AM Best

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# 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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## Executive Notes

Rating Activity

## AM Best Affirms Credit Ratings of Park Assurance Company

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a” (Excellent) of Park Assurance Company (Park) (Colchester, VT). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Park’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.

Park’s strongest level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), reflects its conservative loss reserving practices and favorable development trends, along with its conservative investment portfolio and strong liquidity measures. Park is well-capitalized through retained earnings, as the captive has reported consistently favorable pure loss ratios in combination with its low-cost underwriting expense structure to produce favorable operating earnings year after year, which have outperformed the commercial property composite by a wide margin. The ratings further reflect Park’s sophisticated risk management strategy and practices, experienced management team and its integral role as a single-parent captive of JPMorgan Chase Holdings LLC, which is a subsidiary of JPMorgan Chase & Co. (JPMorgan Chase) [NYSE: JPM], a leading global financial services group. however, AM Best considers Park’s business profile to be limited due to its product concentration risk, offering limited lines of coverage on a net basis.

Partially offsetting these factors are the potential credit risk associated with Park’s extensive use of reinsurance, which management utilizes to mitigate its exposure to oversized losses on substantially valued insured locations, as well as its reliance on the protection afforded by the Terrorism Risk Insurance Program Reauthorization Act. Park provides JPMorgan Chase with global property coverages, including terrorism, cyber and banker’s blanket bond. These coverages are key components of JPMorgan Chase’s risk management strategy, and Park benefits from the explicit support of the group’s significant financial resources and extensive professional resources.

(February 13, 2025)

## AM Best Affirms Credit Ratings of Federated Underwriting Company

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” (Excellent) of Federated Underwriting Company (Federated) (Colchester, VT). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Federated’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 also reflect the credit enhancement received from its ultimate parent, State Street Corporation (State Street) [NYSE: STT].

This single-parent captive was formed and capitalized in 2019 as part of State Street’s alternative risk financing strategy in the wake of significant price firming in the insurance market. AM Best considers Federated’s business profile to be limited, and its sole purpose is to take on specific risks related to State Street’s insurance programs. Federated’s historical operating performance has been assessed as adequate, which reflects AM Best’s neutral position until Federated’s business further matures and evolves. Consideration continues to be given to management’s projections and its ability to execute on these projections in conjunction with Federated’s overall mission and business plans.

Finally, the ratings include a level of credit enhancement from State Street, one of the world’s largest financial service organizations. AM Best believes that given the captive nature of the business being insured, the interests of State Street and Federated are aligned directly, and additional capital and financial flexibility are available, if necessary.

(February 13, 2025)

## AM Best Assigns Credit Ratings to Torreyana Insurance Company, Inc.

AM Best has assigned a Financial Strength Rating of A (Excellent) and a Long-Term Issuer Credit Rating of “a” (Excellent) to Torreyana Insurance Company, Inc. (TIC) (Burlington, VT). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect TIC’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 (ERM).

The ratings also reflect Torreyana’s function as the only captive insurer for Vertex Pharmaceuticals Incorporated (Vertex) [NASDAQ: VRTX], a global pharmaceutical company. As Torreyana insures or reinsures Vertex’s global liability and property exposures, it plays a strategic and critical role in Vertex’s overall ERM in protecting the enterprise’s assets.

The very strong balance sheet strength assessment of TIC is supported by the strongest level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), as well as a conservative investment portfolio and adequate reserves. Its recent growth in surplus is supported largely with capital contribution from its parent, Vertex. Additionally, TIC has a highly rated diverse and reinsurance panel that is well-equipped to protect the company’s balance sheet.

TIC’s strong operating performance reflects its consistently favorable combined ratios, supported by very low loss ratios based on Vertex’s historical legacy loss experience placed into Torreyana upon establishment. Combined ratios are significantly lower than those of peers. Additionally, TIC maintains minimal expense ratios as a single-parent captive, and it continues to review expansion into additional coverages for the parent.

Torreyana is a wholly owned captive insurance subsidiary of Vertex, created to insure or reinsure specific risks of its parent organization. AM Best assesses the business profile as neutral as TIC is diverse geographically and by product, as it offers several coverages for its global parent. ERM is appropriate for the company as its practices have emanated from its parent, Vertex, leading to its establishment. Vertex is a global biotechnology company that invests in scientific innovation to create transformative medicines for people with serious diseases. The company has approved medicines that treat the underlying causes of multiple chronic, life-shortening genetic diseases - cystic fibrosis, sickle cell disease and transfusion-dependent beta thalassemia - and continues to advance clinical and research programs in these diseases.

(February 13, 2025)

## AM Best Affirms Credit Ratings of Ma’aden Re Limited

AM Best has affirmed the Financial Strength Rating of B++ (Good) and the Long-Term Issuer Credit Rating of “bbb+” (Good) of Ma’aden Re Limited (MRE) (United Arab Emirates), a captive reinsurer of Saudi Arabian Mining Company (Ma’aden) (Saudi Arabia). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect MRE’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. The ratings also reflect, in the form of rating enhancement, MRE’s strategic importance to its parent, Ma’aden.

