

A.M. Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rat-ing of “a-” of National Guaranty Insurance Company of Vermont (NGIC) (Burlington, VT). The outlook of these Credit Ratings (ratings) remains stable.

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

The ratings support NGIC’s role as a captive insurance company of Waste Management, Inc. (WM) [NYSE: WM], a leading company in the waste management industry. The captive benefits from the parental support and robust risk management strategies afforded to it from WM as important factors of the company’s overall financial assurance program. The active risk management has benefited capitalization through loss prevention to generate consistently positive earnings.

Partially offsetting these factors is the large percentage of policyholder surplus loaned back to WM in the form of a 24-hour demand note that has caused liquidity measures to underperform its peers. This factor is mitigated partially by WM’s balance sheet size and operating cash flow, which could readily fulfill the loan obligation, if required. Capital levels also are monitored by the Vermont Department of Financial Regulation, which requires the company to maintain a certain aggregate exposure to capital ratio. Additionally, NGIC’s expense ratio compares unfavorably with the surplus lines composite due to the nature of the financial as-surance line of business and expenses focused on risk mitigation. However, the company has been able to reduce underwriting expenses significantly over the past five years to further benefit operating and net in-come.

Due to the nature of the relationship between NGIC and WM, changes in WM’s credit risk can have an im-pact on NGIC’s ratings, as it is dependent on WM’s ability to support its credit risk profile, competitiveness and risk management. The captive continues to be an integral component of WM’s risk management plat-form. A.M. Best’s view of third-party credit ratings and market-based credit risk measures of WM indicates stability, resulting in NGIC’s outlooks remaining stable.

Positive rating action could occur if NGIC’s operating performance materially improves while maintaining the appropriate level of risk-adjusted capitalization. Negative rating impact could occur if the company’s balance sheet strength deteriorates materially to levels that do not support its risks. Negative rating also could occur if the parent experiences financial distress and deterioration to its credit profile.

May 31,2018

A.M. Best Assigns Credit Ratings to CM Select Insurance Company; Affirms Ratings of Members of Church Mutual Insurance Group

A.M. Best has assigned a Financial Strength Rating (FSR) of A (Excellent) and a Long-Term Issuer Credit Rating (ICR) of “a” to CM Select Insurance Company (CM Select), a wholly owned subsidiary of Church Mu-tual Insurance Company (CMIC). The outlook assigned to the FSR is stable and the outlook assigned to the Long-Term ICR is positive. Concurrently, A.M. Best has affirmed the FSR of A (Excellent) and the Long-Term ICR of “a” of CMIC and its subsidiaries, CM Vantage Specialty Insurance Company (CM Van-tage) and CM Regent Insurance Company (CM Regent) (Mechanicsburg, PA), collectively referred to as Church Mutual Insurance Group. The outlook of the FSR remains stable while the outlook of the Long-Term ICR remains positive. All companies are domiciled in Merrill, WI, unless otherwise specified.

The Credit Ratings (ratings) of CM Select recognize a 100% quota share reinsurance agreement between CM Select and CMIC. Incorporated on May 4, 2017, CM Select will offer products that can be purchased online that are specifically designed to meet the needs of smaller religious organizations. CM Select is expected to strengthen the Church Mutual brand, as it will leverage CMIC’s experience and resources.

The ratings of the group reflect its balance sheet strength, which A.M. Best categorizes as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management. The rating affirmations also reflect the group’s risk-adjusted capitalization at the strongest level, as measured by Best’s Capital Adequacy Ratio, effective reinsurance program, high quality investment portfolio and consistently favorable loss reserve development trends. The rating affirmations further consider the group’s strong operating performance and CMIC’s prominent market positon within the religious community, as well as its recent diversification initiatives in complimentary markets.

CMIC maintains a competitive advantage in its niche market and continues to invest and strengthen its brand through development of new products with effective control of distribution channels through the use of cap-tive agents, independent agents, broker markets, excess and surplus lines and forthcoming E-commerce. These positive rating factors are partially offset by the group’s exposure to weather-related events and ele-vated common stock leverage.

While the outlook for the FSR remains stable, continuation of the positive outlook on the Long-Term ICR reflects the expectation of sustained strong operating performance, despite modest volatility from weath-er-related events and balance sheet strength maintained at the strongest level. Prospectively, A.M. Best an-ticipates the group’s capital positon to remain strongest with modest volatility in operating results based on management’s robust analytical tool set used to effectively manage exposure concentration and catastrophe tail risk.

May 18, 2018

A.M. Best Affirms Credit Ratings of National Grid Insurance Company (Isle of Man) Limited

A.M. 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 A.M. Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

NGICL’s balance sheet strength is supported by risk-adjusted capitalisation, as measured by Best’s Capital Adequacy Ratio (BCAR), being at the strongest level. A.M. Best expects NGICL’s risk-adjusted capitalisation to remain at the strongest level, underpinned by the captive’s low underwriting leverage and comprehensive reinsurance protection.

Prospective operating performance remains subject to volatility, due to the captive’s exposure to low fre-quency, high severity losses in its property damage and business interruption account. However, the impact of large losses on the captive’s balance sheet is partly mitigated by extensive reinsurance protection. The captive has a track record of strong underwriting performance, reflected in a five-year average combined ratio of 64% (2013-2017). NGICL has demonstrated its ability to take corrective pricing actions following large losses.

NGICL remains core to NG’s risk management strategy as its principal captive. It is well-integrated into NG’s overall risk management framework, with its primary objective being to mitigate the NG group’s European financial exposure to casualty, cyber, property damage and business interruption risks

May 10,2018

A.M. Best Affirms Credit Ratings of Palms Insurance Company, Limited

A.M. 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 A.M. 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. Nevertheless, 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 as-sumed 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 industry it operates in is fundamentally volatile.

April 26, 2018

A.M. Best Revises Issuer Credit Rating Outlook to Positive for Energy Insurance Mutual Limited

A.M. Best has revised the outlook to positive from stable for the Long-Term Issuer Credit Rating (Long-Term ICR) and affirmed the Financial Strength Rating (FSR) of A (Excellent) and the Long-Term ICR of "a" of En-ergy Insurance Mutual Limited (EIM) (Bridgetown, Barbados). The outlook of the FSR remains stable.

The Credit Ratings (ratings) reflect EIM's balance sheet strength, which A.M. Best categorizes as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk man-agement.

The positive Long-Term ICR outlook reflects positive overall favorable operating performance, which A.M. Best expects to continue to enhance EIM's already solid balance sheet strength, despite the volatile nature of the business it writes. These positive rating factors are derived from EIM's specialized expertise in providing insurance and risk management information and services to its members from the energy utility sector, as well as its ability to generate business opportunities through its niche market strategy. As a result of its strategy, EIM has strong member retention. The company remains committed to growth in capital and surplus, a well-diversified investment portfolio, and a focus on the long-term stability of the organization for its members.

May 11, 2018

A.M. Best Affirms Credit Ratings of Blue Whale Re Ltd.

A.M. Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a+" of Blue Whale Re Ltd. (Blue Whale) (Burlington, VT). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Blue Whale's balance sheet strength, which A.M. Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

The ratings also reflect Blue Whale's strategic position as the captive insurance company for Pfizer, Inc. (Pfizer) [NYSE: PFE], a leading global pharmaceutical company. As Blue Whale insures or reinsures Pfizer`s global property exposures, it plays an important role in Pfizer`s overall enterprise risk management and as-sumes a critical role in protecting the Pfizer enterprise`s assets.

Blue Whale's capitalization is very strong, albeit reliant on the parent. It operates at conservative underwriting leverage levels; however, it provides coverages with extremely large limits, and its gross exposures per loss occurrence are elevated. Although Blue Whale benefits from reinsurance protection, its net retentions remain very substantial. Reinsurance is provided by a large panel of reinsurers, and Blue Whale relies on significant capacity to support its obligations. Therefore, it is heavily dependent on reinsurance. Nevertheless, A.M. Best recognizes the quality of the reinsurers, and the substantial financial resources and support available to the captive as part of the Pfizer group.

Due to the nature of the relationship between Blue Whale and Pfizer, changes in Pfizer's credit risk can have certain impact on Blue Whale's ratings as it is dependent on Pfizer's ability to support its credit risk profile, competitiveness and risk management. The captive continues to be an integral component of Pfizer's risk management platform. A.M. Best's view of third-party credit ratings and market-based credit risk measures of Pfizer indicates stability, resulting in Blue Whale's outlooks being stable.

Positive rating actions could occur if the company's operating performance improves to outperform similarly rated peers with supportive risk-adjusted capitalization. Negative rating action could occur if underwriting performance weakens and negatively impacts risk-adjusted capitalization over time. Negative rating action also could occur if there is a material shift in risk profile that could potentially undermine the stability and profitability of the company. Additionally, negative rating impact could occur if the parent's credit profile materially deteriorates.

April 18, 2018

A.M. Best Affirms Credit Ratings of BNY Trade Insurance, Ltd. and The Hamilton Insurance Corp.

