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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Rating Actions

AM Best Downgrades Issuer Credit Rating of Kot Insurance Company AG

AM Best has downgraded the Long-Term Issuer Credit Rating (Long-Term ICR) to “bbb” (Good) from “bbb+” (Good) and affirmed the Financial Strength Rating (FSR) of B++ (Good) of Kot Insurance Company AG (Kot) (Switzerland). The outlook of the Long-Term ICR has been revised to stable from negative, while the outlook of the FSR is stable.

The Credit Ratings (ratings) reflect Kot’s balance sheet strength, which AM Best assesses as very strong, its strong operating performance, neutral business profile and appropriate enterprise risk management. The ratings also reflect a rating drag due to the company’s association with Petroleos Mexicanos (PEMEX). Kot is the captive reinsurer of PEMEX, the Mexican state-owned oil and gas company.

The downgrading of the Long-Term ICR reflects the further deterioration of PEMEX’s credit profile since AM Best’s last rating review. This is partly mitigated by the robust reinsurance regulatory regime in Switzerland, with strict requirements for capital adequacy and corporate governance, which provides some comfort over Kot’s prospective financial strength and independence.

Kot’s very strong balance sheet is underpinned by its risk-adjusted capitalisation at the strongest level, as measured by Best’s Capital Adequacy Ratio (BCAR). AM Best expects Kot to maintain a buffer over the minimum requirements for the strongest BCAR assessment in the medium term, supported by its relatively low net underwriting leverage and conservative investment strategy. An offsetting rating factor in the balance sheet strength assessment is Kot’s dependence on reinsurance to write risks with very high gross limits. The risk associated with this dependence is mitigated partly by a diversified retrocession panel and long-standing relationships with reinsurers of good credit quality.

Kot’s robust historical earnings have been driven by its underwriting account, with a five-year (2018-2022) weighted average combined ratio of 38.3% (as calculated by AM Best). However, results are exposed to volatility stemming from low frequency, high severity losses, whilst all underwritten risks are concentrated in Mexico. In 2022, the combined ratio improved to 44.9% (from 85.8% in 2021) driven by lower claims activity. Underwriting results remained strong during the first six months of 2023, but a large offshore oil platform fire in third-quarter 2023 is likely to negatively affect year-end results. AM Best expects the captive’s operating performance to remain supportive of a strong assessment over the cycle.

Kot remains well-integrated within PEMEX as its only reinsurance captive and is important to the group as a cost-effective risk management tool.

November 13, 2023

AM Best Affirms Credit Ratings of Transmonde Services 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 Transmonde Services Insurance Company Limited (Transmonde) (Hamilton, Bermuda). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Transmonde’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.

Partially offsetting these rating factors are Transmonde’s high retentions and concentration in liability lines with significant loss severity potential, although the company has experienced historically favorable loss experience. Additional offsetting factors include the limited market profile as a single-parent captive that derives all its business from its parent company, SGS SA (SGS) [SWX: SGSN], a publicly traded Swiss company. Transmonde provides professional, property, cyber, general and pollution liability coverages to subsidiaries of SGS.

Transmonde has maintained very conservative underwriting leverage ratios, as surplus has remained strong to support its business volumes. Historically, surplus growth is the result of retained earnings from highly profitable operating results driven by excellent underwriting performance. Transmonde has a history of conservatively distributing excess capital back to SGS.

The company has posted low loss and loss adjustment ratios, which reflect SGS' robust and effective risk management. Its relatively high per-occurrence retentions are mitigated by significant deductibles and conservative reserving practices.

November 15, 2023

AM Best Affirms Credit Ratings of Castle Harbour Insurance Limited and Harrington Sound Insurance Limited

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Ratings of "a+" (Excellent) of Castle Harbour Insurance Limited (Castle Harbour) and Harrington Sound Insurance Limited (Harrington). These companies are captive insurance companies for Schlumberger Limited (SLB) [NYSE: SLB]. The outlook of these Credit Ratings (ratings) is stable. Both captives are domiciled in Bermuda.