MRE’s strong balance sheet strength assessment is underpinned by robust risk-adjusted capitalisation, moderate underwriting exposure, low asset risk profile and the good credit quality of its retrocession programme. Partly offsetting to the balance sheet strength assessment is the captive’s high dependence on retrocession, particularly following the increase of its risk limit, which elevates credit risk under a stressed scenario.

MRE is a single-parent captive, domiciled in the Dubai International Financial Centre, established in November 2021. The captive underwrites Ma’aden’s whole property damage and business interruption reinsurance programme and is expected to expand into additional lines over the coming years. MRE’s risks are concentrated to Saudi Arabia, where the majority of its parent’s assets are located.

MRE generated its first profit in 2023, its second full year of operation, reporting a solid pre-tax profit of USD 13.6 million (2022: USD -4.1 million). The captive’s 2023 profit was driven by strong technical profitability, which was the result of a benign loss year, and modest investment income. Performance contrasted with the first year of operation, in 2022, which was impacted materially by two large claims that exhausted its aggregate yearly limits and resulted in the combined ratio of 175.9%. MRE’s is projected to generate a profitable return in 2024 and over the planned period, remaining supportive of an adequate assessment.

(February 24, 2025)

## AM Best Withdraws Credit Ratings of Evergreen Insurance Company Limited

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” (Excellent) of Evergreen Insurance Company Limited (EICL) (Bermuda). The outlook of these Credit Ratings (ratings) is stable. Concurrently, AM Best has withdrawn these ratings as the company has requested to no longer participate in AM Best’s interactive rating process.

The ratings reflect EICL’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 also reflect the parental support EICL receives from Evergreen International S.A. and Evergreen International Corporation in terms of capital, business development, operations and risk management.

EICL’s balance sheet strength is underpinned by its risk-adjusted capitalisation, which was at the strongest level at year-end 2023, as measured by Best’s Capital Adequacy Ratio (BCAR). Despite the significant projected decline in the absolute capital level as per the company’s capital and business plan, AM Best expects EICL’s risk-adjusted capitalisation to be maintained at the strongest level in the intermediate term due to the significantly reduced underwriting risks. Other supportive factors of the balance sheet strength include a highly liquid and conservative investment portfolio, a track record of prudent reserving, and a comprehensive reinsurance programme.

As a pure captive of Evergreen Group, EICL’s in-force underwriting portfolio primarily consists of marine, aviation and property risks related to the group’s operations. The company has ceded the majority of its risk exposures to a panel of financially sound reinsurers and maintained a low retention ratio. EICL’s overall capital position and profitability have been stable over the past five years, owing to prudent underwriting practices, conservative reserving assumptions and long-term reinsurance relationships. EICL’s risk management is well-embedded into the group’s risk framework and is viewed as appropriate to support its risk profile.

EICL’s five-year average return-on-equity ratio was 12.2% (2019-2023). The company recorded strong double-digit growth in net operating income during the first nine months of 2024, driven by profitable underwriting and higher investment income. However, minimal prospective earnings are projected in 2025 and 2026 based on its business plan.

EICL has historically been a beneficiary of support from its shareholders and the wider parent group. AM Best expects EICL’s shareholders will remain committed and continue to render support to the company over the short to intermediate term in terms of capital, risk management and operations, if needed.

(March 5, 2025)

## AM Best Assigns Credit Ratings to Popular Re, Inc.

AM Best has assigned a Financial Strength Rating of B++ (Good) and a Long-Term Issuer Credit Rating of “bbb” (Good) to Popular Re, Inc. (Popular Re) (Puerto Rico). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect Popular Re’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 weak credit profile of the ultimate parent, Popular, Inc., has a drag on the ratings lift/drag reflected in Popular Re’s ratings.

The ratings also consider Popular Re’s role as the property/casualty reinsurer for Popular, Inc., Puerto Rico’s largest financial institution, which also has branches in the Virgin Islands and Mainland United States. Popular Re began operations in 2022 and participates in Popular, Inc.’s reinsurance program as an insurer and reinsurer, in various property/casualty lines of business. The captive is a strategic component in the organization’s risk management framework.

AM Best assesses Popular Re’s balance sheet as strong, supported by risk-adjusted capitalization at the very strong level, as measured by Best’s Capital Adequacy Ratio (BCAR), conservative investment portfolio, and favorable liquidity metrics. Loss reserves are adequate and are carried at the actuary’s midpoint, but reserve history is short, and some lines have a long tail.

The adequate operating performance is supported by modest after-tax measures driven mostly by investment income. Although the average combined ratio is higher than its peers in the initial phase, Popular Re is expected to report underwriting profitability over the next year.

Popular Re's limited business profile assessment is due to its geographic concentration of risk; however, the captive writes several financial lines and property lines for its parent. AM Best assesses the company's ERM as appropriate and is fully integrated into Popular, Inc.'s program.