A.M. Best has affirmed the Financial Strength Ratings of A (Excellent) and the Long-Term Issuer Credit Rat-ings of "a+" of BNY Trade Insurance, Ltd. (BNY Trade) (Hamilton, Bermuda) and The Hamilton Insurance Corp. (Hamilton) (Melville, NY). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect BNY Trade's balance sheet strength, which A.M. Best categorizes as strongest, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management. In addition, the ratings also reflect Hamilton's balance sheet strength, which A.M. Best categorizes as strong-est, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Both BNY Trade and Hamilton are single-parent captives of their ultimate parent, The Bank of New York Mellon Corporation [NYSE: BK], a leading global financial services company. In their roles as single-parent captives, both companies provide comprehensive reinsurance coverage and products to their parent.

BNY Trade's rating reflects its steady growth in surplus which has been driven by its consistent premium growth and favorable profitability over the past several years. Hamilton's rating reflects its outstanding liquidity and operating performance and the contribution that its consistent level of investment income has made to its growth in surplus. Both BNY Trade and Hamilton benefit from their parent's robust, enterprise-wide policies and procedures in the areas of risk management, corporate governance, compliance and ethics.

April 19, 2018

A.M. Best Upgrades Credit Ratings of Nissan Global Reinsurance, Ltd.

A.M. Best has upgraded the Financial Strength Rating to A (Excellent) from A- (Excellent) and the Long-Term Issuer Credit Rating to "a" from "a-" of Nissan Global Reinsurance, Ltd. (NGRe) (Hamilton, Ber-muda). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect NGRe's balance sheet strength, which A.M. Best categorizes as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management. The neutral business profile considers NGRe's strategic role as a captive insurer for its parent, Nissan Motor Co., Ltd. (Nissan) [NASDAQ: NSANY].

The ratings of NGRe were upgraded based on A.M. Best's assessment of NGRe's balance sheet strength and the risks associated with its significant asset-backed securities (ABS) investments. The company's siza-ble ABS investments originate at Nissan's affiliated financing companies. Despite its substantial relative size, the underlying loans are considered of high credit quality and have been performing in accordance with expectations. These investments play an integral role in NGRe's capital resources and generate substantial cash flows that also drive a principal source of earnings for NGRe. The investment and liquidity risks related to ABS also were incorporated into this rating assessment.

NGRe is a single-parent captive of Nissan, one of the largest automakers in the world. In its role as a sin-gle-parent captive, NGRe provides Nissan with a host of insurance coverages in the United States and abroad.

As a member of the Nissan family of companies, NGRe benefits from the group's proprietary data ware-house, extensive risk management practices and loss control programs.

April 12, 2018

A.M. Best Affirms Issue Credit Rating of Redding Funding Ltd.'s Secured Notes

A.M. Best has affirmed the Long-Term Issue Credit Rating (Long-Term IR) of "a+" on the initial $1.2 billion ($905 million outstanding as of Dec. 31, 2017) of 5.75% Secured Notes (notes), due Dec. 31, 2058, issued by Redding Funding Ltd. (Redding Funding) (Nova Scotia, Canada), a wholly owned subsidiary of Wilton Re Ltd (WRL). The outlook of this Credit Rating (rating) is stable.

The notes were part of a transaction used to fund statutory reserve requirements for a block of life insurance policies ceded by Wilton Reassurance Company to Redding Reassurance Company 2, a South Carolina-domiciled special purpose financial captive insurance company. As the statutory reserve requirements are reduced, the amount of the corresponding notes also will be reduced.

At time of the issuance of the notes, the Canada Pension Plan Investment Board, the parent of WRL, con-tributed $1.2 billion to WRL, which in turn contributed the amount to Redding Funding to collateralize the notes. The collateral is to be invested under specific investment guidelines. In addition, the notes are guar-anteed by WRL; this guaranty is subordinated to all senior debt of WRL.

The rating affirmation represents A.M. Best's current opinion as to the issuer's ability to meet its financial obligations to the noteholders when due. The rating takes into consideration primarily the following: the notes issued are collateralized by a pool of invested assets, which as of Dec. 31, 2017, other than a small amount in a money market fund, were entirely invested in U.S. Treasuries; the potential losses of the collateral portfolio due to defaults and lack of marketability of the investments over the notes legal maturity period; and the support provided by WRL as guarantor of Redding Funding's payment obligations.

The Long-Term IR could be upgraded or downgraded and/ or the outlook revised if material changes occur in the credit ratings of the underlying collateral or the Long-Term Issuer Credit Rating of the guarantor.

April 13, 2018

Methodology Sources

The methodology used in determining these ratings is Best's Credit Rating Methodology, which provides a comprehensive explanation of A.M. 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.

These press releases relate to credit rating(s) that have been published on A.M. Best's website. For additional rating information relating to these releases and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this document, please see A.M. 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 A.M. Best press releases, please view Guide for Media - Proper Use of Best's Credit Ratings and A.M. Best Rating Action Press Releases. .

Reports

Best's Special Report: Current Variable Annuity Reserve and Capital Requirements Challenging U.S. Life/ Annuity Insurers

Changes geared toward reducing non-economic volatility in the calculation of reserving and capitalization levels for certain variable annuity products could eliminate the need for these U.S. life/annuity insurers to use captive reinsurance to manage risks.

Misaligned elements under current reserving and capitalization practices have challenged the ability of life/ annuity writers to effectively manage the risks associated with minimum guarantee benefit products, ac-cording to a new Best's Special Report. In an effort to reduce the resulting non-economic volatility, variable annuity writers reinsure this business with affiliated captives, in order to better align risks with hedging pro-grams.

Efforts underway by the National Association of Insurance Commissioners (NAIC) would modify these re-serve and capital requirements so that non-economic volatility is diminished, according to the report, titled "Current VA Reserve and Capital Requirements Challenging L/A Insurers."

The NAIC has worked in conjunction with Oliver Wyman, which has conducted two quantitative impact stud-ies with large variable annuity writers and made recommendations to the NAIC in December 2017. Regulators and other industry groups are reviewing these recommendations; the timing of final implementation of the changes is difficult to determine at this point.

A primary recommendation involves changing the accounting treatment for such hedges to better align them with the respective liability. Hedges are currently marked to market, leading to non-economic volatility. Amortizing the cost of hedges over a period closely matching the liabilities will minimize this volatility, according to the Best's Special Report.

Although the recommended changes will help fix various flaws in the existing framework, the potential for greater volatility in the equity market will challenge variable annuity writers. Hedging is not the only answer, but the solutions available are limited, as reinsurance has dropped off, according to the report.

"The use of captive reinsurance is likely to decline significantly, as a result of the recommended changes," said George Hansen, senior industry research analyst. "So long as true economic values and those of vari-ous accounting regimes differ, the use of alternative financing methods will continue."

Data from A.M. Best's supplemental rating questionnaire highlights the status of variable annuity reserve and capital components through 2016 and illustrates the conservative reserving relative to capital that can result under the current framework. A.M. Best's SRQ data also tracks the funding status of guaranteed minimum benefit riders attached to variable annuities, and with recent market gains, the guaranteed withdrawal amounts still exceed the account values on hand at year-end 2016 compared with other guaranteed benefits.

The report notes that variable annuity writers have increasingly hedged products with guaranteed minimum withdrawal benefits since 2011, but these have the least exposure when compared with three other types of guaranteed minimum benefits. Variable annuity products with guaranteed minimum death benefits remain the most exposed, creating more exposure to mortality risk.

To access the full copy of this special report, please visit http://www3.ambest.com/bestweek/purchase.asp?record_code=273756 .

May 23, 2018

Best's Briefing: Alternative Captive Strategies Contemplated in Wake of Tax Reform

The impact of tax reform is a mixed bag for captive insurance companies, although in some cases, it is a positive for offshore captives that have made the Section 953(d) election under the Internal Revenue Code, which allows them to be taxed as a U.S. corporation, according to a new A.M. Best briefing. However, some parent companies are considering alternative captive strategies because of the sweeping changes.

The intent of the Best's Briefing, "Tax Reform: No Impact on Captive Ratings Anticipated," is to outline how certain provisions of Tax Cuts and Jobs Act may affect captives, with the caveat that the vast differences in corporate formations, the ways in which business is transacted and the jurisdictions in which the companies operate makes a "one size fits all" assessment as to how tax reform has impacted captives is impracticable.

Although the new tax law changes apply to the 2018 tax year, the reduction in the corporate tax rate, along with the repeal of the alternative minimum tax, benefits captives in 2017 as the rate reduction required that captives revalue their deferred taxes at the new lower corporate tax rate of 21%.

To date, tax reform has not affected the Credit Ratings of A.M. Best-rated captives. In many cases, the re-duced corporate tax rate has resulted in higher net income, but for others, changes to the business structure may have affected operating performance. U.S.-parented captives in foreign domiciles are working to achieve the most efficient solutions from an operations and cost perspective. Management teams consider-ing strategic alternatives in the wake of tax reform continue to keep A.M. Best abreast as they contemplate changes to existing business or new corporate formations.

To access the full copy of this briefing, please visit http://www3.ambest.com/bestweek/purchase.asp?record_code=274749 .