The ratings of Castle Harbour and Harrington reflect their balance sheet strength, which AM Best assesses as strongest, as well as their strong operating performance, neutral business profile and appropriate enterprise risk management (ERM).

Castle Harbour and Harrington are single-parent captives of their ultimate parent, SLB, a global technology company focused on energy innovation. Castle Harbour and Harrington maintain the strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), in addition to displaying excellent liquidity measures. The operating performance assessments of strong reflect the companies' favorable underwriting results driven by excellent loss history and benefiting from inherently low expense structures as single-parent captives. The ratings also take into consideration the captives' strategic importance in providing tailored insurance coverages for the parent and its subsidiaries. While each captive carries relatively large limits within its respective designated coverages for the parent in the general liability and property lines of business, each writes a broad scope of business and has considerable geographic diversification. Each captive also maintains significant retentions within the offered limits, but they are readily manageable within their respective capital bases and organic surplus growth, offset by periodic sizable dividends.

As captive insurers of SLB, the companies are an integral part of the parent's ERM framework, which includes defined risk controls and optimization of the captives' capital. Further, AM Best recognizes the financial flexibility afforded by their parent company, and their strategic importance across SLB.

November 17, 2023

AM Best Affirms Credit Ratings of NEWGT Reinsurance Company, Ltd.

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

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

NEWGT's balance sheet strength is well-supported by its risk-adjusted capitalisation, which is assessed at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). The company's capital base, albeit reduced following a sizeable dividend upstream to its parent, ITOCHU Corporation (ITOCHU), in the fiscal year ended 31 March 2023, is expected to remain sufficient to support its underwriting portfolio over the medium term. The company has a moderate level of reinsurance dependency; however, its exposure to potential credit risk is partially mitigated by a high-quality and well-diversified reinsurance panel.

NEWGT's operating performance has been consistently positive during the most recent five-year period. For the fiscal year ended 31 March 2023, the company recorded notable growth in both premium income and net profit. This was a result of a strong performance in ITOCHU's trading business, which was attributable to higher commodity prices and foreign exchange benefits from the depreciation of the Japanese yen during that period. Notwithstanding the moderate volatility in the major lines of marine cargo business due to the impact of commodity price fluctuations, AM Best expects that NEWGT's operating performance will remain profitable over the intermediate term given the company's prudent underwriting practices and reinsurance programmes.

As a wholly owned subsidiary and captive insurer of ITOCHU, one of Japan's largest general trading companies, NEWGT provides reinsurance protection against group-related risks across various regions. A majority of NEWGT's business comes from ITOCHU-related marine business, and the remaining portfolio consists of a diverse mix of non-life business lines, including theft insurance, renters' insurance, and group personal accident. NEWGT is well-integrated within the group with respect to risk management, corporate governance and internal control systems.

Negative rating actions could occur if NEWGT's risk-adjusted capitalisation significantly deteriorates, such as from heightened underwriting risk or an excessive dividend payout to its parent. Negative rating actions could also arise if there is significant deterioration in ITOCHU's credit profile, including its operating profitability, financial leverage and interest coverage levels. Positive rating actions could occur if NEWGT demonstrates sustained and notable improvement in its underwriting and operating profitability for a period of time, while maintaining a robust level of risk-adjusted capitalisation.

November 20, 2023

AM Best Affirms Credit Ratings of Eni Insurance Designated Activity Company

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" (Excellent) of Eni Insurance Designated Activity Company (EID) (Ireland), a captive of Eni S.p.A. (Eni), a multinational energy company based in Italy. The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect EID'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).

AM Best assesses EID's risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), and expects it to remain at this level prospectively. An offsetting rating factor in the balance sheet strength assessment is EID's reliance on reinsurance to underwrite large risks; however, the risks associated with this reliance are mitigated partly by long-standing relationships with reinsurers of excellent credit quality.