(March 7, 2025)

## AM Best Withdraws Credit Ratings of Members of Falcon Insurance Group

AM Best has affirmed a Financial Strength Rating of A- (Excellent) and Long-Term Issuer Credit Ratings of "a-" (Excellent) of Falcon Indemnity Company, Inc., Galaxy Indemnity Company, Inc., and Golden Eagle Insurance Company, Inc. The outlook of these Credit Ratings (ratings) is stable. The above-mentioned companies are collectively known as the Falcon Insurance Group (Falcon) and are domiciled in South Jordan, UT. Concurrently, AM Best has withdrawn these ratings as Falcon has requested to no longer participate in AM Best's interactive rating process.

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

Falcon's balance sheet strength assessment of strong is supported by its risk-adjusted capitalization being at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), in addition to its adequate reserves, partially offset by its high combined retention relative to surplus. Also, Falcon's investment portfolio has a high allocation and concentration in equities, which are diversified, but still could introduce surplus volatility in certain market conditions.

Falcon's strong operating performance assessment reflects its underwriting profitability over the past decade, driving metrics that compare favorably with its peers. AM Best expects that Falcon's operating trends will remain favorable.

The group's business profile is assessed as limited. It consists of three side-by-side 'captives' that equally share business under a joint underwriting agreement. The group writes coverage for a single entity, which is affiliated by partial common ownership. That entity, Reliable Properties, Inc. (Reliable), is a property manager with most of its exposure in southern California. The companies were established to provide direct coverage for Reliable and cover gaps that are conventionally insurable.

Falcon's ERM framework is appropriate for the size and complexity of its operations. The group has an informal ERM program that is evolving. Key risks have been identified and the group has risk controls and monitoring in place. The group's loss levels are historically low and offers limits across its menu of 12 coverages for low frequency, high severity risks.

The stable outlooks reflect AM Best's expectation that Falcon will maintain its balance sheet strength assessment of strong, supported by organic surplus growth from consistent underwriting profitability.

(March 12, 2025)

## AM Best Affirms Credit Ratings of Energas Insurance (L) Limited

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" (Excellent) of Energas Insurance (L) Limited (ENERGAS) (Malaysia). The outlook of these Credit Ratings (ratings) is negative.

The ratings reflect ENERGAS' 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. In addition, the ratings factor in a neutral impact from the parent company, Petroliam Nasional Berhad (PETRONAS), which is the national oil and gas company of Malaysia.

The negative outlooks reflect pressure on ENERGAS's strong operating performance assessment. The company's underwriting performance has shown a trend of deterioration that was exacerbated by heightened claims frequency. Nevertheless, ENERGAS's underwriting performance has shown an improvement in the first nine months of 2024, supported by favourable loss experience and premium rate increases. Notwithstanding ongoing remedial measures, the effectiveness of these actions remains subject to execution risk.

ENERGAS' balance sheet strength assessment is underpinned by its risk-adjusted capitalisation, which is at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best views ENERGAS' investment portfolio as conservative, with a majority of its investments allocated to cash and deposits, and the remainder invested in good quality government and corporate bonds. Capital requirements arising from underwriting risks are viewed by AM Best to be low given the company's low net underwriting leverage. Potential accumulation of high severity losses from multiple policies may lead to balance sheet volatility, although the risk is mitigated by reinsurance.

AM Best considers ENERGAS' business profile to be neutral. As a single-parent captive to PETRONAS, ENERGAS benefits from business access to the group's insurance risks. However, the company's underwriting portfolio shows concentration by line of business and geography, with a significant focus on upstream and downstream energy risks located in Malaysia.

(March 14, 2025)

## AM Best Assigns Credit Ratings to Cadence Indemnity Inc.

AM Best has assigned a Financial Strength Rating of B++ (Good) and a Long-Term Issuer Credit Rating of "bbb+" (Good) to Cadence Indemnity Inc. (Cadence) (Galveston, TX). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect Cadence'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).

Cadence's balance sheet strength assessment is supported by its risk-adjusted capitalization, which is at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). The company's balance sheet also benefits from having low underwriting leverage and a low dependence on reinsurance. Offsetting these positive factors on the balance sheet are the company's high per-occurrence limit retentions on its marine builders' risk coverage relative to its surplus size. Additionally, Cadence's investment portfolio carries a high level of equity exposure relative to its surplus, which can expose its surplus during times of stock market volatility.

Cadence's operating performance is assessed as adequate based on its limited two-year historical results and prospective operating profitability. In 2023 and 2024, which were Cadence's first two full years in operation, investment related income was the primary source of pre-tax operating earnings, with the company reporting small underwriting losses in each of those respective years. In the future, management is estimating that investment income will be the main driver of earnings, with underwriting income expected to grow over time.

