AM Best

May 2022

News of the Alternative Risk Markets

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News of the Alternative Risk Markets from AM Best
A Three-Month Review

AM Best has been covering the captive sector for several decades. Today we rate approximately 200 captive ventures in multiple jurisdictions.

Although a rating on a captive is comparable to any other rating issued by AM Best, we recognise that captives serve special purposes and typically have an operating style that differs from the conventional market.

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

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Rating Actions

AM Best Affirms Credit Ratings of Nuclear Electric Insurance Limited and Subsidiary

AM Best has affirmed the Financial Strength Rating (FSR) of A (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) of “a+” (Excellent) of Nuclear Electric Insurance Limited (NEIL) (Wilmington, DE) and its subsidiary, Cedar Hamilton Limited (Hamilton, Bermuda). The outlook of these Credit Ratings (ratings) is stable. Cedar Hamilton is a wholly owned subsidiary of NEIL and provides specialty lines capacity to NEIL’s members.

The ratings reflect NEIL’s balance sheet strength, which AM Best assesses as strongest, as well as its marginal operating performance, favorable business profile, and appropriate enterprise risk management. The ratings also acknowledge NEIL’s management culture and its exclusive leadership position in the U.S. nuclear power-generating industry. NEIL essentially underwrites the entire nuclear utility property insurance coverage in the United States. NEIL continues with its mission of maintaining the financial strength to cover two full-limit nuclear losses, while promoting industry risk management and safety practices.

Partially offsetting these positive rating factors are the company’s primary focus on property catastrophe risks and related business interruption claims, with the subsequent financial stress this could cause in the unlikely event of two full-limit losses. Despite recent positive results, the company remains exposed to volatility in underwriting results given the nature of the risks it insures and because of claims activity, given that it relies on one market and two principal product lines. However, these factors are inherent to captive mutual insurers focused on a particular niche market supported by its members. Nonetheless, NEIL designed its risk management program to manage risks within the company’s defined tolerance levels. NEIL also maintains a comprehensive loss prevention program, with a specialized, effective loss prevention department closely working with insured members to control losses. NEIL’s loss prevention effort is supported by a panel of employed and contract nuclear engineers.

The ratings also recognize NEIL’s history of maintaining sufficient capital to support its ongoing obligations, which includes its financial flexibility to suspend policyholder distributions. NEIL also has the contractual right to assess a retrospective premium for 10 times each member’s annualized premium, which strengthens the company’s financial flexibility. To ensure that members’ capitalization is adequate to support such an action, NEIL requires members to maintain an investment grade credit rating or provide collateral. This facility has never been used.

Key rating factors that could lead to a downgrade of the companies’ ratings over the longer term include substantial increases in losses and significant erosion of capital or loss of members.

This press release relates to Credit Ratings that have been published on AM Best’s website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best’s Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Guide to Best’s Credit Ratings. For information on the proper use of Best’s Credit Ratings, Best’s Performance Assessments, Best’s Preliminary Credit Assessments and AM Best press releases, please view Guide to Proper Use of Best’s Ratings & Assessments.

AM Best is a global credit rating agency, news publisher and data analytics provider specializing in the insurance industry. Headquartered in the United States, the company does business in over 100 countries with regional offices in London, Amsterdam, Dubai, Hong Kong, Singapore and Mexico City.

April 21, 2022

AM Best Assigns Credit Ratings to Riverfront Insurance, LLC

AM Best has assigned a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating “a-” (Excellent) to Riverfront Insurance, LLC (Riverfront) (Wilmington, DE). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect Riverfront’s balance sheet strength, which AM Best assesses as strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management (ERM). The ratings also benefit from explicit support from its parent, Navient Corporation (Navient) [NASDAQ: NAVI].

Riverfront is a single parent captive of Navient, a provider of education loan management and business processing solutions for education, health care, and government clients at the federal, state and local levels. Riverfront was domiciled in Delaware in 2020 and writes, on a direct-claims-made basis, error and omission (E&O) and director and officer (D&O) coverage only for its parent.

Riverfront's balance sheet strength is supported by its strongest risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), offset by a high annual aggregate retention level relative to surplus. The parent bolsters the company's balance sheet with a Net Worth Maintenance Agreement to be used when and if necessary. AM Best assesses Riverfront's prospective operating performance as adequate based on company projections and a third-party feasibility study in establishing the captive. Riverfront was born in response to hard market conditions for D&O and E&O coverage from a readily scrutinized parent with roots in the student loan industry. As the parent transitions its profile away from its role as a servicer for the Federal Direct Student Loan program and toward a consumer finance and business processing solutions company, it still remains susceptible to claims from its legacy private student loan portfolio. However, that risk is mitigated as Riverfront writes claims-made policies covering claims reported in the policy year of coverage (none to date). Riverfront's ERM is integral to Navient from whence it originated to cover a portion of potential exposure subjected to market pricing and conditions. Riverfront does not use reinsurance.

The stable outlooks reflect AM Best's expectation that the company's operating performance will remain stable, in line with its own projected loss probabilities, thereby sustaining supportive, risk-adjusted capitalization. It also reflects AM Best's expectation that Navient's support for the captive will not change. Negative rating action could occur if surplus or risk-based capitalization precipitously declines due to a higher-than-expected number of material filed claims or if underwriting results and operating performance are materially weaker than projected. Negative rating action also could occur if Navient's credit profile is lowered or there is any lessening in the parent's ability or willingness to support the company either implicitly or explicitly.

April 18, 2022

AM Best Assigns Credit Ratings to C&T Insurance Company

AM Best has assigned a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating of "a-" (Excellent) to C&T Insurance Company (C&T) (Vermont). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect C&T's balance sheet strength, which AM Best assesses as very strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management (ERM).

C&T is a single parent captive of MasTec, Inc. (MasTec) [NYSE: MTZ], an infrastructure construction company operating in multiple segments across North America. C&T was domiciled in Vermont in 2022 and writes, on a direct basis, certain general liability risks to its parent and affiliated entities.