June 19, 2018

Regulation

Microsoft Captive Ordered to Halt Operations for Allegedly Failing to Pay $1.42 Million in Taxes

Washington Insurance Commissioner Mike Kreidler has ordered a Microsoft captive insurer to cease busi-ness in the state, in part because it allegedly failed to pay an estimated $1.42 million in premium taxes.

Kreidler halted the operations of pure captive insurer Cypress Insurance Co., effective immediately on May 9. Cypress has 90 days from that date to ask Kreidler for a hearing on the matter.

Cypress was ordered to immediately cease engaging or transacting in the unauthorized business of insur-ance in the state or seeking any business in the state, the department of insurance said.

Cypress had collected approximately $571,194,935 in premium from Microsoft Corp. while insuring it be-tween 2013 and 2018, but allegedly had not paid premium tax to the state during that time.

Cypress Insurance Co. was admitted as a captive insurance company in Arizona, where it is domiciled, on July 1, 2008, the DOI said. It is a pure captive that solely insures the Microsoft Corp. family of companies.

Cypress does not hold a certificate of authority to conduct insurance business in Washington state, the DOI said. Also, Cypress does not hold a Washington state surplus line broker's license to place non-admitted insurance in Washington and Cypress' insurance coverage is not placed through surplus line brokers licensed in Washington. Microsoft will be allowed to fulfill the terms of contracts set before the state's order took effect.

Attempts to gain comment from Microsoft Corp. were not immediately successful.

(By Thomas Harman, Washington Bureau manager, BestWeek: Tom.Harman@ambest.com).

May 16, 2018

Captive Regulators: Our Biggest Challenge Is Keeping Up With Regulations

Representatives of Vermont, Bermuda and the Cayman Islands said the pace and breadth of rules and changes, both international and domestic, adds to the work of overseeing large and growing captive populations. The regulators spoke with A.M. BestTV at the Risk and Insurance Management Society's annual conference in San Antonio.

View the video version of this interview at: http://www.ambest.com/v.asp?v=rims6418

Following is an edited transcript of the interview.

Q: Joining us now is Leslie Robinson, assistant director of the Bermuda Monetary Authority, David Provost, deputy commissioner from Vermont, and Ruwan Jayasekera, head of insurance for the Cayman Islands Monetary Authority. What are you seeing in the pipeline for new captives coming in? Are you seeing any new risks as well?

Robinson: I want to set the stage for how Bermuda is at this present moment with our captives. We have 739 captives on our register as of Dec. 31, 2017. They are writing approximately $54 billion in gross written premiums. As far as 2017 and our pipeline, we were able to form 17 new additional captives and that con-curs with 13 in 2016. The new captives hail from primarily the United States but also from Canada, Europe and Latin America. The coverages are somewhat the traditional ones like general liability and auto. We also are seeing more medical-related captives forming in Bermuda as well.

Q: What are you seeing in Vermont?

Provost: Pretty much the same. Folks talk a lot about the new and exciting things in captives. It's pretty much still property cash flow, GL, medical malpractice, medical stop-loss and workers' comp. The parent companies are all very interesting and exciting but their captives are generally plain vanilla.

We've licensed 11 companies already this year. We haven't gone a week yet this year without a license in process. We still have plenty of licenses that are expecting to come in. Again, pretty plain vanilla risk. We are starting to talk with folks about blockchain and cryptocurrency and all that but haven't seen anything come in as far as a true application yet.

Q: What are you seeing in Cayman?

Jayasekera: Cayman is pretty much in the same situation. We had a very good 2017 in terms of new for-mations, about 33. So far this year, five licenses and about eight approved as of end of quarter one. Similar growth. That's new formations. We are also seeing the expansion of existing programs, plus our group cap-tives are doing pretty well too.

I was speaking with one of the insurance managers only handling about 35, 40 groups. They have said over the years the amount of growth that they reported, especially last year, the addition of new shareholding insurance. The growth is clearly visible in terms of lines of coverage. It's pretty similar, traditional plus some innovation included. We have seen in Cayman some pollution exposures being written and coin-based un-derlying risks. It's pretty similar experience.

Q: What would you say the biggest challenge you face as a regulator of captives is?

Provost: It boiled down to just the sheer volume of what's going on. We have 600 captives in Vermont, 700-plus in Bermuda, 700 in Cayman. We all have a lot of work to do just with the companies that we regu-late. Then you have to keep up with the NAIC standards. You have to keep up with international accounting and insurance standards. Just keeping up with what's going on in the world is starting to become a big chal-lenge for the industry and for regulators. Individual company issues, those are individual company issues. They don't really impact us on a broader scale but just the volume of what we do is getting to be big.

Jayasekera: Exact same experience. They come in different sizes, shapes and complexities. One thing I wanted to share with you is the corporate governance. Now it's understood, these captives especially are outsourced functions. That's how it works. I think we have certain types of captives. We have to keep re-minding them that after all this is an insurance operation. The board needs to take their job very serious, especially compliance matters.

We keep reminding them and we have issued guidance to support them because they bring in a lot of expertise in their own industries and their own trades but they don't really have the insurance expertise. They think that, "Oh, I'm the shareholder. My representatives should be on the board," which is fine.

However they should have that sophistication and knowledge to understand and challenge the service pro-viders just to make sure that the service providers take the right decisions on their behalf. That's something that we keep slightly challenging to educate captive boards that you have that role, you can't just ignore that.

Q: Leslie, what would you say?

Robinson: For us, I will agree with what my colleagues here in the panel were saying. I would also say for us in Bermuda, it's really about keeping pace with the changing state of technology. What we've done in recent years, we've been consulting with industry regarding our own electronic filing platform. In 2017, we were able to launch that for all of our captives. Now they are reporting to us their financial returns via electronic means.

The electronic platform has also helped us to capture more robust data on the captives, particularly on lines of coverage that they write, as well as on the geographical spread of risk. In 2018, we are going to be launching our new Integra system, which is going to replace our corporate registration processing system.

This is the system that is used when companies first form in Bermuda. When they first incorporate they would submit applications over our current CRP. That is going to be changed into our Integra system. Again it's going to allow for more robust data to be collected and also for us to be able to produce statistics in better fashion and in more real-time.

Provost: Data was one of the things on my list because a lot of people are asking us for what are our com-panies doing, what lines of business are they writing, how much premium volume. Data is king.

Q: What are you hearing about the potential impacts stemming from the changes to the U.S. corporate tax?

Jayasekera: That's a very interesting question. What we hear from the industry is that Cayman local is busi-ness largely unaffected. The industry body had conducted a survey and the outcome of the survey is that they believe only about 2% of the total licenses, about 700, are things that they may have to change jurisdiction because of tax reasons.

So far we have seen this year is an indication that people are forming captives for right reasons. Tax effi-ciency is good. It's part of the cost efficiency, but definitely most of them aren't putting that in the center of everything. Tax avoidance is definitely a no-no. What the act is trying to achieve and what our responsible jurisdictions actually is an exact same thing. Use captives for right reasons.

Secondly, our local business in Cayman, if you look at it, it's mostly captives owned by health care systems, not for profit and 935(d)s and some group captives. They are largely unaffected.

From Cayman's point of view, we are extremely critical why companies are formed in Cayman. We ask what's the business reason. Unless the risk management is at the center of everything, we will be a little strict, especially the companies that are presented with all these holding companies in different parts of the world. Unless they really explain the business rationale for this, we would basically say "no" to those companies. Overall, it has contributed for us to remain still robust without much of an impact.

Robinson: For Bermuda, we have a similar experience. Captives in Bermuda are forming primarily because of being able to take advantage of our robust reinsurance market. They're also forming because we have highly skilled intellectual capital in the form of our service providers that provide advice. Also because of our pragmatic risk-based regulator. Where there may be some concerns with structures and/or programs, the regulator along with the service providers are always here to help and assist and to be able to come up with a workable solution that's within the confines of our framework.

Q: What are you hearing?

Provost: Pretty much the same. We're obviously a U.S.-based state. Almost all of our companies are U.S. companies. The change in the tax rate from 34 to 21% impacted some companies. It reduced the value of the deferred tax assets. That was a negative for them but in the future they're going to pay less taxes. They're very happy about that.

It cut the value of an 831(b) captive back in half almost, back to essentially what it was before when the limit on premiums was $1.2 million. That's a neutral impact on most U.S. companies.

The BEAT [Base Erosion Anti-Abuse Tax] is something we don't know what's going to happen with that yet. That's a little scary. I expect we'll see some companies restructuring, maybe re-domesticating, maybe just taking 953(d) election instead of what they're doing now. I really don't know what the impact will be but we'll see something I'm sure.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
May 19, 2018

NAIC Gives Panel OK to Begin Work on Model Law to Extend Covered Agreement to Non-EU Jurisdictions

National Association of Insurance Commissioners panels have been given the go-ahead to draft a model law extending similar terms of the U.S.-European Union covered agreement regarding reinsurance collateral reductions to non-EU qualified jurisdictions Bermuda, Japan, Switzerland and a post-Brexit United Kingdom.