Operating as a single-parent captive, the company's mission is to provide affordable coverage on a direct basis for a diversified portfolio of risks from several commonly owned operating companies, collectively known as The Sullivan Brothers Family of Companies (SFBC). In addition to its direct writings, Cadence also assumes clinic liability coverage from its fronting partner, Continental Casualty Company. Due to the national reach of SFBC, Cadence's risks have some spread geographically; however, the company offers very limited lines of coverage, which contributes to its limited business profile.

Cadence benefits from an appropriate ERM program that is well-integrated with that of the parent organization. Serving as an extension of SFBC's risk management framework, Cadence deploys effective loss control and risk management capabilities.

(March 19, 2025)

## AM Best Revises Outlooks to Positive for Fidvest US LLC

AM Best has revised the outlooks to positive from stable and affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" (Excellent) of Fidvest US LLC (Fidvest) (Charleston, SC).

The Credit Ratings (ratings) reflect Fidvest's balance sheet strength, which AM Best assesses as very strong, as well as its marginal operating performance, limited business profile and appropriate enterprise risk management (ERM).

Fidvest is a pure captive insurance company wholly owned by FMR LLC (FMR), the parent company of Fidelity Investments.

The positive outlooks are driven by the company's operating performance, which reflects its sustained trend of improving underwriting results since 2020. Following a period of underwriting volatility, management instituted several correcting initiatives to stabilize Fidvest's operating results such as pricing adjustments, enhanced reserving practices and revised limits and retentions. Improved underwriting profitability has been noted since that time and organic surplus growth has been achieved. Going forward, AM Best will continue to monitor trends in Fidvest's underwriting performance and overall operating results.

Fidvest maintains a very strong level of balance sheet strength, reflective of its strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), conservative investment risk profile and strong liquidity position. Partially offsetting these factors is the volatility in Fidvest's loss reserve balances related to professional liability claims and related litigation expenses.

AM Best assesses Fidvest's business profile as limited, as it covers professional liability, workers' compensation, property, automobile liability, general liability and cyber coverage for its parent in the form of deductible reimbursement and high excess policies. Fidvest maintains an ERM structure that is appropriate for a company of its size, and as a part of FMR, also benefits from and is an integral part of the parent company's ERM framework. In addition, the ratings receive lift from its ultimate patent, FMR, a large and diversified financial services organization. The enhancement considers Fidvest's strategic importance to FMR, as well as FMR's ability to provide financial flexibility to Fidvest should it become necessary.

(March 27, 2025)

## AM Best Revises Outlooks to Positive; Affirms Credit Ratings of Black Gold Re Limited

AM Best has revised the outlooks to positive from stable and affirmed the Financial Strength Rating of B++ (Good) and the Long-Term Issuer Credit Rating of "bbb+" (Good) of Black Gold Re Limited (BGRe) (Bermuda).

The Credit Ratings (ratings) reflect BGRe's balance sheet strength, which AM Best assesses as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management (ERM).

The outlooks revision to positive from stable reflects AM Best's expectation that BGRe will continue strengthening its balance sheet through prudent capital management and profitable operating results. The revision is based on the continued strengthening of the company's balance sheet strength metrics, which are expected to be sustained in the future.

BGRe is a captive reinsurer of Ecopetrol S.A. (Ecopetrol) [NYSE: EC], a Colombia-based integrated energy company that is 88.49% owned by Colombia's government. The ratings also recognize the importance of the company within Ecopetrol's strategy.

BGRe's strongest assessment of balance sheet strength reflects its capital management strategy and ability to build up capital. The company has low net underwriting leverage, creating dependence on reinsurance; however, these associated risks are mitigated partly by a solid reinsurance program composed of highly 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, as well as the overall reinsurance market conditions.

BGRe's operating performance is characterized by profitable technical results driven by well-established underwriting principles and considerable revenue from ceding commissions. Over the last few years, the company has complemented its net profit with investment results; however, dependence on this revenue is low.

AM Best views 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. Nonetheless, 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 occur if BGRe is able to further enhance its balance sheet strength, while maintaining the strongest level of risk-adjusted capitalization. Conversely, negative rating actions could take place if BGRe's business flow is limited by any change in its holding company or if the financial situation of Ecopetrol is compromised by any sociopolitical or economic events. Negative rating actions could also take place if the balance sheet strength of BGRe is stressed by the materialization of any risk exposure.

The methodology used in determining these ratings is Best's Credit Rating Methodology (Version Aug. 29, 2024), 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.

Key insurance criteria reports utilized:

Alternative Risk Transfer (ART) (Version Feb. 8, 2024)
Evaluating Country Risk (Version June 6, 2024)
Understanding Global BCAR (Version Aug. 1, 2024)
Catastrophe Analysis in AM Best Ratings (Version Feb. 8, 2024)
Available Capital and Insurance Holding Company Analysis (Version Aug. 15, 2024)
Scoring and Assessing Innovation (Version Feb. 20, 2025)

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, relevant sources of information and the frequency for updating ratings, please refer to Guide to Best's Credit Ratings.