C&T's balance sheet strength is supported by risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), at the strongest level. Included in the company's capitalization is a letter of credit, which is irrevocable and evergreen, and has regulatory approval from the State of Vermont Department of Financial Regulation. As a single parent captive, further consideration is given for the implicit and explicit support that the parent company, MasTec, provides to C&T, which AM Best views as a positive rating factor on the company's balance sheet strength assessment.

April 1, 2022

AM Best Affirms Credit Ratings of NiSource Insurance Corporation, Inc.

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" (Excellent) of NiSource Insurance Corporation, Inc. (NICI) (Salt Lake City, UT). The outlook of these Credit Ratings (ratings) is stable.

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

NICI is a single-parent captive insurer wholly owned by NiSource Inc., and accepts insurance risks from NiSource and its affiliates, providing all-risk property, workers' compensation, excess general and automobile liability, medical stop-loss, long term disability and group life insurance.

Since inception, NICI has generated profitability at levels generally equal to or better than its industry peers. Over the years, retained earnings have bolstered NICI's balance sheet strength with future earnings expected to produce more of the same, complements of its niche captive orientation, risk management expertise and conservative underwriting criteria; hence, the stable outlooks.

AM Best has taken a balanced view of NICI's overall business profile, which albeit limited in scope, maintains inherent advantages as a single-parent captive with immediate access to business and resources along with the broader financial wherewithal of its ultimate parent.

Downward rating pressure could result from a decline in the company's operating performance, an increase in underwriting leverage or an outsized loss event that triggers a sudden decline in risk-adjusted capitalization. In addition, rating pressure could occur if there are any sudden and material changes in the financial and credit profile of the parent.

March 25, 2022

AM Best Affirms Credit Ratings of Prism Assurance, Ltd.

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

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

The ratings indicate Prism's strategic role as a single parent captive insurance company of Apogee Enterprises, Inc. (Apogee) [NASDAQ: APOG] and reflect the inherent benefits of parental support and financial flexibility afforded to Prism as a part of Apogee. The company's operating performance is largely the result of a steady flow of royalty and investment income, which adequately offsets any volatility in underwriting shortfalls and allows for healthy profits each year.

Since the parent is one of the largest architectural design and construction companies in the United States, the captive's risks have a level of geographical diversification. However, the business profile is limited as the captive provides very specific lines of coverage to Apogee. As a captive, Prism is an integral tool for Apogee that increases the overall organization's risk management capability and awareness. Prism works cohesively with business units across the overall organization to reduce claims severity and frequency. Additionally, the company benefits from an ERM program that is interwoven with that of the parent, resulting in excellent risk identification and mitigation processes.

March 23, 2022

AM Best Assigns Credit Ratings to WellPoint Insurance Services, Inc.

AM Best has assigned a Financial Strength Rating (FSR) of A- (Excellent) and a Long-Term Issuer Credit Rating (Long-Term ICR) of "a-" (Excellent) to WellPoint Insurance Services, Inc. (WISI) (Honolulu, HI). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect WISI's balance sheet strength, which AM Best assesses as adequate, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management. In addition, the rating takes into account the support provided by WISI's parent, Anthem, Inc. (Anthem) [NYSE: ANTM].

WISI's risk-adjusted capitalization, as measured by Best Capital Adequacy Ratio (BCAR), was at the strong level at year-end 2020. However, AM Best expects WISI's BCAR to decline in 2021, driven by premium growth combined with capital contraction due to reserve strengthening for its core lines of business. WISI projects its capital growth to resume in 2022 as profitability returns to historical levels. From 2016 through 2020, the capital has grown organically by more than 60% through retained earnings and no dividend to the parent. The balance sheet strength is further supported by WISI's conservative investment portfolio with the majority of holdings allocated to high-quality fixed income securities. The parent company maintains flexible capital between the core and its protected cell, under which the majority of the cell's capital is comprised of $25 million in surplus notes from the core.

WISI has recorded positive, albeit somewhat fluctuating, operating performance with five-year average return on equity of 10%. Since 2018, the underwriting gains were predominantly supported by the business in the protected cell - Federal Employees Health Benefits Program (FEP) premiums assumed from Anthem's health insurance affiliates. The core corporate insurance lines of business - Workers Compensation and Excess Managed Care E&O - have posted uneven results, including losses in the past two years. These results have been driven in part by fluctuations in claims severity and changes in exposures, which resulted in the need for reserve strengthening in recent years, including sizeable reserve increases through the nine months of 2021. WISI expects the financial performance of corporate reinsurance lines to improve in 2022 and its FEP business to maintain stable profitability.

WISI is a Hawaii-domiciled captive and a wholly owned subsidiary of Anthem. WISI was established in 2006 primarily for the purpose of formalized self-insurance and an instrument of corporate risk management. In 2018, WISI established a segregated cell to assume FEP healthcare premium from Anthem affiliates in order to optimize capital at statutory entities. In 2020, the assumed premium was about $1.9 billion and accounted for the major part of WISI's volume. The cell structure provides a formal separation of FEP from other WISI business, provides transparency for Hawaii's regulators and allows for potential future WISI expansion into assuming other health lines.

In addition, the ratings of WISI include the support from Anthem. WISI's importance to the parent has increased in recent years as the volume of business in both the core and the cell has expanded. Anthem has demonstrated explicit and implicit support of WISI, including acting as a borrower on behalf of the cell for the surplus notes. WISI benefits from the parent's operational resources and expertise. Furthermore, Anthem has more than sufficient financial strength to provide additional support to WISI if needed.

March 4, 2022

AM Best Downgrades Credit Ratings of Shanghai Electric Insurance Limited

AM Best has downgraded the Financial Strength Rating to B++ (Good) from A- (Excellent) and the Long-Term Issuer Credit Rating to "bbb+" (Good) from "a-" (Excellent) of Shanghai Electric Insurance Limited (SEIL) (Hong Kong). The outlook of these Credit Ratings (ratings) is stable.

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

The rating downgrades reflect the revision of SEIL's business profile assessment from neutral to limited. SEIL was incorporated in Hong Kong in 2018 and is a single-parent captive of Shanghai Electric (Group) Corporation, which is wholly owned by the Shanghai municipal government and is one of the largest power generation and industrial equipment manufacturing enterprises in China. SEIL serves as the group's risk management and insurance arm. It mainly assumes premiums from the group and affiliates through inward arrangements with onshore and offshore insurers and reinsurers.