The NAIC's move is in response to the September 2017 signing of the covered agreement on prudential in-surance and reinsurance that led to elimination of collateral and local presence requirements for EU and U.S. reinsurers operating in the other's markets (Best's News Service, Sept. 22, 2017). The NAIC Financial Con-dition Committee in March asked the NAIC's Executive Committee to approve the process for the financial panel to begin work on redrafting the rules to expand covered agreement participation (Best's News Service, March 26, 2018).

The recent vote means the Financial Condition Committee will work on amending two Credit for Reinsurance Model Law regulations to include the changes, the goal being to have that work completed for Executive Committee approval by year's end.

States must take action on reinsurance collateral provisions within 60 months, or face potential federal pre-emption by the Federal Insurance Office, according to an NAIC memorandum.

The changes would make the Credit for Reinsurance model law and regulation conform to covered agree-ment requirements with respect to EU reinsurers and provide reinsurers domiciled in NAIC-qualified jurisdic-tions outside the EU with similar reinsurance collateral reductions as those to be implemented in the covered agreement signed last fall, among others.

Florida Insurance Commissioner David Altmaier, who chairs the Financial Condition Committee, said before the latest vote that domestic insurers and trade groups believed the changed reinsurance model should in-corporate the standards included in the covered agreement. "The most noteworthy of those of is an agree-ment that there would be a recognition of states' approach to group supervision, including our group capital calculation," he said.

The group capital calculation is being designed to include information on potential risks to policyholders that originate from outside insurance companies, as well as the location and sources of capital in the group. NAIC's group capital calculation working group is still in the early stages of developing the calculation, most recently wrestling over how the calculation should address captive insurers.

(By Thomas Harman, Washington Bureau manager, BestWeek: Tom.Harman@ambest.com)

April 18, 2018

IRS Rules Should Not Impede Microcaptive Ability to Mitigate Risk, Market Observers Say

Internal Revenue Service efforts to modify rules for 831(b) captives should not hamper their effectiveness as risk-mitigation vehicles for small businesses or create headwinds for the larger captive insurance industry, trade representatives and market observers said.

It is no surprise the IRS has once again listed the 831(b) captives on its "dirty dozen" list of taxation scams, said Ryan Work, senior director of government relations for the Self-Insurance Institute of America. The IRS is concerned some 831(b) captives are being marketed for abusive purposes in estate planning rather than risk mitigation.

"We're all for going after the abusers but the IRS needs to take the data they have and understand that the vast majority of captives working in this space are doing things the right way," Work told Best's News Ser-vice.

"Our issue with the IRS is that, look, you have been given some tools and issued notice but you have yet to issue guidance," he said. "If you are so concerned about the 831(b)s to put them on the 'dirty dozen,' why haven't you issued guidance."

The industry anticipates the IRS will soon release guidance as a follow up to a 2016 notice issued on micro-captive insurance transactions.

Congress has also pushed for tighter regulation. The 2017 Protecting Americans from Tax Hikes Act estab-lished strict diversification and reporting requirements for new and existing microcaptives.

The PATH act also contained a threshold increase from $1.2 million to $2.2 million of the tax-deductible pre-mium amount parent companies can contribute to 831(b) microcaptives. Previously, it had not changed since the 1986 act. The threshold is now indexed to inflation.

In the "dirty dozen" listing, the IRS noted 831(b) microcaptives can be used by promoters, accountants or wealth planners to persuade owners of closely held entities to participate in schemes that are not genuine insurance.

"Microcaptives may invest in illiquid or speculative assets or loans or otherwise transfer capital to or for the benefit of the insured, the captive's owners or other related persons or entities," the IRS said in a statement. "Captives may also be formed to advance inter-generational wealth transfer objectives and avoid estate and gift taxes."

The 831(b) coverages may insure implausible risks, duplicate commercial coverages with premiums signifi-cantly higher than those for comparable commercial coverage or simply fail to match genuine business needs, the IRS said. Premium amounts may be unsupported by underwriting or actuarial analysis and may be geared to a desired deduction amount as a tool for wealth management.

The 831(b) captives also known as microcaptives or enterprise risk captives emerged from tax law changes in 1986 as an effort to help farm mutuals and small- and medium-size businesses mitigate risks they couldn't necessarily do in the commercial market. Since then, the 831(b) captive space has grown be-yond just the farm mutuals. It's now used as a much larger risk mitigation tool for family-owned small busi-nesses, medium-size businesses (Best's News Service, Jan. 5, 2016).

Daniel Towle, president, Captive Insurance Companies Association, said he was unaware of any association members taking the 831(b) election.

"Any real or perceived abuse of the IRS Tax Code by small captives is not good for the entire captive in-surance industry and represents the minority of the market," Towle told Best's News Service. "Captive in-surance companies that take the 831(b) election represent a very small segment of the overall captive in-surance market."

In a widely watched court case last year, the U.S. Tax Court disallowed premium deductions a taxpayer had claimed under an 831(b) microcaptive arrangement, concluding the arrangement was not insurance. The court ruled the taxpayer's arrangement failed to distribute risk and that the taxpayer's microcaptive was not a bona fide insurance company. The court pointed out a range of problems the IRS has also identified, such as grossly excessive premiums, non-arm's length contracts and an ultra-low probability of claims being paid.

Microcaptives should anticipate more IRS scrutiny of their tax returns this year, said Courtney Claflin, execu-tive director, captive programs, University of California, office of the president.

"If you are on a 'dirty dozen' four years in a row, the IRS agents probably have the red flags built into their software," Claflin told Best's News Service. "What they are doing is going after them and auditing them."

"A captive that takes the 831(b) selection is not a bad thing," he said. "But there are bad 831(b) captives out there."

"At the end of the day there is a lot of pollution out there that needs to be cleaned up," he said.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)
April 7, 2018

Domiciles

North Carolina Lawmakers Exempt Out-of-State Captives From State Taxes

North Carolina will exempt all U.S. captive insurers chartered outside of the state from paying state taxes on premiums earned, thanks to a new law.

The provision is part of Senate Bill 99, a budget bill that became law after lawmakers overrode Gov. Roy Cooper's veto. It prohibits the Department of Revenue from taxing premiums earned by an out-of-state char-tered or licensed captive doing business and insuring risks in North Carolina, according to Lane Brown, North Carolina Captive Insurance Association's vice president for governmental affairs. The tax exemptions are for premium taxes, corporate income taxes, franchise taxes, privilege taxes and insurance regulatory charges imposed by the state Department of Insurance.

The new law stands in contrast to laws in states such as Tennessee, which imposes a procurement tax on captives chartered outside their domicile, but insure risks for companies doing business in Tennessee, Brown said.

The NCCIA tried unsuccessfully to amend the legislation to provide the same exemptions for non-U.S. "alien" captives that insure North Carolina risks. Brown said the move was NCCIA's attempt to raise "fairness and equal protection issues."

North Carolina has been a captive domicile for only five years (Best's News Service, June 24, 2013). Brown said it has been the state's policy since then to encourage captives to re-domesticate to the state. He said further amendments will be sought in the 2019 legislative session when other technical amendments to the state's captive insurance law are considered.

According to the DOI, the state currently has 233 licensed captive insurers. Of those 179 are pure captives, 26 are protected cell captives, 20 are special purpose captives and eight are risk retention groups.

(By Thomas Harman, Washington Bureau manager, BestWeek: Tom.Harman@ambest.com).
July 6, 2018

Tennessee Captive Director: Sponsors Turn to Captives to Support Voluntary Benefits

Michael Corbett, director of the captive section for Tennessee, said some types of voluntary benefits, which are typically outsourced to providers, could instead be handled by organizations through their own captive insurance company. Corbett spoke with A.M. BestTV at the Risk and Insurance Management Society's an-nual conference in San Antonio.

View the video version of this interview at: http://www.ambest.com/v.asp?v=corbett418

Following is an edited transcript of the interview.

Q: What are you seeing in terms of new captives coming online?

A: The pipeline is still extremely active for us. The protected cell legislation's been particularly attractive to a lot of captives.

Most recently we started hearing an awful lot about captives wanting to get started in the voluntary benefits area, which I think is a really unique opportunity for those corporations that typically go to third parties to fulfill voluntary benefits. Everything from additional life and casualty, to pet insurance, to all those things that matter to employees, which are typically served by third parties, can easily be done in a captive. It's exciting space that we're hoping to see a lot of traction on this year.

Q: Are those existing captives expanding, or brand new captives coming?

A: Those are brand new captives and brand new ideas that are coming to the marketplace from pretty so-phisticated developers.

Q: What are your year-end 2017 results?

A: We had another great year. We're about a $1.2 billion in premium this year, which is a number that always captures the legislature's, the governor's, and the commissioner's attention.

We're very pleased. We've had another outstanding year with developing captives.

The economic development side of it hasn't been completely worked out, but I believe it will be approaching the $800 million a year mark, which is a very good number for a state like Tennessee.

Q: What are you hearing here at RIMS?

A: Without throwing too much of a shout-out to a third-party provider, I just got out of a luncheon with Marsh, which was strictly captive related. It was standing room only, several hundred people listening about Marsh's captive initiatives.