EID has a track record of strong operating profits, demonstrated by a five-year weighted average combined ratio of 51.5% (2018-2022). The company's underwriting performance has remained strong during the first nine months of 2023. Prospective performance is subject to volatility due to potential large losses from EID's property account. However, underwriting volatility on a net basis should be moderated by the captive's comprehensive reinsurance programme.

EID is well-integrated within the Eni group's risk management framework and maintains its active role in overseeing and containing the group's insurance costs. Additionally, the captive enables the group to centralise claims information and establish effective internal reporting for Eni. EID has a developed ERM framework, with a clear risk appetite and tolerance levels in place.

November 22, 2023

AM Best Revises Outlooks to Positive; Affirms Credit Ratings of Junto Resseguros S.A. and Junto Seguros S.A.

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 Ratings (Long-Term ICR) of "a-" (Excellent) of Junto Resseguros S.A. (Junto Re) and Junto Seguros S.A. (Junto Seg) (collectively referred to as Junto). Both companies are domiciled in Brazil.

The Credit Ratings (ratings) reflect Junto'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 positive outlooks reflect AM Best's expectation that Junto will maintain its profitable operating performance over the intermediate term contributing to surplus growth, which is needed to support an expanding book of business, while having The Travelers Companies, Inc. maintain its ongoing support of the company.

Junto Re is classified as a local reinsurer in Brazil and mainly operates as a captive reinsurer for Junto Seg, an organization that has been writing surety directly for more than two decades. Junto Seg is the market-facing company of the group and the leading surety writer in Brazil. The companies benefit operationally from their minority shareholder, Travelers Brazil Acquisition LLC (with a 49.5% ownership), which is ultimately owned by The Travelers Companies, Inc. These benefits include collaboration on ERM, employee development, retrocession placement, claims handling, business development and other operational functions. After a large return of excess capital payment made to the parent companies, Junto continues to maintain modest underwriting leverage and strong liquidity metrics, with a comprehensive retrocession program that provides additional capacity and reduces the company's overall exposure. Junto is well-positioned to benefit from growth opportunities in the segment, such as performance bonds.

Partially offsetting these positive rating factors is Junto's concentration risk as a surety underwriter with business concentration in a single country. As a result, albeit not likely, restrictive regulatory changes could impair Junto's ability to execute its strategy. Junto's plan to mitigate this risk includes expansion into related lines of business.

The company's adequate operating performance is supported by its profitability in the last five years in its technical and non-technical accounts. The high interest rate environment in Brazil has aided Junto to increase its financial income and improve its return on equity.

Brazil's surety (re)insurance market continues to be highly competitive, with homegrown and global (re) insurers vying for market share. With Brazil's persistent economic volatility, and with meaningful future growth still uncertain, companies continue to seek international expansion, while keeping an eye on opportunities in the (re)insurance market. Surety has been one of the fastest-growing segments in the (re) insurance industry in Brazil.

Positive rating actions could happen if Junto continues to have a profitable operating performance in its technical and non-technical accounts, while maintaining strong underwriting ratios. Negative rating actions could happen if changes in the business environment impair Junto's ability to implement its strategy, negatively affecting its business profile, also, a factor that could lead to a negative rating action is the volatility in Brazil's macroeconomic conditions, which could contribute to a deterioration in the company's operating performance.

November 29, 2023

AM Best Affirms Credit Ratings of Orion Reinsurance (Bermuda) Ltd.

AM Best has affirmed the Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of "bbb-" (Good) of Orion Reinsurance (Bermuda) Ltd. (Orion Re) (Hamilton, Bermuda). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Orion 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.

The ratings also reflect the company's strong risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), and the expertise of its management team. Partially offsetting these positive rating factors is the size of the company, which limits business diversification given the inherent concentration risk, and the sensitivity to changes in its balance sheet structure, and the composition of Orion Re's business portfolio.