In 2019 and 2020, SEIL's underwriting book consisted primarily of the speciality line of key equipment insurance, supplemented by traditional risks including property, construction and engineering, cargo and liability. However, following a change in government subsidy policy for key equipment insurance in 2021, the captive has stopped writing new business for this speciality line in consideration of pricing adequacy, which led to a sudden and significant decline in its top line in 2021. Going forward, SEIL plans to grow its traditional lines of business and meanwhile underwrite risks from the group's overseas engineering projects. AM Best views the change in business strategy as a material deviation from its original business plan, and expects the captive to face an increased level of execution risk in rolling out new plans for its underwriting portfolio strategy.

AM Best assesses SEIL's balance sheet strength at the very strong level, supported by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). The captive's risk-adjusted capitalisation is underpinned by its very low underwriting leverage and liquid investment portfolio. Half of SEIL's invested assets are allocated to fixed income securities, one third are in cash and the remainder in listed stocks. While the majority of fixed income securities are investment grade, SEIL has a moderate exposure in non-investment-grade bonds, which enhance yield. In view of its low-frequency, high-severity risk profile, the captive has arranged a reinsurance programme to protect its capital in 2022. AM Best expects the captive to maintain a sufficient buffer in its risk-adjusted capitalisation to support its risk profile over the next three years.

SEIL delivered mid-to-high single digit return on equity (ROE) for 2019 and 2020, while its ROE dropped to a break-even level in 2021 as a combined result of its shrinking underwriting book and unfavourable investment result. Its operating expense ratio remained very low in 2019 and 2020 due to the minimal distribution costs from its group business. However, operating expenses increased in 2021 because of salary and office expenses, which had been fully covered by its immediate parent before but have since been assumed by SEIL. The captive has generated underwriting profits over the past three years. Nonetheless, its operating performance is exposed to potential volatility due to its small premium size and low-frequency, high-severity risk profile. In terms of investment performance, SEIL reported a net investment loss in 2021 as a result of unfavourable market conditions. The captive expects its investment return to recover gradually and stabilise going forward due to its liquid and fixed income-oriented asset portfolio.

Offsetting risk factors include the captive's concentrated exposure to natural catastrophes and the potential risk of inadequate reserving as a start-up company due to lack of an experienced track record. Emerging risks from new markets overseas also pose a new challenge to its risk management framework.

As the first insurance licensee within Shanghai Electric (Group) Corporation, SEIL receives support in areas of inward business, operations and risk management, as well as investment and capital management. As the captive represents a fairly small business of the wider group, AM Best views the estimated loss for the group's annual results for 2021 as having a limited negative impact to SEIL and unlikely to result in a capital repatriation; no rating drag has been applied thus far.

Negative rating actions could occur if there is significant adverse deviation in SEIL's business plan that leads to ongoing adverse operating performance such that it no longer supports an adequate assessment. Negative rating actions may occur if its ERM fails to contain emerging risks arising from the new market. Negative rating actions also could occur if there is a material deterioration in Shanghai Electric (Group) Corporation's credit profile.

February 23, 2022

AM Best Affirms Credit Ratings of PMG Assurance Ltd.

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

The ratings reflect PMG's balance sheet strength, which AM Best assesses as very strong, as well as its strong operating performance, limited business profile and appropriate enterprise risk management. The company also receives rating enhancement provided by its ultimate parent, Sony Group Corporation (Sony) [NYSE: SONY].

The ratings also benefit from PMG's strategic role as Sony's only captive insurance company. PMG is an integral part of Sony's enterprise risk management, whose role is to meet the global insurance requirements of the parent while also providing risk management services to Sony group members.

PMG's balance sheet strength is assessed as very strong, and is supported by risk-adjusted capitalization at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), excellent liquidity and conservative investment strategy. Operating performance reflects consistent combined and operating ratios that continue to outperform industry averages. A critical function of PMG is to cover the parent for potential low frequency, high severity claims; PMG mitigates this risk through its comprehensive reinsurance program.

Importantly, PMG exhibits strengths that are derived from its keen underwriting focus, conservative operational strategy and emphasis on risk management controls, which are well-integrated with those of its parent. PMG writes predominantly commercial property and marine coverages, and employee benefits coverage for Sony employees located outside of Japan. PMG's surplus growth has enabled it to retain higher net risk exposures on its marine business, in addition to offering new lines of business such as cyber, which it began offering in 2019.

February 18, 2022

AM Best Downgrades Credit Ratings of Sigurd Rück AG; Places Credit Ratings Under Review With Negative Implications

AM Best has downgraded the Financial Strength Rating to B++ (Good) from A- (Excellent) and the Long-Term Issuer Credit Rating to “bbb+” (Good) from “a-” (Excellent) of Sigurd Rück AG (Sigurd) (Switzerland). In addition, AM Best has placed these Credit Ratings (ratings) under review with negative implications.

The ratings reflect Sigurd’s balance sheet strength, which AM Best assesses as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management. The ratings also factor in Sigurd’s association with its parent company, Saipem S.p.A. (Saipem). Sigurd is a captive reinsurer of Saipem and a key element of the group’s risk management framework.

The rating downgrades follow the deterioration in Saipem’s credit fundamentals, with the group recently announcing that it will report significant losses for the second consecutive year, raising concerns around its short-term liquidity and solvency positions.

Sigurd has significant exposure to credit risk associated with Saipem, notably through a cash-pooling agreement with the group. As at 31 December 2020, Sigurd’s funds allocated to the cash pooling with Saipem represented 52.6% and 70.0% of the company’s total assets and capital and surplus, respectively.

The ratings have been placed under review with negative implications as the deterioration of Saipem’s credit fundamentals has the potential to impact Sigurd’s balance sheet strength negatively. The ratings are expected to remain under review until Saipem publishes its results for 2021 and clarifies its strategic direction, and until AM Best has assessed the impact of the Saipem group’s creditworthiness on Sigurd’s rating fundamentals.

February 16, 2022

AM Best Assigns Credit Ratings to Black Gold Re Limited

AM Best has assigned a Financial Strength Rating of B++ (Good) and a Long-Term Issuer Credit Rating of “bbb+” (Good) to Black Gold Re Limited (BGRe) (Bermuda). The outlook assigned to these Credit Ratings (ratings) is stable.