That is really important, that companies like Marsh, Aon, and Willis, and the large independents are really starting to gain traction with separate captive insurance audiences at places like RIMS. I am so excited I can barely stand still. I'm not standing still.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
May 16, 2018

Hawaii's Acting Deputy Commissioner: Large Share of Captives Coming From Asia-Pacific Region

Andrew Kurata, acting deputy commissioner and captive insurance administrator, Hawaii, said the Asia-Pacific region is the domicile's second-ranked source of captives, with 10% from Japan. Kurata spoke with A.M. BestTV at the Risk and Insurance Management Society's annual conference in San Antonio.

View the video version of this interview at: http://www.ambest.com/v.asp?v=kurata418

Following is an edited transcript of the interview.

Q: What are you seeing in terms of new captives and new risks coming into the captive industry in Hawaii?

A: 2017 was a very strong year of growth for captive insurance in Hawaii. We licensed 30 new captive in-surance companies, which is tied for the most that we've ever done in a single year. Last year was a very large year. In terms of the type of coverages, they've been varied. We have some cybersecurity risk which is a popular thing now. A lot of companies are using their captive to write the risk and reinsure an excess por-tion of it. We've also seen some of our normal coverages that we normally do, like general liability, compre-hensive general liability, things of that nature. In terms of the industry groups that have come in, last year a lot of the 30 were from the financial services sector and the rest were scattered in our other various industry groups.

Q: Where are the captives coming from? Where are the parents located?

A: Traditionally we have a lot of our captive owners that are in the western United States and that has con-tinued to be so. A lot of the growth with the 30 new captive insurance companies comes from the Asia-Pacific area. We've seen significant growth there. Traditionally that's been our smallest area that we track. As of Dec. 31, 2017, when we break down our owners by groups between the Western United States, Central and Eastern and then the Asia-Pacific side, the Asia-Pacific is actually our second-most. Currently, we have 28 licensed captive insurance company owners from the Asia-Pacific area.

Q: What percentage come from Japan, specifically?

A: Right now, we have 230 captive insurance companies licensed in Hawaii. I would say it's approximately 10%.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
May 9, 2018

Vermont Governor Signs Bill Allowing Reinsurance Alternative for Companies Impacted by Excise Tax

Vermont Gov. Phil Scott signed legislation to offer an onshore affiliated reinsurance alternative for those insurance companies impacted by congressional passage of a tax on reinsurance ceded to offshore affiliates.

The Base Erosion Anti-Abuse Tax on reinsurance ceded to offshore affiliates was passed by Congress as part of the Tax Cuts and Jobs Act. BEAT applies a 10% excise tax on outbound payments to non-U.S. affiliates of large domestic insurers, which David Provost, deputy commissioner of the state Captive Insurance Division, said makes reinsurance to offshore domiciles less attractive to some companies.

The new Vermont law allows U.S. insurers to form affiliated reinsurance companies in Vermont. He likened it to a special purpose financial captive, without a requirement for a securitization transaction.

"Rather than imposing specific detailed limitations on a company's investments, the law requires each affili-ated reinsurer to present an investment plan for regulatory approval," Provost said in an email. "The plan must address diversity and liquidity, but does not need to follow antiquated rules."

He said the new companies are "halfway between a captive and a traditional company," because they will have limited transactions with professional insurers, but not the general public. He said these will qualify as multi-state insurance companies under National Association of Insurance Commissioners accreditation guidelines and will follow NAIC accreditation standards.

Rich Smith, president of the Vermont Captive Insurance Association, told Best's News Service that while the new law does not directly impact captives, it has the potential to open up more business for captive insur-ance providers both in Vermont and elsewhere.

In February, A.M. Best commented anticipated structural changes to certain reinsurance arrangements be-tween affiliated insurance or reinsurance companies, prompted by the recent U.S. tax reform law's enact-ment, could impact the rating agency's assessment of group rating affiliations (Best's News Service, Feb. 6, 2018).

A.M. Best expects its rated U.S.-domiciled insurers and reinsurers to make significant changes to material financial arrangements, such as quota share, excess of loss or stop-loss reinsurance agreements with for-eign affiliates, in response to the BEAT measure, according to a Best's Briefing.

Material changes to a reinsurance agreement, or outright non-renewal, for any reason, could affect A.M. Best's assessment of whether a parent is willing and able to provide explicit support to an affiliate, it said.

However, A.M. Best said it expects tax reform to be a net positive for the financial position of U.S. proper-ty/casualty insurance companies and U.S.-parented global insurers and reinsurers.

(By Thomas Harman, Washington Bureau manager, BestWeek: Tom.Harman@ambest.com).
May 21, 2018

BMA Sees Rise in Reinsurance Registrations at Beginning of 2018

Despite a challenging market, the Bermuda Monetary Authority said it saw an uptick in reinsurance registra-tions during the first two months of 2018.

The BMA reported registrations for one intermediary and 11 reinsurers, including three Class E long-term life commercial reinsurers and one Class 4 general business commercial reinsurer. Class 4 and Class E rein-surers are the largest entities on the Bermuda register.

The number is up from five new reinsurers and no intermediaries during the same period a year ago.

"The increased reinsurance activity follows on the heels of the third anniversary of Bermuda being placed on the National Association of Insurance Commissioners' qualified jurisdiction list," which became effective on Jan. 1, 2015, Craig Swan, BMA managing director, supervision insurance, said in a statement.

It also marks the second year Bermuda achieved full equivalence under all three articles of Solvency II, Swan said. Bermuda achieved full equivalence on March 24, 2016. The BMA regulates the financial services sector in Bermuda.

"The BMA is pleased to see these increased reinsurance registrations, despite challenging market condi-tions," Swan said.

Earlier this year, the BMA said it had a total of 739 active captive insurance licenses on its register as of Dec. 31, 2017. Seventeen new captives registered in 2017, compared to 13 in 2016. The majority originated from the United States but also included new captives originating from Europe, Canada, Australia and Latin America, Jeremy Cox, BMA's chief executive officer, said in a statement in February.

In 2015, the BMA reported 64 new reinsurance company registrations. That year, registrations included 22 limited purpose insurers or captives, a 38% increase from the previous year (Best's News Service, Jan. 15, 2016).

(By Marie Suszynski, BestWeek Correspondent: Marie.Suszynski@ambest.com).
April 4, 2018

Delaware Captive Director: Group Capital Standards Should Recognize States' Assessments

Steve Kinion, director, captive and financial products, Delaware Department of Insurance, wants the Nation-al Association of Insurance Commissioner's working group on capital standards to give a prominent role to review work done by states. Kinion spoke with A.M. BestTV at the Captive Insurance Companies Associa-tion's International Conference in Scottsdale, Arizona.

View the video version of this interview at: http://www.ambest.com/v.asp?v=kinion318

Following is an edited transcript of the interview.

Q: What's going on with group capital at the NAIC level?

A: There's a lot going on with group capital at the NAIC level. The NAIC has established what's known as the Group Capital Calculation Working Group, which is chaired by Insurance Commissioner David Altmaier from Florida, who's doing a very good job, a very able job. There certainly are some divergent views in respect to how to treat life reinsurance transactions, otherwise known as XXX or AXXX life reinsurance transactions. Of course, those involve XXX and AXXX captives. There are a lot of divergent opinions on that and two sepa-rate camps. Commissioner Altmaier is doing his best to balance those.

Q: What does it all mean?

A: Back in 2015, the NAIC deemed it important to develop a group capital calculation for determining the strength of insurance groups as a whole, as opposed to the individual insurance company method of regulation that we practically or normally apply here in this country. In respect to what is going on internationally with international capital standards, that was an approach the NAIC has taken. It's a good approach. It should be taken.

Q: How would it apply to the XXX and AXXX captives?

A: There are three potential outcomes in terms of how it would apply to XXX and AXXX captives. The most extreme outcome is that a reinsurance transaction involving these types of captive insurance company would be completely unwound and not taken into account for a group capital calculation. That would proba-bly create what's known as a false positive, meaning that the group would look less strong than it actually is.

The second approach is one in which credit would be given for what state regulators have deemed to be giving credit for a reinsurance transaction involving these types of captive insurance companies but with what's called a top-up or an on-top adjustment. Again, that's not specified in terms of what it means but what that approach takes away is what state regulators have deemed to be the best approach in terms of regulating these captives.

Finally, the third and what Delaware believes is the best approach, is this: To give credit, to give recognition to the regulatory forms and formats that regulators and individual domiciles have deemed are the best for these types of captives. In other words, if a captive domicile like Delaware has deemed a reinsurance transaction such as this good and has applied certain standards to that, then those standards should be recognized. No one has yet identified a solvency problem with XXX or AXXX captives. That's why Delaware believes this is the best approach.

Q: How does it all relate to the covered agreement?

A: It relates in this fashion: The covered agreement requires that the United States develop a group capital assessment model, or a group capital calculation, for groups that will be doing business in the European Union. What the covered agreement does not say is how that group capital assessment, or that calculation, must be determined. In other words, what type of formula must be used. The covered agreement makes no mention in terms of what captive insurance companies or how they should be treated within the covered agreement.