Orion Re was founded in December 2004 and is licensed by the Bermuda Monetary Authority to act as a class III insurer without restrictions of any kind in its class. Orion Re's main line of business is difference in conditions insurance, but the company also retains specific life and non-life insurance business. Orion Re has experience and recognition in the public services industry, as well as strategic alliances to support recognized Latin American reinsurers.

As of December 2022, Colombia represented 58% of the company's gross written premium, with the rest distributed in 10 other countries, primarily throughout Latin America and the Caribbean.

Orion Re's growth has fluctuated over the past five years, which is consistent with the size of the company. Premium sufficiency has yet to be achieved; however, the company has maintained profitable bottom-line results during most years, which are expected to improve as the company's business expansion plan takes place. The results also are supported by income from the Rent-a-Captive business, which has presented a consistent flow over the past years.

As of September 2023, the company posted USD 1.4 million in net income, which is on the higher end compared with historical trends. Orion Re's loss ratio stood at 16.5%, reflecting the management's efforts to contain its claims.

Orion Re's risk-adjusted capitalization, as measured by BCAR, has shown improvement since 2019, mainly due to a more conservative approach in the investment policies, which has reduced asset risk. However, due to the company's size and operation, the scores are sensitive to changes in its balance sheet structure, and the composition of Orion Re's business portfolio.

Negative rating actions could occur if premium growth, changes in the investment and/or underwriting risk profile, or deteriorating operating results reduce risk-adjusted capitalization to a level that no longer supports the ratings. Although unlikely, positive rating actions could take place as a result of the strengthening of the company's balance sheet, supported by a successful development of the business strategy.

November 30, 2023

AM Best Affirms Credit Ratings of AES Global Insurance Company

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

The ratings reflect AGIC'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 reflect the improved credit profile of AGIC's parent, The AES Corporation (AES) [NYSE: AES].

AGIC continues to demonstrate strong operating performance through its favorable underwriting results and benefiting from inherently low expense structures. The ratings reflect AGIC's sound risk management capabilities with a focus on sustaining improving capitalization, underwriting performance and conservative balance sheet strategies. As a single-parent captive for AES, AGIC remains an integral part of the parent's overall risk management framework, and AES continually evaluates the use of AGIC for the group's risk management objectives as those arise. The ratings also consider AGIC's strategic importance to its parent, and the implied support provided by AES.

AGIC is wholly owned by AES, a Fortune 500 global energy company that, through its subsidiaries and affiliates, operates a diversified portfolio of generation, distribution and energy storage businesses, which deliver safe, reliable and sustainable energy while helping organizations of all types in their clean energy transitions.

December 1, 2023

AM Best Upgrades Issuer Credit Rating of Stellar Insurance, Ltd.

AM Best has upgraded the Long-Term Issuer Credit Rating to “a+” (Excellent) from “a” (Excellent) and affirmed the Financial Strength Rating of A (Excellent) of Stellar Insurance, Ltd. (Stellar) (Bermuda), an indirect wholly owned subsidiary of the Saudi Arabian Oil Company (SAOC). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Stellar'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 rating actions reflects the company's strengthening balance sheet fundamentals, supported by a consistently strong operating performance and the improved credit quality of its parent company, SAOC.

Stellar's balance sheet strength is underpinned by its risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best expects Stellar's risk-adjusted capitalisation to remain at the strongest level, supported by its low underwriting leverage, full earnings retention and a comprehensive reinsurance programme. Stellar's capital base has grown steadily over time, with earnings being retained fully since the company's incorporation in 2001. This has enabled the company to increase its underwriting capacity gradually. Stellar's capital requirements within the BCAR model are driven largely by investment risk and catastrophe risk. Investment risks stem from the company's large fixed-income and mutual fund holdings, while catastrophe risk is driven by the company's large per risk underwriting exposure. An offsetting balance sheet strength factor is the captive's reliance on reinsurance to provide high gross underwriting limits. The credit risk associated with reinsurance is mitigated partially by Stellar's use of a diversified panel of financially strong reinsurers.