BGRe is a captive reinsurer of Ecopetrol S.A. (Ecopetrol), a Colombian oil and gas company 88.49% owned by the Colombian government.

The ratings reflect BGRe’s balance sheet strength, which AM Best assesses as very strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management (ERM). The ratings also recognize the importance of the company within Ecopetrol’s strategy.

BGRe’s very strong balance sheet recognizes the capital management strategy of the company and its ability to build up capital. The company has low net underwriting leverage, creating dependence on reinsurance; however, the risks associated with this dependence are mitigated partly by a diversified mix of well-rated reinsurers. AM Best expects BGRe to maintain a capital buffer as it continues to adjust its risk appetite to the reinsurance needs of its parent company, as well as the overall reinsurance market conditions.

BGRe’s operating performance is characterized by profitable technical results backed by well-established underwriting principles and considerable revenue from ceding commissions. Over the past few years, the company has been able to complement its net profit with sales of investments; however, dependence on this revenue is low. AM Best expects the company to continue backing its results with its technical capabilities.

AM Best considers the company’s business profile as neutral. BGRe has access to a wide scope of insured risks given the relevance of Ecopetrol to the oil and gas industry in the Americas. However, the company’s underwriting risks are concentrated in Colombia. BGRe’s ERM is well-integrated within Ecopetrol and is important to the group as a cost-effective risk management tool.

Positive rating actions could result if there is a sustained favorable trend in operating performance as the company’s strategy continues to adapt to the reinsurance market. Negative rating actions could occur if business flow is limited by any change in its holding company or if the financial situation of the parent company is compromised by any sociopolitical or economic event. Negative rating actions could also take place if the balance sheet strength of the company is further stressed by the materialization of any risk exposure.

February 8, 2022

Domiciles

Alberta Bill Aims to Expand Reinsurance Capacity, Lure Captive Insurers

A bill making its way through the legislature in Alberta would increase insurance capacity in the province by easing access to reinsurance and removing barriers to the relocation of captive insurance companies to the province.

According to the provincial government, which is sponsoring the bill, the Insurance Amendment Act (Bill 16), would amend the Insurance Act and the Captive Insurance Companies Act to add new reinsurance provisions to allow provincially licensed insurance companies to focus solely on reinsurance and to enter into limited partnerships to raise capital.

Enacting the legislation would make Alberta the first Canadian jurisdiction to loosen reinsurance regulations in that fashion, it said in a statement.

The bill also calls for reducing the current regulatory charge for purchasing unlicensed insurance from 50% of the premium payable for unlicensed insurance to 10% and reducing the 50% financial penalty for the late payment of all charges and tax on unlicensed insurance, to 10%, it said.

To do business in Canada, reinsurers may choose to be licensed (admitted) or unlicensed, it said.

In addition, Bill 16 would add a new redomestication provision to address relocation of foreign captives to Alberta, it said.

If passed, the amendment to the recently introduced Captive Insurance Companies Act would allow Alberta businesses looking to bring their foreign captives home without interruption to captive insurance operations, it said.

The amendment is designed to give legislative certainty to any business thinking about relocating an existing captive back to Alberta, it said.

An attempt to obtain comment from the Insurance Bureau of Canada was not immediately successful.

According to the government, creating more reinsurance capacity will help ease shortage and high prices, and better position traditional insurers in serving Albertans and Alberta businesses.

The reinsurance industry in Canada is limited and comprises mostly foreign-based enterprises, with the majority conducting business in Canada through a branch, the government said.

“Alberta is creating opportunities in every sector of our rapidly growing economy,” said Travis Toews, president of the Treasury Board and Minister of Finance. “To this end, we’re delivering a regulatory framework that will help generate more insurance activity right here in Alberta - leading to more opportunities for Albertans in sophisticated finance and insurance positions, and boosting the investment potential of our entire financial services sector.”

British Columbia is the only other Canadian jurisdiction that allows captive insurance, the government said, noting that 175 Canadian-owned captives are located in other jurisdictions.

The Canadian Office of the Superintendent of Financial Institutions in February concluded its review of reinsurance practices and has offered two guidelines to refine best practices. The office issued Guideline B-3, Sound Reinsurance Practices and Procedures and Guideline B-2, Property and Casualty Large Insurance Exposures and Investment Concentration, it said in a statement (BestWire, Feb. 15, 2022).

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

April 22, 2022

New Delaware Law Allows Captives to Offer D&O Coverage

Delaware Gov. John Carney has signed legislation allowing captive insurers to offer directors and officers insurance coverage.

S.B. 203, which amends the state’s general corporation law, passed the House of Representatives unanimously on Jan. 27 and was signed into law by Carney Jan. 9.

According to a legislative synopsis of the bill, the captive may be licensed in Delaware or in another jurisdiction.

The new law will provide coverage for liabilities incurred by directors, officers, employees and others whether or not the corporation would have the power to indemnify them.

That would allow captive insurance to be used to provide coverage for, among other things, amounts paid to satisfy judgments and settlements of claims brought by or in the right of the corporation, even though the corporation would not have the power to indemnify the covered persons against those amounts, it said.

Language in the law states the insurer may not make payment related to any loss stemming from undue financial benefit from a self-dealing transaction, deliberate criminal or fraudulent acts or any knowing violations of the law, it said.

D&O rates have hardened after about 10 years of inadequate rates and substantial losses amid growing numbers of lawsuits, jury awards, settlements, and emerging risks (BestWire, April 30, 2021).

A Delaware Department of Insurance spokeswoman said previous state law did not outline a formal prohibition on using captives for D&O coverage, but the law also did not specifically permit it either.

An attempt to obtain comment from the Delaware Captive Insurance Association was not immediately successful.

In a brief about the measure, lawyers from the Cooley law firm said Delaware law had been ambiguous about whether captives could offer D&O coverage. Then the hard market made coverage challenging for companies in particularly innovative fields such as technology and the sharing economy, it said.

With the Delaware law updated and the hardening of the D&O market, "companies have started to consider how to effectively and efficiently use captives to protect against their potential D&O liability," the brief said. "We expect the new law to accelerate this trend in the market."