Previous Rating Date: March 21, 2024
Initial Rating Date: Feb. 8, 2022
Date Range of Financial Data Used: Dec. 31, 2018-Dec. 31, 2024

(March 27, 2025)

## AM Best Affirms Credit Ratings of Lion Reinsurance Company Limited

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" (Excellent) of Lion Reinsurance Company Limited (Lion Re) (Bermuda). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Lion Re'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.

Lion Re is a subsidiary of ASSA Compañía Tenedora, S.A. (ASSA Tenedora) and is owned ultimately by Grupo ASSA, S.A. (Grupo ASSA), a financial services holding company publicly traded on the Panama Stock Exchange.

Lion Re is a captive Bermuda-based reinsurer assuming risks from ASSA Tenedora affiliates for property, auto, liability, marine, group life, health and miscellaneous businesses. AM Best recognizes its strategic role in the group's overall regional strategy; however, as it is a captive, Lion Re's business profile is considered limited once compared with other commercial reinsurers.

Lion Re's capital base is supportive of its risk-adjusted capitalization, assessed at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as its balance sheet assessment, which is very strong. Lion Re continues to perform an important role in ASSA Tenedora's strategy as it consolidates operations in the Central American region by providing reinsurance capacity.

Lion Re's adequate level of operating performance results from its affiliated insurance companies in the Central American region, as well as its affiliation to Grupo ASSA, which provides synergies, operating efficiencies and financial support. The company reviews its underwriting guidelines constantly to improve the performance of its business segments that are deviating from targets. Investment income, based on a conservative strategy, continues to support Lion Re's results; however, it is not dependent on this type of revenue to achieve positive bottom-line results. As of December 2023, Lion Re's consistent profitability was reflected in a 37% return-on-equity ratio. In 2024, the company remained profitable and in line with previous results.

Factors that could lead to positive rating actions include a greater degree of perceived integration of Lion Re's role within the group, while maintaining the financial support of its parent. Factors that could lead to negative rating actions include a material loss of capital, which reduces the company's risk-adjusted capitalization to a level that does not support its ratings, or a diminished strategic importance of Lion Re to the group.

(April 3, 2025)

## AM Best Affirms Credit Ratings of Sooner Insurance Company

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a+" (Excellent) of Sooner Insurance Company (Sooner) (Colchester, VT). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Sooner'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 (ERM).

Sooner's balance sheet strength is underpinned by its risk-adjusted capitalization at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), generally favorable loss reserve development and low underwriting leverage. Sooner's most significant asset is a loan back to its ultimate parent, ConocoPhillips [NYSE: COP]. The arrangement provides Sooner's capital and has relatively low risk due to the parent/subsidiary affiliation, as well as the parent's strong balance sheet and history of positive earnings.

Sooner has a sustained history of strong operating performance, driven by solid underwriting profits, with most return metrics outperforming the industry composite. The company's loss experience has been largely favorable for more than a decade due in large part to ConocoPhillips's strong risk management programs. As a core component in ConocoPhillips' ERM program, the captive arrangement affords the corporation flexibility to manage infrequent, large losses efficiently and productively.

The neutral business profile assessment reflects Sooner's position as the primary captive insurer for its ultimate parent. Sooner's underwriting risks mainly provide property damage and excess liability coverage to ConocoPhillips and its global subsidiaries and joint ventures.

The enterprise›s ERM embodies an integrated culture of risk awareness and a framework to identify and manage various types of risks continually, including periodic reviews of its potential loss exposures through a specialist within industrial risks, a process AM Best views as very appropriate for the company›s risk profile. The ratings also reflect Sooner›s strategic role for ConocoPhillips as evidenced by the parent›s ongoing implicit and explicit support of this captive.

(April 24, 2025)

<u>Domiciles</u>

## Georgia Bill Updates Definition, Expands Permissions for Captives

The Georgia Senate introduced a bill that would broaden definitions governing captive insurance agreements, expand powers of limited purpose subsidiaries and remove certain business restrictions.

House Bill 348 removes specific limitations on the types of insurance lines captives can deal in, according to the bill's text. The new rule would allow captives to write any insurance or reinsurance business that the insurance commissioner deems reasonable.

The bill also expands the definition of "sponsor" to include those that support the formation of a limited purpose subsidiary and those who invest or otherwise assist in raise equity or debut for a limited purpose subsidiary.

HB 348 would also strike a rule that says limited purpose subsidiaries can only reinsure the risks of the organizing domestic reinsurer, according to the bill's text.

The definition of controlled unaffiliated business is also updated in the bill and would include businesses with new or existing reinsurance and risk-sharing relationships with a parent company. Additionally, direct and indirect investors in a pure captive would be included in the updated definition. Captives with reinsurance arrangements with other captives would also be included in the new definition with the commissioner's approval.

Attempts to gain comment from the lawmakers sponsoring the bill as well as the Captive Insurance Companies Association were unsuccessful.