Stellar has reported strong operating results over the past five years, mainly driven by robust underwriting profits in the absence of large losses, evident by a five-year (2018-2022) weighted average combined ratio of 20.7%. AM Best expects performance in 2023 and prospectively to remain strong, albeit subject to potential volatility due to the captive's exposure to high severity, low frequency losses in its energy programme.

Stellar's business profile assessment reflects the key role it plays in SAOC's overall risk management framework. As a single-parent captive, Stellar's purpose is to provide transfer solutions for risks emanating from SAOC and its affiliates' operations. Stellar's portfolio is concentrated by line of business, with the majority of premiums represented by energy onshore and offshore property risks, as well as by geography with approximately 92% of premiums associated with risks located in Saudi Arabia.

December 7, 2023

AM Best Affirms Credit Ratings of Spirit Insurance Company and Radius Insurance Company

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

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

Spirit and Radius each have the inherent benefits of financial flexibility and support as captive insurers for their ultimate parent, Phillips 66 [NYSE: PSX], with integrated operations, closely aligned and uniform interests, and are established core elements in its overall risk management program. The captives' loss experience has remained generally favorable due to the parent's strong loss control program and relatively small number of material catastrophe losses. Phillips 66 conducts periodic reviews of Spirit and Radius' potential loss exposures through an industrial risks specialist, which demonstrates its commitment to safety.

The captives' underwriting risks largely consist of onshore and limited offshore property and liability business. Spirit provides property damage, business interruption, construction all risks, excess liability and employee medical reimbursement insurance for Phillips 66, its affiliates and subsidiaries' domestic U.S. operations only; however, Spirit generally does not provide coverage for Texas-based risks. Radius provides similar coverage (i.e., property damage, business interruption, excess liability) to Phillips 66, its affiliate and subsidiaries' non-U.S. risks in which Phillips 66 has ownership interests. However, premium and exposures for Radius declined in 2022 after removing U.K. property exposures from the captive.

Spirit and Radius have exposure to low frequency, high severity loss claims due to the sizable limits offered on their respective policies, introducing potential significant dependence on reinsurance protection. Spirit also provides terrorism coverage to its parent. Though relatively high on a gross basis, terrorism exposure is heavily mitigated by reinsurance protection afforded by coverage under the federal Terrorism Risk Insurance Program Reauthorization Act, which expires in 2027.

December 15, 2023

AM Best Upgrades Credit Ratings of Delvag Versicherungs-AG

AM Best has upgraded the Financial Strength Rating to A (Excellent) from A- (Excellent) and the Long-Term Issuer Credit Rating to "a" (Excellent) from "a-" (Excellent) of Delvag Versicherungs-AG (Delvag) (Germany). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Delvag'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.

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

The rating upgrades for Delvag reflect improvements in the creditworthiness of Lufthansa, which are tied to strong performances in 2022 and 2023, as well as to an improvement in the group's liquidity position. Furthermore, Lufthansa raised its earnings forecast for 2023 during the summer compared with its previous forecast.

December 21, 2023

AM Best Assigns Credit Ratings to Enel Erre S.p.A.

AM Best has assigned a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating of "a-" (Excellent) to Enel Erre S.p.A. (EE) (Italy). EE is a captive of Enel S.p.A. (Enel), a multinational electric utility company based in Italy. The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect EE'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).

On 1 January 2024, Enel's old captive, Enel Insurance N.V., transferred its assets and liabilities to EE, through a cross-border merger. The aim of the transaction was to redomicile the captive operation of Enel to Italy, where the group is based. Going forward, EE will be the new captive insurer of the Enel S.p.A. group. Enel Insurance N.V. ceased to exist as a result of the cross-border merger. EE will be renamed Enel Reinsurance - Compagnia di riassicurazione S.p.A.