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)
February 9, 2022

Regulation

Tennessee Captive Commissioner: Unique Systems Coming Through Captives Today

Jonathan Habart, director of captive insurance, Tennessee Department of Commerce & Insurance, said an increasingly unique crop of captives is coming through the pipeline. He spoke with AM BestTV at the RIMS 2022 Riskworld conference in San Francisco.

View the video version of this interview at: http://www.ambest.com/v.asp?v=habart422

Following is an edited transcript of the interview.

Q: Can you talk to us a little bit about what are some of the unique programs you're seeing going into captives these days?

A: When I started in captive insurance, a lot of them formed on the same basis. Lately, I've been seeing a lot of what I've termed bespoke or unique systems coming through captives.

We have a captive now that is a cannabis captive. Now, we won't insure full cannabis products, but they have a crop policy where if it runs hot on THC, which means it's too high for them to use as a regular hemp product, then they have to burn all their crops. They have a policy on that, so they're looking at unique ways to use their captives.

Q: What do you think is driving that?

A: A lot of it is data and experience. As we have people that get more experienced with their captives and get in there, understand what they're doing, and what they're using it for, they're tweaking it out, or they have a lot of their own personal data. They've looked at their risks that they've taken to the traditional market and said, "How can we create our own system to cover this?"

Q: We're hearing from the various domiciles that there's a lot of growth in the captive industry these days. What do you think is driving that?

A: Some of it is the hard market. Some of it is, just once again, as the captives market grows, as a U.S. market, we have legislation back to 1978 with captives. It's becoming a more mature, well-known option for people. We're out here letting people know that captives are an option for their risk managers.

Q: Do you think the pandemic sparked any interest on the part of companies in forming a captive?

A: I think it has. I think it has given them the opportunity to and it's all of us, during the pandemic to step back, look at processes, and go, how am I doing this? One of the things they're looking at is risk. They've said, how are we managing our risks? How are we looking at our risk? What options do we have available?

Some people had business interruption policies that didn't cover a pandemic and they're like, "How do we cover this next time?" and they're looking at captives to do that.

Q: What advice would you have for a company that's interested in forming a captive?

A: To take their time and get to know what captives are. Get to know a good captive manager. Talk to several domiciles, get to know what's out there and what works best for them.

I naturally think Tennessee would work well for them, but there are lots of options out there for everyone in captives. To start off with a few specific programs. Go a couple of years, build surplus, and then see what else they can use that captive for.

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

(By John Weber, senior associate editor, AM Best TV: John.Weber@ambest.com)
April 27, 2022

Taxation

Captive Associations File Brief Supporting Delaware in Legal Fight With IRS

Nine captive insurance associations have joined the Delaware Department of Insurance's battle with the Internal Revenue Service over enforcement of law regarding confidentiality of data reported by microcaptives.

Industry associations from Arizona, the District of Columbia, Missouri, North Carolina, South Carolina, Oklahoma, Tennessee and Utah, as well as the Self Insurance Institute of America have signed on to an amicus brief with the Third Circuit Court of Appeal.

Delaware and the IRS are arguing over whether the federal agency can circumvent federal and Delaware law to obtain captive insurance companies' confidential documents through a third-party administrative summons to the insurance commissioner as opposed to seeking the documents directly from the entities themselves, the filing said.

In this case, the state law at issue is Section 6920 of the Delaware Captive Law, which provides confidentiality, immunity from subpoena and immunity from disclosure for confidential documents relating to the license application for captive insurance. It forbids the commissioner or the department from disclosing such documents other than to insurance departments or law enforcement unless it has a written agreement to keep the information confidential, the filing said.

The IRS took the fight to federal court in 2020. According to court filings, the IRS is probing Artex Risk Solutions and a subsidiary, Tribeca Strategic Advisors, for possibly establishing sham microcaptive insurance arrangements to avoid taxes. The insurance department, the complaint said, has not provided all the information it could offer to assist the probe (BestWire, June 23, 2020).

Delaware Insurance Commissioner Trinidad Navarro said recently there is no place for tax dodges masquerading as captives.

"If there are captives here that are just being used as a tax mechanism, or a tax diversion, we don't want them," he said (BestWire, Nov. 19, 2021).

The IRS has said it does not discuss ongoing litigation.

The court filing says a district court was wrong when it decided last year it must first consider whether the activity in question regards “the business of insurance” before considering whether the McCarran-Ferguson Act, which would preempt federal authority, applies.

“Because the submission of the information to Delaware now sought by the IRS is a necessary part of Delaware’s licensing scheme for captive insurance companies, a statute dealing with the dissemination of such information plainly is designed ‘for the purpose of regulating the business of insurance’,” the brief said.

The district court last year ruled the challenged conduct constituted simple “record maintenance” and upheld the IRS’ petition to enforce its summons.

The captives’ brief argues the district court’s ruling harms insurers across the nation, because confidentiality agreements are necessary elements for providing confidence in the system of insurance regulation.

“By seeking a court order compelling the commissioner to violate Delaware law by producing confidential information relating to captive insurance companies, the IRS is effectively treating state insurance departments as a drop box of confidential information easily accessible to the IRS,” it said.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)
March 24, 2022

CICA President Warns Taxation Could Remove Captives’ Advantages

The president of the Captive Insurance Companies Association warned an audience of captive insurance professionals that the industry is always under threat by regulators who see them as targets for new taxes.

Speaking at the Barbados Risk and Insurance Management Conference, Dan Towle said the captive industry has been booming, but it’s never a good time to lower the guard against new taxes.

“While the industry is going very well, we’re always under threat,” Towle said. “Whether you’re in the States, whether you’re in Asia, whether you’re in Europe, regulators and taxing authorities don’t really understand captive insurance. And they’re always trying to figure out ways to add a tax to you.”

Towle cited the example of Washington state, which last year created a new registration system for captives and added a 2% premium tax. The measure requires captives to register with the Office of the Insurance Commissioner and to pay a $2,500 registration fee and the annual 2% premium tax, starting this year (BestWire, May 13, 2021).