The legislation is one of a handful insurance-related bills that were introduced in Georgia this session as the state is amid a sweeping tort reform movement (BestWire, Feb 21, 2025). Lawmakers are also moving on a third-party litigation funding bill that the insurance industry is strongly supporting (BestWire, Feb. 28, 2025).

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com)
March 3, 2025

## Arkansas Considers Lowering Captive Capital & Surplus Requirements

A bill is circulating in Arkansas' Legislature that would reduce capital and surplus requirements for captive insurance companies and rewrite other regulations covering the sector.

Senate Bill 237 would lower capital requirements for association captives incorporated as stock insurers from $400,000 to $250,000 and industrial insured captives incorporated as stock insurers would see requirements lowered from $250,000 to $100,000.

Special purpose captives' capital requirements would drop from no less than $300,000 to no less than $125,000. Current law gives the commissioner authority to set the capital requirement for a special purpose captive based on the company's business plan, feasibility study and pro formas, according to the bill.

The bill also reduces surplus requirements for pure captives from $150,000 to $100,000, association captives incorporated as stock insurers would see surplus requirements lowered from $350,000 to $250,000 and industrial captive insurance companies incorporated as stock insurers would see requirements drop from $300,000 to $250,000.

Association captives incorporated as mutual insurers would face surplus requirements of not less than $500,000, down from $750,000, while sponsored captives would see surplus requirements drop from $250,000 to $100,000.

Surplus requirements for special purpose captives would remain a decision of the commissioner but cannot be less than $100,000 if the bill is enacted. Currently, the surplus requirement is set at $300,000 for special purpose captives.

SB 237 would also require pure captives to get approval from the commissioner before paying out "extraordinary" dividends or distributions, as defined in state code. Pure captives would, however, be able to pay ordinary dividends without prior approval.

Further, the bill gives the insurance commissioner the power to revoke or suspend a captive's certificate of authority if it is determined that the company is in unsound financial condition, refuses to be examined or produce requested records, fails to pay any judgments against it within 30 days or knowingly and recklessly violates state code.

Instead of suspending a certificate, the bill allows the commissioner to impose a $5,000 fine. In lieu of revoking a certificate, a $10,000 penalty can be levied on the carrier.

Attempts to gain comment from the Captive Insurance Companies Association and Republican state Sen. Justin Boyd, who is sponsoring the legislation, were unsuccessful.

Georgia is also considering updating its captive insurance regulations by removing limitations on the types of insurance lines captives can deal in and allowing captives to write any insurance or reinsurance business that the insurance commissioner deems reasonable (BestWire, March 3, 2025).

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com).
April 4, 2025

## Arkansas House Declares Emergency in Property Insurance Market for Schools

Lawmakers in the Arkansas House of Representatives declared an emergency over property insurance for educational institutions and passed a bill to create a state-owned captive insurer.

The measure, HB 1821, next heads to the state's Senate for consideration.

It would authorize the state's insurance commissioner, director of the risk management division, the secretary of the Department of Transformation and Shared Services and other state entities to cooperate with the State Captive Insurance Program to ensure effective coverage requirements and guidelines. It would cover all buildings, structures, facilities owned by the entities.

"In addition to the need for short-term action by the General Assembly to avert the impending premium increases for public schools, the General Assembly must take an active role in crafting a long-term solution to ensure the stability of the property insurance programs for public schools, state-supported institutions of higher education, and state-owned properties," the legislation said.

Amid rising costs, consultants last year found Arkansas could save as much as $12 million annually and improve adequacy by creating a captive insurer to cover the state's schools, (BestWire, March 18, 2024).

While large property insurance schedules used to be favorable in the market, "first-dollar" capacity has out-priced that model, consultants Meadors, Adams & Lee Insurance Co. said. School insurance programs are feeling the pinch of that trend in the same manner as any large property program, they said.

A legislative subcommittee in 2023 recommended hiring an insurance consulting firm to make recommendations on how the state can put the brakes on a property insurance market for schools and universities that exploded in the past year (BestWire, Sept. 8, 2023).

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com).
April 4, 2025

## Vermont Taps National Life Exec as Next Financial Regulations Commissioner

Kaj Samsom was appointed commissioner for the Vermont Department of Financial Regulation, a department he'll lead after serving as chief auditor for National Life Group, Gov. Phil Scott's office said.

While he most recently worked in the private sector, Samsom has more than 14 years of experience in state government, including serving as tax commissioner and deputy commissioner for the insurance division (BestWire, Aug. 13, 2014). In addition to serving as the insurance division commissioner, Samsom also worked as an insurance examiner and director of the division's licensing and examinations section.

He replaces Sandy Bigglestone, who was named acting commissioner late last year and has been with the department for more than 25 years (BestWire, Dec. 23, 2024).

The changes at the financial regulator were precipitated by the retirement of DFR Commissioner Kevin Gaffney, who was appointed to the role in 2022 (BestWire, July 12, 2022). Gaffney previously served as deputy commissioner of insurance, a position that was filled and is still held by Emily Brown.