AM Best expects EE's risk-adjusted capitalisation to be maintained with a comfortable buffer at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). The captive benefits from good liquidity and low reinsurance dependence. An offsetting rating factor is EE's potential exposure to large losses given its high net retention per risk, which has the potential to introduce volatility in capitalisation levels.

EE's operating performance assessment reflects AM Best's expectations that prospective combined ratio will remain within the captive's through-the-cycle target of between 95% and 100%. Solid investment income is expected to contribute positively to overall profitability.

As a single-parent captive, EE is well-integrated within the Enel group and plays a fundamental role in managing the group's risk exposures.

EE has a developed ERM framework with clear risk appetite and tolerance levels in place.

January 1, 2024

AM Best Assigns Credit Ratings to Ma'aden Re Limited

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

The ratings reflect MRE'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.

MRE's very strong balance sheet strength assessment is underpinned by its risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best expects MRE's risk-adjusted capitalisation to remain at the strongest level, supported by the captive's moderate underwriting exposure, low asset risk profile and the good credit quality of its retrocession programme. Partly offsetting factors in the balance sheet strength assessment are the captive's elevated dependence on reinsurance and its concentration of assets in Saudi Arabia.

MRE is a newly formed captive, established in November 2021. It completed its first full year of operations in 2022 and has a limited performance track record. The captive's profitability in 2022 was materially impacted by two large claims, which exhausted its aggregate yearly limits and resulted in the combined ratio of 175.9% for the year. MRE's profitability is projected to improve materially in 2023 and to remain supportive of an adequate assessment over the cycle.

Whilst MRE is of strategic importance to Ma'aden, it is still in its infancy of operations. To date, the captive only writes property damage and business interruption reinsurance, and its risks are concentrated in Saudi Arabia.

January 17, 2024

AM Best Assigns Credit Ratings to PanAsia Reinsurance Inc.

AM Best has assigned a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating of "a-" (Excellent) to PanAsia Reinsurance Inc. (PanAsia Re) (Hawaii). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect PanAsia 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 (ERM).

PanAsia Re's balance sheet strength is supported by the strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), appropriate investment mix and conservative loss reserves demonstrated and projected in each of the five years of the pro forma.

PanAsia Re's adequate operating performance assessment is based on its operating profitability over the past three years, with expectation it will scale its book of business in accordance with its strategic business plan, including pro forma operating results over the next five years.

The company's limited business profile assessment reflects its geographic concentration writing small personal property damage, health and accident policies for its diversified parent and affiliates. PanAsia Re is domiciled in Hawaii with all its business currently written in Japan. The parent is engaged mainly in the primary distribution across its several affiliate companies. The management team of PanAsia's holding company, Hikari Tsushin, Inc., has extensive experience in insurance, risk management and financial services.

PanAsia Re's ERM is considered appropriate for its risk profile, overall underwriting, risk management and risk tolerance. Management understands its risks, reviews vulnerabilities and manages risks within its risk appetite and tolerances. The ERM function is led by the head of risk in collaboration with the company's risk consultant enterprise risk committee, audit committee and investment committee, which meet frequently to discuss key business risks.

Finally, the company benefits from implicit and explicit support and financial flexibility provided by Hikari Tsushin, Inc. PanAsia Re also benefits from its parent's robust, enterprise-wide policies and procedures in the areas of risk management, corporate governance, and compliance.

January 16, 2024

AM Best Affirms Credit Ratings of Nova Casiopea Re S.A.

The ratings reflect NCRe'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.

NCRe operates as a single parent captive of Telefónica, S.A. (Telefónica), a multinational broadband and telecommunications provider based in Spain with operations in Europe, as well as in North, Central and South Americas. NCRe benefits from Telefonica's geographic diversification across Europe and Latin America. NCRe maintains a broad portfolio mix, but as a pure captive its business profile remains constrained to Telefonica's operations and strategic decisions.