“This is an important step to allow companies to continue utilizing this prudent risk management tool, while paying their fair share of premium tax to the state’s general fund, like other insurance companies have done for decades,” Washington Insurance Commissioner Mike Kreidler, who requested the legislation, said at the time.

But to Towle, measures such as Washington’s could be a death knell.

“That sort of threat is our biggest threat,” he told the conference. “You take the efficiency of captive insurers and add a 3-5% tax to it, it may not need to be around anymore.”

Some of the scrutiny by the Internal Revenue Service may be justified, he said, saying some estate planners have set up questionable small captives to take advantage of their tax benefits.

“They’re in the spotlight by the IRS in the States,” he said. “If I was in a small captive and I set it up for all the right reasons, you have nothing to worry about. You’re going to probably have the IRS look at you, but you’ve done it right, so don’t worry about it.”

Captives have a good news story they should be boasting about to the business community, he said.

Businesses’ captive insurers paid business interruption claims “from day one” when the COVID-19 pandemic forced government-ordered closures of large parts of the economy, he said.

“That didn’t happen in the traditional market,” Towle said. “But very few people are telling the story about how their captive helped keep them alive.”

Captives continue to grow by leaps and bounds, growing at record rates every year, he said. Towle anticipates that growth will continue for another 18 months and then level off.

A Best's Market Segment Report, found captives' flexibility and control allowed them to outperform their commercial peers.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)
March 22, 2022

Captive News

Marsh Captive Solutions President: Captives Are Natural Fits for ESG

Captives play into the three areas of environmental, social and governance, particularly governance, as companies have decided to segregate funding for losses in a regulated entity, said Marsh Captive Solutions President Ellen Charnley at RIMS Riskworld in San Francisco.

View the video version of this interview at: http://www.ambest.com/v.asp?v=charnley422

Following is an edited transcript of the interview.

Q: We have seen record growth in captives over the past couple of years. How is 2022 trending, and what are we seeing there?

A: It certainly has been record growth. Here, at Riskworld, it's been crazy. We've had so many meetings. Everybody wants to form a captive. It's just nuts.

It's a great problem to have. We're seeing it across all industries, across all lines of business, across all domiciles. Never have I seen record growth like this. I've been in this industry for decades, and I've never seen growth like this. It's quite amazing.

I think it's been fueled by the market conditions, and so that is leading to more companies retaining more risk. When companies retain more risk, they think about, "Should I formalize that retention and put it into a captive?" That's what's leading to these inquiries and these conversations in this captive formation.

Q: Can you expand a little bit upon that and where we're seeing the captive growth coming from?

A: I think we're seeing again all sizes and all companies, but perhaps more so in the medium-sized companies that don't have a captive that have always had it on the back burner. There now being propelled into the thought process because perhaps the market conditions have become a little bit too tough for them, and it forced them into this thinking.

Larger companies already have a captive or have already perhaps gone down that path, but the midsize companies, that's where we're seeing a lot of growth from. We're also seeing growth in our protected cell structures. That's a form of structure for a captive. In addition to a single-parent captive, there are other different types of captives.

Our protected cell company allows companies to have a slightly quicker formation and a slightly cheaper operating cost. We're seeing that type of structure be very popular for speed to access and quicker formation.

Q: We're hearing a lot about ESG in the various sectors of the insurance industry. What role do you think the captives could or should be playing in the ESG world?

A: We're really looking into it and getting a lot of questions on it. I think we're seeing already that captives can play in the E, the S, and the G. Many captives write some form of environmental policy. For example, many, many captives have very strict investment policies on how they invest from an ESG perspective.

Simply the very nature of a captive is G if you think about it because companies have decided to formalize and segregate funding for losses in a regulated entity. That's G all over.

We're going to see a lot more of how captives play in ESG world. We're doing some work with our ESG colleagues at Marsh. There's more to come on that.

We've also got an ESG committee within Marsh Capital Solutions and we're going to be launching a few things here and there, so more to come on it, but there's going to be a lot more to come on ESG and captives.

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

(By John Weber, senior associate editor, AM Best TV: John.Weber@ambest.com)
April 21, 2022

FIO Seeking Feedback on Effectiveness of Terrorism Risk Insurance Program

The Federal Insurance Office is seeking insurance industry comments on the effectiveness of the Terrorism Risk Insurance Program to be included in an upcoming report.

The Terrorism Risk Insurance Act of 2002 established the program, and TRIA requires the Secretary of the Treasury to submit a report to Congress by June 30 concerning the overall effectiveness of TRIP, according to a notice in the Federal Register.

To assist the secretary in formulating the report, FIO is seeking comments from the insurance sector and other stakeholders on the statutory factors to be analyzed in the report, as well as feedback on other issues relating to the effectiveness of TRIP, it said.

Comments must be submitted by May 16, it said.

According to the notice, besides seeking input on the overall effectiveness of TRIP, FIO is seeking information on the availability and affordability of terrorism risk insurance, including specifically for places of worship; any changes or trends relating to the data treasury collects in its annual TRIP data calls and the implications of those observations on the effectiveness of TRIP.

Other areas where FIO is seeking input include whether any aspects of TRIP have the effect of impeding insurers from providing one or more lines of commercial property/casualty insurance coverage or coverage for acts of terrorism; and if there is any impact of TRIP on workers' compensation insurers in particular, it said.

In addition, FIO will field comments on related issues, such as how the COVID-19 pandemic has affected the market for terrorism insurance and cyber-related events, including those that occur outside of TRIP, it said. FIO also said it was open to hearing whether changes to TRIP or TRIA would boost the uptake of terrorism coverage for cyber-related coverage.

With the passage of the Nonadmitted and Reinsurance Reform Act, which had an impact on captives, a lot of captives began accessing the TRIA program, said Rich Smith, president of the Vermont Captive Insurance Association (BestWire, Nov. 1, 2021.)

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)
April 6, 2022

VCIA President: Outlining Initiatives to Chart a New Course for the Association

Kevin Mead, the newly appointed president of the Vermont Captive Insurance Association, discussed his plans as he takes over the reins of the organization, including an "extensive member consultation process."

View the video version of this interview at: http://www.ambest.com/v.asp?v=mead322.

Following is an edited transcript of the interview.

Q: What led you to the VCIA?