"Since Commissioner Gaffney's retirement, Deputy Commissioner Sandy Bigglestone was essentially holding two roles, continuing her excellent leadership of the captive division while also serving as acting commissioner," Samsom said in an email. "With my recent appointment to commissioner, she will continue her role as leader of the captive division,  a critical full-time position given Vermont's status as a leading global captive domicile."

Bigglestone expressed gratitude for being able to serve Vermont at a high level and said the smooth transition following Gaffney's retirement demonstrated the department's commitment and strong continuity planning.

Operating entities of National Life Insurance Co. have current Best's Financial Strength Ratings of A+ (Superior).

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com)
April 16, 2025

## Kansas Law Opens Avenue for Protected Cell Captive Formation

Kansas Gov. Laura Kelly signed legislation that allows one or more sponsors to form a protected cell captive insurance company and outlines the application process and other requirements.

The law allows the captives to be incorporated as stock insurers and structured as a mutual, nonprofit corporation or a limited liability company, according to a synopsis of House Bill 2334.

To apply, potential captives must give the insurance commissioner materials that demonstrate how they will account for losses and expenses and acknowledge that financial records will be made available at the commissioner's request, according to the bill. Prospective captives must also submit all contracts or sample contracts and provide evidence expenses will be distributed in an equitable way to each protected cell.

The law also amends Kansas rules to require protected cell captives to have at least $100,000 in unimpaired capital and surplus. The law also stipulates $250,000 capital requirements for pure captives and $500,000 for association captives incorporated as a stock insurer, according to the bill's synopsis.

Further, two or more protected cells can now combine assets for the purpose of investment. Doing so would not be construed as defeating the segregation of such assets for accounting or other purposes, the synopsis said.

Additionally, the commissioner must approve each participant's contract in writing before the policy can take effect. Each addition of a protected cell, as well as the withdrawal or termination of an existing cell, would be considered a change in plan and would require the commissioner's approval.

The law also stipulates protected cells are covered by the state's Insurers Supervision, Rehabilitation and Liquidation Act and provides a procedure to convert protected cells into any form of captive insurers allowed by Kansas law.

Attempts to gain comment from the Kansas Department of Insurance and the Captive Insurance Companies Association were unsuccessful.

In other Kansas legislative news, the state recently enacted laws eliminating producer appointment fees, giving the commissioner the ability to lower more than 100 other statutory fees and reducing the premium tax paid by carriers (BestWire, April 17, 2025).

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com)
(April 22, 2025)

## HSBC Obtains Regulatory Approval to Form Captive Insurer in Hong Kong

Hong Kong's Insurance Authority has granted authorization to its first captive insurer formed by a multinational enterprise based there.

The IA said it has granted approval to Wayfoong (Asia) Ltd., a wholly owned subsidiary of U.K. banking conglomerate HSBC Group, in what the head of the regulatory body said could be the first approval in a growing trend for Hong Kong.

"This decision taken by the HSBC Group reflects our growing attractiveness and promising potential as a key captive domicile, leveraging the unique advantages of Hong Kong to facilitate multinational enterprises in managing their global operations," Clement Cheung, chief executive officer of the IA, said in a statement announcing the approval.

Cheung said the move also demonstrates how IA strives to elevate Hong Kong as an international financial center and promote balanced development of the insurance industry.

HSBC did not respond to a request for comment.

Christopher Hui, secretary for financial services and the treasury, said in a statement Hong Kong's government has worked with companies in several ways to boost Hong Kong as a place to get access to insurance, reinsurance, risk management services, and form captive insurers. Those efforts include a 50% tax concession for local captive insurers, he said.

"Given the current global situation where risks take on new dimensions, we will continuously revisit our policy tools with a view to attracting more multinational enterprises from various regions and of multiple scales to choose Hong Kong as the base of their captive insurers," Hui said.

In another captive insurance development, SiriusPoint Ltd. said in March it formed a strategic partnership with U.S. broker Holmes Murphy to launch an offering for captive insurers (BestWire, March 20, 2025).

SiriusPoint said it has partnered with Holmes Murphy and its wholly owned managing general agent Innovative Program Solutions to launch an umbrella excess insurance product tailored to captives managed by Holmes Murphy and its subsidiaries. SiriusPoint said in a statement announcing the deal it will write the line for captive members on a nonadmitted basis.

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com).
(May 5, 2025)

Industry News

## Tax Court: Microcaptive Didn't Constitute 'Insurance' for Federal Tax Purposes

A California manufacturer and supplier for the pharmaceutical industry wrongly took tax deductions for premiums paid to a microcaptive insurer, which in turn wrongly excluded the payments from its income, the U.S. Tax Court ruled, finding the microcaptive didn't constitute "insurance" for federal tax purposes.

This case involves manufacturer Sani-Tech West Inc. and Clear Sky Insurance Co. Inc., which is owned by STW executive officers, the court said.