Therefore it applies to the covered agreement in respect to this: By 2023, when the covered agreement would take effect, the NAIC, or the United States, must have a group capital model developed for U.S. in-surance companies doing business in Europe. Therefore it is important, it's incumbent upon the NAIC to develop this group capital model.

Q: Is there international pressure on how captives should be treated as a result of this?

A: No, there is no international pressure on this. That's what makes this somewhat unique in terms of debat-ing this issue. If there is no international pressure then there is really is no pressure internally within the group capital working group to modify the approach of individual states such as Delaware and other states that have licensed these types of captives, these XXX and AXXX captives. If we deem they are doing a good job then that approach should be taken. There has been no international pressure from international organizations such as IAIS that says the United States must treat XXX or AXXX captives in a certain way. I tend to view this from the perspective that if no one is asking us to make a change then why should we do so and essentially bargain away our position and bargain against ourselves?

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com)
April 6, 2018

Companies

Multi-Strat Chairman and CEO Sees a Market in Repackaging Casualty Risk

Bob Forness, chairman and chief executive officer, Multi-Strat Re, said the reinsurer is targeting larger in-vestors with an appetite for aggregated casualty risk, including workers' compensation, automobile and other lines, many with longer tails. Forness spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=forness618

Following is an edited transcript of the interview.

Q: What does Multi-Strat Re do?

A: Multi-Strat is a reinsurance company here in Bermuda. It's also an advisory company in the U.S. in the capital markets. It's a group that works on captives and insurance runoffs also in the U.S. We're essentially a specialist reinsurer that focuses on investors.

Q: What are you doing with the ILS market?

A: A lot of investors became used to investing in reinsurance products through ILS cat bonds and similar. We're looking at casualty reinsurance, and how to package casualty reinsurance transactions and make them available to hedge funds, to alternative asset managers, to family office investors.

Q: Can you walk me through that process? How does that work?

A: Sure. It's traditionally reinsurance underwriting, so you're looking at transactions that are available in the market. We try to put a collateral structure together, usually like a structured risk opportunity or customer risk opportunity. We'll have a cap on the program.

We tend to then put together terms that make sense from an underwriting perspective, an insurance under-writing perspective, and then from a capital markets investor perspective, such that when we put the transac-tion together, the investor sees an adequate rate of return, and the reinsurance client has the type of protec-tion and capacity they're looking for in a standard reinsurance product.

Q: Is it a bespoke product tailored to that investor's needs?

A: The products we're writing are fairly similar in terms of things we've done before, so quota shares for per-spective underwriting and loss portfolio transfers for retrospective risks. That's fairly similar to products that have been available for a long time.

What you have to do is match the investors' appetite for classes of business, duration, volatility, frequency, and try and put together something that fits their appetite.

Also, investors come in all different sizes. Sometimes, they're looking for larger transactions and deploying more capital. Sometimes, they're looking for smaller transactions. We do spend a lot of time making sure the reinsurance opportunity matches our investor.

Q: What types of business would go into those?

A: Interestingly, we can pretty much package any type of casualty business is really what we focus on. Workers' comp, general liability, professional liability, health care liability, trucking, nonstandard auto, and similar classes can all be put together as a single casualty reinsurance transaction and taken to one or more investors to consider.

Q: In the nat cat bond world, they tend to be fairly short programs. How long are the tail on these?

A: As a standard casualty product, they can be as short as an auto product. That might be an average dura-tion of a year and a half to two years. It could be as long as a workers' comp risk. That might be an average duration of three and a half, four years and have a tail that goes to much longer than that.

Thinking about it, it's a traditional duration of a casualty reinsurance product but packaged such that there's some type of end date. There might be a commutation date. There might be an opportunity to resell the tail on to another investor.

Or it could be the clients have just agreed to reinsure that portfolio of business for five or seven years, and they agree to take the risk back after that period of time.

Q: Is there a secondary market?

A: There's a secondary market because as new investors come in to consider the casualty reinsurance transactions we offer, those investors see those as new transactions.

If they're looking for loss-portfolio transfers, then obviously, if they're looking at it for the first time, they don't see a transaction that's already matured for five years, let's say. They see a new portfolio risk with a stated potential duration. They're happy to invest in it from that point in time.

We'll take a risk we've already written, and we'll show it to a new investor and essentially create a secondary market that way.

Q: What type of investors would be drawn to this type of investment?

A: Traditional insurance-linked investors are interested in a non-correlated diversified investment opportunity to add to their portfolio, like a catastrophe bond.

We look at investors who are interested in casualty risk. We're talking about less severity, more frequency of losses, more premium paid relative to a contractual downside limit. They're probably interested in managing the assets, the premium that they receive in before it's paid out in claims.

Our investors are also looking for an alternative asset class, but they're also doing more than that. They're looking at it as an asset management opportunity to generate a total return, both from underwriting and asset management.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).

July 7, 2018

Allied World VP: Huge Verdicts Create Stir in Health Care Market

Adam Bates, vice president, Allied World, said several recent awards and settlements have ranged from $30 million to $50 million, sending shock waves through the hospital and health care liability sector. Bates spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=bates618

Following is an edited transcript of the interview.

Q: How is consolidation in the health care market impacting the insurance industry?

A: A number of years ago when the physicians became employed and they integrated the health systems, we saw the physician carriers really enter the hospital space, creating an excess of supply.

As the hospital systems have merged over the years, you saw entire insurance towers disappear, and thus the insurers were competing for market space. Again, I think it really created somewhat of an imbalance in the supply demand equation, where the supply was larger than the demand. I think that's exacerbated the soft market.

Q: What are you seeing in terms of claims today?

A: I think we're seeing new thresholds reached, particularly in some awards in what we might think of as the more severe venues. Certainly in Cook County, we're seeing $50 million verdicts in some neurologically im-paired infant cases.

Even the other day, we saw one university publicly settled a claim, a similar bad baby case for $30-$40 mil-lion.

Q: What kind of pressure does that put on the marketplace?

A: It's a real challenging environment, but it's one of the areas where Bermuda has an opportunity to excel, because our clients have been coming down here for years. We have a real longevity relationship.

Although some of these conversations can be difficult as we talk about increasing retentions or increasing premium, that relationship really helps us navigate that collaboratively.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
July 7, 2018

Member Agency CEO: Take-Up for Cyber Cover Is Surprisingly Low

Scott Reynolds, chief executive officer of Member Insurance Agency Inc., said the take-up ratio for cyber coverage is running about 5%. Reynolds spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=reynoldss618

Following is an edited transcript of the interview.

Q: What emerging risks are you seeing today?

A: I've heard a lot recently about cyber liability. We've been looking at cyber liability now for years, and it's definitely a growing exposure that people need to be aware of, and one that the captive industry should be able to handle and benefit the marketplace in general.

Q: Are captives putting cyber in right now?

A: Some general liability policies includes cyber liability. For a business owner purchasing that coverage, they just need to be aware of what the limits are and what the deductibles are, our defense costs included.

What we recommend is stand-alone cyber liability coverage, and the take-up ratio so far is not that high. In our business, we have about a thousand members, and about 5% take the coverage. We believe they all should.

It's fairly affordable coverage, it provides good limits, expense coverage for legal fees, and it's a growing exposure. You hear about it in the news for the big businesses, and what you don't hear about are the thou-sands and thousands of attacks on the smaller businesses.

I've mentioned to people that when you talk to some business owners about cyber liability, their answer is, they don't believe they're a target, and if you don't believe you're a target, that makes you a target.

Q: How can captives write cyber coverage? What do they need to know?

A: You could write it within your liability policy if you're offering liability. Look at the fronting carrier's filings and see if it's available, or offer it stand-alone. For us, we don't currently offer it in the captive, but we're talking with our fronting carriers about the possibility of doing so.

You just have to be aware of what the limits are that you're offering, what deductibles are embedded in there.

The industry has evolved to the point where there are statistics out there where you do know something about the frequency and severity of the risk, and so I believe that if you enter it with a modest retention and a quota share, that you can grow your book.

As it's growing, if the pricing is off the mark, you can correct it, but not taking so much exposure on one risk that you're subject to a catastrophic loss.

Q: Do you think it could be a profitable area for captives?

A: Absolutely, it can be a profitable area for captives.

If someone gets into the line and they find in the very beginning that they're not charging enough, they can correct that, or if there's room to reduce prices, they can do the same thing, but as with any line of business, if properly underwritten and all the exposures are considered, it can definitely be done profitably.

Q: What challenges do captives face when putting cyber in their book?

A: For us, we would prefer an admitted product, admitted by the various states that we do the business in. As such, those filings have to be approved by the states, so there's a little bit of a waiting period to make sure that you have filings that have been approved, and rates that have been approved.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
July 7, 2018

Captive Insurers Wrestle With Relevance, Talent, Regulation

Attendees of the Bermuda Captive Conference, held in Southampton, Bermuda, said captive organizations are under pressure to keep up with current risks, to find professionals able to manage risks and work in different environments, and to manage mounting layers of regulation.

View the video version of this interview at: http://www.ambest.com/v.asp?v=bcc1618

Following is an edited transcript of the interview.