A: I think it was, first of all, the industry leadership of Vermont in the captive industry. Then, wanting to return to the association world, that dynamic with a board and a membership.

Funnily enough, the most interesting thing was when I was going through the interview process, I wondered out loud with the panel that was doing the interviews, "will I get a chance to meet with staff?"

They said, “Oh, it’s part of the process.” That showed the nature of the entity, that they were going to involve staff in the selection of the new CEO/chairman. That was a critical factor to me. It showed what the nature of the organization and its leadership and the board was.

Q: You’ve been on the job not quite two months at this point. How much of a learning curve has it been?

A: It’s not a curve. It’s a wall. I’ve been given a couple of grappling hooks to help me over it, but it’s pretty steep. There’s a lot of phraseology in this industry that I’m unfamiliar with. It’s interesting, we’ve got a lot of veterans on the VCIA staff. Even today, we were proofreading something and there was a word that even the folks that have been here for 20 years didn’t get. We had to go look it up.

I’m not the only one facing this on staff. Everybody does. I’ve got great help on staff. Everyone’s been so cooperative and helpful out in the industry in the little contact that I’ve had in my first month on board.

Q: What advice, if any, did your predecessor Rich Smith give you about this job?

A: We had a great handover. We had about nine conference calls before I even took over, which was great. I went to Rich’s farewell lunch, gifted him a bottle of Irish whiskey as a thank you for all the help that he’d given me in terms of that.

His advice, which I found to be true, is that this is a very open, a very friendly, and a very cooperative organization to be involved with and a cooperative industry.

There was a great book a few years ago called “Coopertition.” What it said was cooperate to grow the size of the pie and then compete for a bigger slice of it. That seems to be the way this industry works. People are cooperative because they want to spread the good that captives can do for clients. Then, they compete in that marketplace to provide that value to clients.

Q: What’s your vision for VCIA as you take the reins as the new president?

A: It’s exactly that, to be cooperative with other players in the industry, other stakeholders, and then to compete. To compete to hold on to that kind of primacy position that Vermont and the VCIA has, to come up with new initiatives, and to drive value to members.

One of the first things we’ll be doing is an extensive member consultation process. We’re coming out of COVID. People’s perception of value in associations has probably changed. If we carry on doing the things that we did going into COVID, we run the risk of no longer being as relevant to our members as we need to be. We’re going to assess what their needs are and develop initiatives that support that.

Q: What’s going on with this year’s conference?

A: We are really pleased with the program that we’ve put together. I think that it’s a stellar program. I think that the social events will, as per usual, be the greatest social events you’ll see in Vermont.

We are again taking the captive owners out on a tour of the Vermont Air National Guard base, which is always exciting, especially if that’s a flying day for them and they get to see the jets scooting around the sky over Burlington.

Lots of great technical sessions, and also, I think, a greater opportunity for interaction because one of the things that’s happened during COVID is people have missed that interaction.

We’re going to be providing people the ability to catch up outside of pure formal educational sessions.

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

(By John Weber, senior associate editor, AM Best TV: John.Weber@ambest.com)
March 29, 2022

Willis Towers Watson Executive: New Delaware Legislation Benefits Captives

Larry Fine, management liability coverage leader of Willis Towers Watson’s FINEX North American division, discusses a new Delaware law that allows captive insurers to indemnify certain things that they might not have been able to before. Fine spoke with AM Best TV at the PLUS D&O Symposium in New York.

View the video version of this interview at: http://www.ambest.com/v.asp?v=fine0322.

Following is an edited transcript of the interview.

Q: Can you tell us about new legislation on the books in Delaware as it pertains to captive insurers?

A: Delaware made a change, an addition to Section 145 of the Delaware General Corporation Law. In all states, including Delaware, there are rules about what companies can or can't indemnify their directors and officers for.

In every state, they also say you can buy insurance that could cover them for certain things that the company couldn't cover them for itself.

In Delaware, like in many states, when they said insurance would cover certain non-indemnifiable losses, they didn't specify whether captive insurers would be treated as insurance for that purpose. Most people assumed that it wouldn't and people didn't want to take a chance.

In the last few weeks, language was added that said basically, this includes captive insurance, so that now, captive insurers can indemnify certain things that they might not have been able to before.

There were three provisos put in about what the captive insurance policies would have to look like, what sort of terms they might have to have. They need to have independent claims handling, things like that. It's not completely easy, but now the road map is there for how it would be done.

That has led to a floodgate of interests in the possibility of putting what they call side-A non-indemnifiable D&O loss into a captive. That will probably not result in a floodgate of actual purchasing and setting up of captives.

For the most part, there's still other issues to worry about such as potential bankruptcy, making sure there's full funding for captive layers. The chances are that most companies will not just switch all of their risk transfer policies to be captive policies, but there may be some filling of difficult-to-place layers that are overpriced.

This is now becoming an option that didn't exist before. Willis, like many companies, has hundreds of people dedicated to captives, and especially companies that already have captives or other insurance lines may consider now putting directors and officers in.

Q: Let's switch gears here a little bit, talk about special purpose acquisition companies. What are you seeing in the way of SPACs and also de-SPACs?

A: As anyone in the market would know, it's been a difficult market for clients to get coverage. The terms of the premiums and retentions have been fairly high. It's a tough market.

Recently, we've seen that de-SPACs, if the target that's being merged with has a real business model and real revenue, then insurers are differentiating that from these pre-revenue startup tech companies, things like that. Better rates are starting to be available for more solid companies.

On the SPAC front, these are just companies looking to buy other companies. Insurers try to look at the management track record. Brokers have to work hard to differentiate their clients from all the others out there, because the terms are tough.

A few things probably have to happen before things settle down, because there's still a lot of SPAC money chasing merger candidates. We're waiting to see, when the field settles down, will there be enough companies left to be bought.

There's a lot of litigation that is in the early stages, and so we don't know yet whether plaintiffs will be doing well in those cases.

The SEC has spoken about SPACs a lot but we don't really know exactly where they're going to take this. It's still area of some uncertainty, but brokers can guide clients through, and there are signs of improvement.

Q: Let's talk a little bit about enironmental, social and governance. There's a lot of talk about ESG these days. All the attention warranted?