When filing its taxes, Clear Sky elected to use an alternative, "more generous" tax regime made available to certain small insurance companies that allows them to exclude premium income from taxes, the court said. Because this exclusion, granted through U.S. Code 831(b), reduced STW's taxable income by the amount it paid to the microcaptive, further exclusion of that sum by Clear Sky meant a reduction in its total federal tax liability.

However, the company was concerned the Internal Revenue Service would flag its attempt to characterize its payments to Clear Sky as an insurance premiums because the microcaptive lacked risk distribution needed to satisfy 831(b)'s diversification requirements, according to the decision.

Attempting to achieve the required risk distribution, Clear Sky looked to pool its risk with other unrelated captive insurers. This led the microcaptive to cede a portion of the STW business to risk pool, OMNI Insurance Co.

Believing they satisfied the requirements, the companies submitted taxes for 2015 and 2016 with the deductions and exclusions, which the IRS denied. This denial prompted the court case, tasking the court with determining if Clear Sky could make the 831(b) exclusions and whether STW was entitled to deduct the payments.

Both questions hinged on whether Clear Sky was actually an insurance program, which the court determined it was not.

To draw its conclusion, the court turned to a four-prong test based on case law, according to the decision. When looking at microcaptive arrangements, the test ensures they involve insurable risks, shift the risk from the insured to the insurer, that the insurer distribute the risk of loss among its policyholders and that the agreement is insurance in the commonly accepted sense.

In addition to failing to distribute risk among its policyholders, the court also said Clear Sky was not insurance as commonly accepted because the company failed to operate under the standards of a traditional insurance businesses.

For example, Clear Sky did not perform underwriting analyses when creating policies, STW did not submit an application for coverage and the microcaptive entered into "unusual financing arrangements" with STW's founder, the court said.

Attempts to gain comment from Sani-Tech West and the IRS were not immediately successful.

The Tax Court's decision is the latest development in a long-simmer back and forth over tax treatment for microcaptives. In January, the IRS released final rules covering "abusive" microcaptives, which were quickly challenge in a Texas federal court (BestWire, Jan. 21, 2025). The IRS was granted an extension in the case, Ryan LLC v. IRS, and is expected to respond by April 28.

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com)
(March 27, 2025)

Executive Notes

## Ryan Specialty Names President of Alternative Risk Division

Ryan Specialty Holdings Inc. promoted Matt Havey to president of its alternative risk underwriting business, effective immediately. Havey steps into the role for Kieran Dempsey, who will drop president from his title while continuing to serve as chief executive officer of Ryan Alternative Risk, the company said.

Dempsey said he will be collaborating with Havey on the company's platforms for health care, structured solutions, captives, capital and real estate.

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com)
(March 19, 2025)

## Allianz Commercial Names Global Head of Alternative Risk Transfer

Allianz Commercial named Lara Martiner as global head of alternative risk transfer at Allianz Global Corporate & Specialty SE, effective April 1.

She succeeds Grant Maxwell, who leaves Allianz at the end of June, Allianz Commercial said in a statement. She will keep her current role as chief executive officer of AGCS subsidiary Allianz Risk Transfer AG.

(By David Pilla, news editor, BestWire: David.Pilla@ambest.com)
(March 24, 2025)

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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# News of the Alternative Risk Markets

View the Value of an AM Best Captive Rating

**Overviews of Best's Credit Ratings for Captives and Best's Credit Rating Process:**

Best's Credit Ratings for Captives: An Overview

Best's Credit Rating Process

**Best's Captive Reports:**

New Domiciles are Changing the Landscape for the European Captive Insurance Segment

Best's Market Segment Report: Growing Captive Insurance Market Highlights Risk Management Expertise

Best's Market Segment Report: Captive Insurer Numbers Set to Grow in Europe as More Jurisdictions Seek to Lure Companies

Best's Market Segment Report: Captives' Flexibility and Control Enable Them to Outperform Commercial Peers

Market Segment Report: Rated BCIB Captives Continue Strong Performance in Comparison to Commercial Casualty Composite

Best's Special Report: Europe's Captive Segment Poised for Growth Amid Hardening Insurance Conditions

Best's Market Segment Report: Commercial Market Dislocation Could Provide New Opportunities for Captives to Fill the Void

Market Segment Report: Captive Insurer Numbers Set to Grow in Europe as More Jurisdictions Seek to Lure Companies

Market Segment Report: Feasibility and Utility Sustain Rated Captives' Excellent Profitability

**AM Best Briefings:**

Captives & Cell Companies: Revisions to 'Alternative Risk Transfer (ART)' Criteria on Vimeo

AM Best's Briefing - Captives' Flexibility and Control Enable Them to Outperform Commercial Peers

Rating a Captive: The Interactive Rating Process from Data Analysis to Rating Committee Decision

**Preparing for a Captive Rating Meeting:**

Captive Insurance Sample Meeting Agenda for a Best's Credit Rating

Captive Insurance Data Requirements for a Best's Credit Rating

**AM Best's latest captive market news, ratings announcements, domicile and regulations, and strategies:**

News of the Alternative Risk Markets from AM Best

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