Brad Meindersma, vice president, JLT Insurance Managers (Bermuda): I think there's a number of factors. They all together combine to make it a larger challenge in that the ever-evolving tax and regulatory regimes and the global look at offshore domiciles and onshore domiciles and the benefits of that and staying on top of all the changing nature and environment of the regulatory and tax world is quite challenging, I think, for most people.

Paul Owens, chief executive officer, Global Captive Practice, Willis Towers Watson: I think actually there are two challenges. The first one is an internal view, which is getting staff. It's increasingly difficult to get the right staff in the locations you need them. The locations are becoming very expensive, so to get the right people is expensive. It is actually finding the candidates.

The other one is the old story of regulation. Regulation is continuing to increase. In Bermuda, we've recently seen increasing regulation, code of conduct, all the right things to do, but in many countries, it's a new regu-lation from the point of view BEPS, base erosion profit shifting. The OECD are very, very serious about that.

Actually for domiciles, it shouldn't be seen as an inhibitor. It should be seen as a good thing where everybody can work on the same, level playing ground, so two factors.

Mike Parrish, chairman, Bermuda Captive Conference: I think one of the biggest challenges for captives currently is making sure that the captive stays relevant to the corporation. Many captives have been in op-eration for a number of years, and of course the risk environment and the insurance environment changes over those years.

In fact, at the Bermuda Conference, we have the Captive Hall of Fame, which recognizes captives set up 25 years ago. The industry and the environment 25 years ago was very different to how it is now.

One of the biggest challenges for captive managers and captives generally is ensuring that the captive stays abreast of developments and is still relevant to the company in terms of the risks that it writes and the coverage that it offers to the parent company.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
June 28, 2018

JLT Vice President: MGAs Insuring Their Business Via Captives

Brad Meindersma, vice president, JLT Insurance Managers, said managing general agents are turning to captives to insure business they write, typically for areas such as business travel, property and personal housing. Meindersma spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=meindersma618

Following is an edited transcript of the interview.

Q: Where are you seeing growth today?

A: We're seeing some growth in the MGA sector, we're seeing these types of companies looking to retain some of the risk. They're looking either to do a quota share on the business that they write, or in some cases, depending on the size of business, retaining all of the risk.

It's largely dependent, I think, on their risk nature and the capital available.

Q: What lines are you seeing going into those captives?

A: We're seeing business, travel, property, as far as personal housing insurance and these types of cover-ages.

Q: What's driving that growth?

A: I think it's that the MGAs are learning about the options that captives can provide and the opportunities they can provide. Captives wouldn't be a core part of their business.

As they look to understand what they can do and what they can retain, and if they're comfortable with the business, they write it off, and it offers a unique opportunity for them to retain some of the risk that they write.

Q: Do you expect that trend to continue?

A: I think so, and I hope so. Part of the need or the way for the trend to continue would be education for the MGAs, because I believe they're focused in their core business. And that learning about captives, how they would work and the regulatory requirements for them would be necessary for a lot of them to seriously con-sider it.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
June 27, 2018

XL Catlin Head of Captives: Blockchain Tech Brings New Capabilities to Marine

Matthew Latham, global head of captive programs, XL Catlin, said the insurer is part of a joint effort to build a platform that creates speedy interchange of marine hull data, which will improve reporting for clients and underwriters. Latham spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=lantham618

Following is an edited transcript of the interview.

Q: We hear so much about blockchain. Can you explain what is blockchain?

A: Blockchain, basically this is a distributed ledger, which is secure and decentralized. That is really to say that it's data that's shared between multiple parties on one platform.

If anything changes on that data so if you make a change that is recorded forever, it's authenticated, and that forms a block. The next time the data's changed that forms another block and that's where the name blockchain comes from. It's technology that has multiple uses across all industries, including insurance.

Q: How might it apply to insurance?

A: We as a fronting insurer providing services for captives and global programs, we've identified two main areas that we want to look at how we utilize blockchain for. The first is how clients collect data and then pro-vide that data across to the insurance industry, including changes to their data midterm.

The second area is around how we remit premiums to the captive and how we track that, and also, how we issue local policies around the world for companies who might want a global program with policies in each jurisdiction.

Those are the two things that we're focusing on. There is multiple other uses but those are our focuses.

Q: Can you tell us what XL Catlin is doing?

A: The one that I'll pick up on there is really around the provision of data from clients to ourselves and to the brokers. We've worked with a group, sort of a joint venture of other insurers, broker, and the client. The cli-ent's called Moller-Maersk. It's out there in the public domain.

We've worked with them and Ernst & Young and Guardtime. We've created a platform, which allows them to provide data across to us for their marine hull program.

Moller-Maersk runs ships all around the world. Those ships are moving all the time. They're going into war zones. They're having different flag changes. They're carrying different types of cargo on them. There's a constant flow of information required by insurers to accurately understand the risk.

That's taking up a lot of time for the client, so they're collecting a lot of data. By having this all on one plat-form and providing it real-time to us, there's no reconciliation needed to be done between the different par-ties.

If there's an adjustment midterm then we have a set of rules that are in place, which allow us to understand what the implications of that are. If their vessel is to go through a war zone area, there could be an additional premium that comes through.

There's a lot of efficiencies you can create by using this for data collection. I think you can really let dry a lot of the inefficiencies that exist at the moment in the insurance industry out.

Q: What challenges do you face in trying to get this off the ground?

A: I think some of the biggest challenges is getting client buy-in to it. This particular client, they drove the project, but not all clients necessarily can see the value of the blockchain.

There's an investment required. You have to use the cloud-based techniques. You need nodes and these nodes cost money. There's a lot of investment of time from many different parties into it.

I think you need somebody who's got the vision to see the benefits and the efficiencies that can be created. Over time, as we industrialize this more, I'd like to think that the costs are going to go down, which is going to create lower barriers to entry.

I also think you need the industry to work together. There's no good one insurer or one broker creating their own solution. You have to have a solution which works for a number of different clients to industrialize that process. We're in the very early stages at the moment.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
June 27, 2018

PWC Senior Adviser: Captives Must Protect Data

George Thomas, senior adviser at PWC, said new privacy rules from the European Union have sparked worldwide concerns that organizations, including insurance captives, could be subject to penalties if they don't properly protect client data. Thomas spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southampton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=thomasg618

Following is an edited transcript of the interview.

Q: What do captive managers and owners need to know about data today?

A: One of the most important things related to data is privacy and protecting the data that you have. You may have noticed companies as well as entities have been sending out emails certainly over the last few weeks but definitely over the last month or so saying, "This is our privacy policy. Here's what we're doing with your data."

That is all related to GDPR, which is the General Data Protection Regulations from the EU that came into effect May 25 of this year. GDPR, even though it's European, is related to any European citizen no matter where they are in the world.

Any company, any entity that has data of European citizens or EU citizens is subject to GDPR and could potentially have fines of up to 4% of their revenue or (EURO)20 million, so it's very significant. It's something that everyone needs to be thinking about in terms of the privacy and the data.

Q: How should captives be responding to that?

A: There's three things that you need to know. The first thing is only collect the data that you really need for the business purposes that you have. You don't need to gather other information about potential clients or individuals that you're interacting with.

The second thing is make sure that whatever data you have, which is, again, just what you need, you're pro-tecting in terms of having good cybersecurity policies, having procedures in place, and protecting that data, and also not sharing it with third parties unless it's absolutely required.

Then the third thing, which we talked about before, is you have to communicate with the people whose in-formation that you have, the individuals, and let them know what they have, what you have, and what you're doing with their information. That really goes back to those privacy policies, etc. That's what captives as well as any company need to do.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
June 21, 2018

WTW Global Captive CEO: As Brexit Proceeds, Gibraltar, Malta Should Come to Fore

Paul Owens, chief executive officer, Willis Towers Watson global captive practices, said Gibraltar and Malta have strong insurance ties with the United Kingdom, and will likely handle more business as Brexit moves toward completion. Owens spoke with A.M. BestTV at the Bermuda Captive Conference, held in Southamp-ton, Bermuda.

View the video version of this interview at: http://www.ambest.com/v.asp?v=owens618

Following is an edited transcript of the interview.

Q: Paul, where are you seeing growth in the industry today?

A: It's interesting because the industry as a whole has a reputation of not growing, but we're seeing growth everywhere. The statistics prove it every year. If you take out some of the special vehicles, the whole sin-gle-parent captive, global captives are always growing. Very interesting though.

We're seeing a lot of, a lot of interest in employee benefits, which in some part comes through the Willis Towers Watson network, where we now have full access to a great deal of employee benefit-related activity.

Q: What is driving that growth?

A: I think there are a number of factors. The first is cost. Employee benefit cost is beginning to run out of control. We see this in the regular insurance market. It's becoming a critical success factor for companies as they continue to improve efficiency.

I think it's also control. By providing a framework of, effectively, self-insurance and control, you can manage your workforce more effectively. You can help your employees back to work. You can offer a competitive package and benefit to those employees.

Q: Are you seeing this from U.S. companies, or is this an international phenomenon?