A: It's become a trendy topic. The letters have become very popular, E, S, and G, sometimes lumped together, although they're all different things that overlap.

I think of ESG as mainly a shorthand for saying that directors and officers have to worry about almost everything these days, and they have to worry about more stakeholders, not just shareholders and regulators, but also employees, customers, social media influencers, PE investors, things like that.

It's just difficult to touch all the bases. In the U.S., we don't have as much environmental, climate-related legislation as they do in some other countries, but we seem to be on the rise in that area and there's a lot of focus on it.

On the social side, companies want to be seen to be doing good but not at the expense of profits, and they don't want to oversell it, because they don't want to get accused of greenwashing. It's a lot of directors and officers to worry about.

At the end of the day, the buck stops with them for everything, but because they can't do everything, they have to delegate well and set a good tone at the top. That brings you back to the G and governance.

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

(By John Weber, senior associate editor, AM Best TV: John.Weber@ambest.com)
March 28, 2022

IRS Microcaptive Rule Vacated by Federal Court in Another CIC Services Win

A federal judge has vacated an Internal Revenue Service rule it imposed to investigate microcaptive arrangements, saying the agency failed to follow rule-making guidelines and ignored public comment requirements.

Judge Travis R. McDonough of the U.S. District Court, Eastern District of Tennessee, said the IRS violated the federal Administrative Procedure Act in demanding client information from CIC Services, LLC, a group of attorneys and accountants who advise taxpayers on 831(b) captives also known as microcaptives or enterprise risk captives.

"In this case, vacating the Notice in its entirety is appropriate," McDonough wrote. "The IRS did not comply with notice-and-comment procedures, and it acted arbitrarily and capriciously."

The decision is the second major win in less than a year in CIC's dispute with the IRS. The U.S. Supreme Court in May ruled against the government in the dispute over a reporting tool the IRS employed to reduce the use of microcaptive insurance arrangements it considers potentially abusive tax shelters (BestWire, May 17, 2021). The high court remanded the case back to the district court.

The IRS had earlier designated microcaptives as "transactions of interest," triggering reporting, disclosure and maintenance requirements.

But McDonough, limited to determining if the administrative record showed the IRS complied with the APA, found the agency did not.

"In this case, the administrative record fails to include relevant data and facts supporting the IRS's decision to designate microcaptive arrangements as transactions of interest, and, thus, reportable transactions," he said.

The notice announcing the IRS rule simply states the agency is aware of microcaptive transactions and "believes" these transactions have the potential for tax avoidance, the ruling said. "While the notice goes on to describe these transactions, it does not identify any facts or data supporting its belief," it said.

The APA requires the IRS to examine relevant facts and data, it said, but "the administrative record in this case simply does not include underlying facts and data showing that microcaptive insurance arrangements have a potential for tax avoidance or evasion. As a result, the notice must also be set aside as agency action that is arbitrary and capricious."

"We are gratified by the court's ruling and look forward to the IRS's compliance with the court's order," said Adam Webber, an attorney representing CIC.

An attempt to obtain comment from a spokesman for the U.S. Treasury was not immediately successful.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)
March 25, 2022

News of the Alternative Risk Markets

Zurich North America Names Head of Captives Sales and Execution

Zurich North America has named Adriana Scherzinger as head of captives sales and execution.

In her new role, Scherzinger will be responsible for managing the value proposition, performance metrics and key initiatives across Zurich's suite of single parent and sponsored cell captive solutions within U.S. national accounts and middle market and helping position Zurich as an industry leader. She is based in Schaumburg, Illinois, and reports to Andy Zoller, head of international & captive solutions, U.S. national accounts and U.S. middle market, according to a company statement.

She brings more than 15 years of global experience to this role.

Scherzinger joins Zurich North America from her previous role as Zurich's regional head of international program business, commercial insurance, for Latin America. She was based in São Paulo, Brazil, where she supported local initiatives to promote international programs and captives, as well as servicing international business. Previously, she led captive services in Latin America and was the senior captive portfolio manager for the Middle East, Spain and Switzerland, the company said.

In February, Zurich North America named Ernie Salas as senior broker relationship leader (BestWire, Feb. 25, 2022).

Underwriting entities of Zurich Insurance Group Ltd. have current Best's Financial Strength Ratings of A+ (Superior) and A (Excellent).

(By Barbara Edwards, BestWire: Barbara.Edwards@ambest.com)
March 21, 2022

Darag Acquires Guernsey-Based Reinsurance Captive

Darag Group said it acquired a Guernsey-based reinsurance captive from an unnamed cedant owner.

The sale of the captive, which has been in runoff since 2019, is part of a strategic realignment for its cedant owner, which is looking to tighten its business focus, said Darag in a statement.

The captive's key business lines are property damage, business interruption and public and employers' liability in the United Kingdom, said Darag.

An effort to reach Darag was not immediately successful.

The transaction is subject to regulatory approval from the Guernsey Financial Services Commission.

Darag Group recently entered into a stock purchase agreement and received regulatory approval to buy Nebraska-based property/casualty company Acceptance Insurance Co. (BestWire, Jan. 4, 2022). The Nebraska entity was immediately merged into a previously acquired Texas entity after receiving the necessary regulatory approvals, the legacy acquirer said in a statement. Darag said the move will provide an immediate increase in surplus to assist with the expansion of the Texas entity's capabilities across all 50 states and meet key organizational objectives in North America.

This is the second transaction for Darag in Guernsey, reinforcing its position in the market, as well as across Europe and North America, Darag said.

In 2019, Darag Guernsey announced the acquisition of Guernsey-based captive (re)insurer Thames Water Insurance Co. Ltd. from its parent Kemble Water Finance Ltd. The share purchase agreement was signed and completed in cooperation with the broker Willis Towers Watson, which will continue to act as captive manager, Darag said in a statement at the time.

The captive was renamed Darag Insurance (Guernsey) Ltd. and was to be a consolidator for certain future Darag non-European Economic Area legacy deals, including captive acquisitions and other legacy reinsurance contracts, Darag said at the time.

Darag Guernsey Ltd. is not rated by AM Best.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)
March 3, 2022

Methodology Sources:

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

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

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

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