A: I think initially we're seeing a lot from the U.S. because employee benefits are a big cost to U.S. benefits and because the economy environment is driven by private medicine.

Whereas Europe and internationally, there is a lot of state-run health. You hear from the U.K., the National Health Service. However, many international companies are now beginning to face the same challenges as U.S. companies. They're beginning to drive that.

Interestingly, coming out of China, many Chinese companies are investing in Europe. Their first challenge is acquiring 60,000 to 100,000 employees. They're working out how to do that.

The other angle here is many American companies are global. They're looking at ways of bringing the whole of their employee benefits under one umbrella. Therefore, we're seeing a lot of interest in American compa-nies setting up overseas companies.

Under Solvency II in Europe, there are some excellent access points into Europe as a whole. Dublin has a very strong tendency in looking into the U.S. Many U.S. companies will access Europe through Dublin.

Q: How might Brexit impact that movement?

A: Brexit is now nine months away. I think if you read the papers, the negotiations are still going on. Howev-er, businesses in the background are preparing. We're seeing a lot of side deals done with different coun-tries.

We see Gibraltar taking a very strong position. Gibraltar has a very strong relationship with Britain. Again, it's, I think, a dependent overseas territory. It has sterling as its currency.

There's a very strong relationship between the U.K. and Gibraltar and also big history in insurance. Currently, Gibraltar writes over 26% of all U.K. motor business. There's expertise.

Other countries are Malta. They have a relationship to the U.K., so lots of business. You're reading every day that another insurer has set up an operation somewhere in Europe to be able to create that network. I think this business will continue. The businessmen will find a way through.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
June 20, 2018

Marsh Captive Solutions Managing Director: TRIA's Inclusion of Cyber Terrorism Opens Up Captive Opportunities

Michael Serricchio, managing director, Marsh Captive Solutions, said recent rule changes mean more captive insurers could be covered for cyberrisk in the event of terrorism. Serricchio spoke with A.M. BestTV at the Captive Insurance Companies Association's International Conference in Scottsdale, Arizona.

View the video version of this interview at: http://www.ambest.com/v.asp?v=serricchio318

Following is an edited transcript of the interview.

Q: What trends with TRIA are you hearing this year?

A: One of the things that we're seeing this year with respect to TRIA is not so much on the property side. It's more on the liability side. TRIA has been around since 2001. One of the things that we've seen since then is, in addition to property damage being covered by TRIA and captives, we're seeing liability. We're seeing things like general liability for arena owners, general liability for health care institutions.

For example, hospitals where you have patients and the hospitals, if there were some sort of mass-casualty terrorist attack, TRIA could be used in a captive to get a backstop from the federal government for the pa-tient risk, bodily injury risk as well.

Q: What are you seeing in cyber terrorism developments?

A: Late in 2016 Treasury stated that cyber terrorism is now included under TRIA. That opens up a huge opportunity for all industries with their captives to insure cyber terrorism. If it was certified as a cyber-terrorist attack, the captive would have this year 82% backstop versus being self-insured for that loss if they didn't have it in their captive.

Q: What emerging regions are using captives today?

A: Traditionally, you've seen the U.S. and Europe using captives quite a bit. One of the regions that's really popping out from our benchmarking is Asia-Pac. We're seeing companies in Japan, China, Hong Kong all using captives more robustly than they have in the past.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com)
April 7, 2018

Rain, Charter Partners Execs: The Gig Economy Calls for New Coverages, New Services

Greg Lang of Rain and Glen Welch of Charter Partners said more short-term workers need insurance protection, including liability coverage and coverage when they work at a variety of locations. Lang and Welch spoke with A.M. BestTV at the 25th Reinsurance Symposium in Philadelphia.

View the video version of this interview at: http://www.ambest.com/v.asp?v=langwelsch318

Following is an edited transcript of the interview.

Q: What is the gig economy?

Lang: The term 'gig' actually comes from the jazz musicians of the '20s. They would go out and do a gig. I guess I consider myself to be a gig employee essentially where I'm looking for interesting work, where I can work for corporations large or small, to come in and do project work or have a gig. It's temporary work.

Q: How big is the gig economy?

Lang: Estimates are that anywhere between 40% to 50% of the economy could be gig workers by 2020. It's large and growing.

Q: Are most of these folks insured?

Lang: I don't think so. Glen has some information but I think that of these people we're finding, about 20% are saying they may have some type of business insurance. For the most part we don't know how to insure them. That's where the challenge or opportunity is.

Q: How is the industry responding?

Welch: I think they're struggling. That's why we're here. It's difficult to reach these customers. They don't know if they need insurance or don't think they need insurance. It's a substantial part of the economy. If we have right now 35% going to 40% or 50%, that's a big portion of workers who are underserved. There's a gap. We think awareness is one of the things, to bring it to places like this to talk about it and then find ways to help these customers organize and work together to become more visible to the insurance industry.

Q: What types of coverage do they need?

Welch: Most are small employers, by and large. They sometimes need liability insurance. Many of them work from their own homes but some are going out. We just saw this week where IKEA purchased an aggregator for gig workers called TaskRabbit. They are now sending the TaskRabbit, "users" they call them, out to homes. Many of those folks may or may not have insurance. The challenge is how do we make sure that they're covered and people feel more confident. They'll need those kinds of coverages to make sure they're making their customer comfortable.

Q: How should the industry be responding? What would you like to see?

Lang: The challenge, from the standpoint of the example that Glen used, is that if you have this task worker in your home and they get injured and they don't have workers' compensation, is that covered under your homeowners? Are you even aware you might be taking on that exposure?

We both come from the alternative market, captive world. Captives are starting to step up to provide some of the solutions for that. They understand the exposures because it's usually first-party where you're provid-ing that.

Why we're here is we think that there's great opportunity here and we're looking to capitalize and take ad-vantage of that.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
April 3, 2018

Aon Regional Director: Captives Becoming Home to Weather-Related Risks

Nancy Gray, regional managing director, Aon, said areas of expansion for captives include stop-loss and health care issues. Gray spoke with A.M. BestTV at the Captive Insurance Companies Association's Interna-tional Conference in Scottsdale, Arizona.

View the video version of this interview at: http://www.ambest.com/v.asp?v=gray318

Following is an edited transcript of the interview.

Q: What are you hearing from your captives today?

A: Most of our captive owners are looking at opportunities to extract value. They're exploring ways to extract value out of the captive programs. When you look at the past 20, 30 years of captives, the risks have changed. The perils have changed. The marketplace has changed. They're looking for other opportunities.

Q: What are some of those other opportunities?

A: Certainly what we're seeing more recently is some of the weather-related risks, such as hailstorm, wind-storm, the wildfires. There are opportunities for captive owners to look at those risks and package them in a different way, to be able to access some of the available capacity in the marketplace that might not be readily available on a direct basis.

Q: Are there other areas besides property you're seeing captives expand into?

A: Yes. International employee benefits is an area that a lot of captive owners are asking about. Medical stop loss, health care. The premiums are so expensive for many organizations. They're looking at whether or not captives can help fund for medical stop loss. Cyber risks, those are all types of risk that the peril is changing and evolving. Captives can help respond to some of those.

Q: How are captives positioned to take on those additional perils?

A: What's good from an industry standpoint is that the number of captive domiciles have increased. You have an infrastructure in place that can support the industry. You have good governance. You have a strong regulatory environment. The infrastructure of service providers can help captive owners manage some of these risks to help them lower their total cost of risk.

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

(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).
April 5, 2018

VCIA President: Federal Tax Reform Puts Pressure on Offshore Captives

Rich Smith, president, Vermont Captive Insurance Association, said lower U.S. corporate tax rates may re-duce the appeal of forming a captive insurer. Smith spoke with A.M. BestTV at the Captive Insurance Companies Association's International Conference in Scottsdale, Arizona.

View the video version of this interview at: http://www.ambest.com/v.asp?v=rsmith318

Following is an edited transcript of the interview.

Q: What emerging risks are you seeing going into the captives these days?

A: There are a number of emerging risks, including cyber and also drones and some of the issues around self-driving vehicles. One of the more interesting areas is blockchain and how that might impact the captive insurance industry.

I haven't seen anything go in, something blockchain-related, but we're seeing a lot of interest in both using blockchain as a tool for captive insurance as well as opportunities to manage the risk of developers and the platform owners of blockchain as well.

Q: Will the new U.S. tax code impact the captive industry?

A: I think it will. It's hard to say exactly how far at this point. One area is you've got the corporate tax lowering to 21%. That may have an impact on captives' or potential captives' licensing because there is less of a tax play potentially.

On the other hand, you've got potentially more impact if you have a captive or a reinsurance captive off-shore. It may become more expensive for you. I haven't seen movement yet from that but I think we're going to see that shake out over the next year or so.

Q: Do you think there might be some captives re-domesticating because of that?

A: I think there might be. It's hard to say how far that might go. Certainly there's a sentiment in the federal government and the president has shown, being offshore is not necessarily a positive. Both that and the tax reform bill may have captives looking to move onshore if they're a U.S.-based captive.

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(By Meg Green, senior associate editor, A.M. BestTV: Meg.Green@ambest.com).

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