NCRe's balance sheet strength assessment is underpinned by the strongest level of risk-adjusted capitalisation, on both a standard and catastrophe-stressed basis, as measured by Best's Capital Adequacy Ratio (BCAR). This assessment is supported by NCRe's conservative and liquid investment portfolio, as well as capital buffers in the form of equalisation reserves. An offsetting factor is the company's elevated exposure to natural catastrophe risk, which has the potential to introduce volatility to capitalisation levels.

The adequate operating performance assessment reflects the captive's good, albeit fluctuating underwriting results since inception. In 2022, NCRe generated a pre-tax profit of EUR 5.9 million compared with EUR 12.4 million in 2021. The reduction was driven by a year-on-year increase in the loss ratio to 69.7% in 2022, from 38.6% in 2021, as a result of incurred severity claims. Overall, in 2022, NCRe's combined ratio stood at 89.4%, well above its five-year weighted average combined ratio of 70.4% (2018-2022).

Recent changes to Telefónica's business model have not materially impacted the captive's operations. However, AM Best notes that potential spin-offs of Telefónica's major businesses in Latin America will likely impact the captive's profile, reducing its natural catastrophe exposure, among other impacts. In 2023, NCRe restructured its reinsurance programmes and further increased some of its net exposures in response to hardening reinsurance market conditions, reflecting the captive's strategic importance to the group as a cost-effective risk management tool.

January 24, 2024

AM Best Affirms 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.

The ratings reflect EICL'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.

EICL's risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), remains at the strongest level, and is underpinned by a low net underwriting leverage, a highly conservative and liquid investment portfolio and comprehensive reinsurance arrangements. Although the company's capital and surplus has shown a mild downward trend over the last three years due to dividend payouts to its parents (Evergreen International S.A. and Evergreen International Corp.), its BCAR remains at the strongest level. AM Best expects the company to maintain a sufficient buffer in its risk-adjusted capitalisation to support its risk profile over the next three years.

EICL has demonstrated a track record of strong underwriting and operating performance, owing to its group-related business. In view of its high-severity, low-frequency risk profile that involves mainly marine and aviation businesses, the company has ceded more than half of its premiums to a panel of financially sound reinsurers and maintained a low retention ratio. EICL's net claims experience has been highly favourable over the last few years, while gross losses fluctuated due to a few major loss events in marine and aviation hull. EICL also projects enhanced investment returns in 2023 driven by higher interest rate for USD fixed deposits. Going forward, AM Best expects that EICL's underwriting results, in particular for its marine business, will continue to be the main driver of its bottom-line results.

As a pure captive of Evergreen Group, EICL's underwriting book primarily consists of marine, aviation and property risks related to the group's operations. EICL continues to be an integral part of the group; its risk management is well-embedded into the group's risk framework and is viewed as appropriate to support its risk profile.

Negative rating actions could occur if there is a significant deterioration in the company's operating performance, such as it no longer supports the strong assessment. Negative rating actions could also occur if there is significant deterioration in the credit profile of its ultimate parent, Evergreen International S.A. Positive rating actions could occur if there is a significant improvement in the EICL's risk-adjusted capitalisation and absolute capital size, for example, through capital raising from its shareholders or organic growth from earnings.

November 13, 2023

AM Best Assigns Credit Ratings to Sapphire Reinsurance Company

AM Best has assigned a Financial Strength Rating of B++ (Good) and a Long-Term Issuer Credit Rating of "bbb+" (Good) to Sapphire Reinsurance Company (Sapphire) (Cayman Islands). The outlook assigned to these Credit Ratings (ratings) is stable.

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

Sapphire is the captive reinsurer associated with a large privately owned Colombian conglomerate with operations in different business sectors across Colombia and Latin America, such as industry, motor, textile, pipe manufacturing, public transport, waste management, among others. The portfolio of the company is concentrated in the motor business line, with most of its business being underwritten in Colombia. Due to its limited commercial scope as a captive, its business profile is considered limited.

Sapphire's balance sheet strength assessment of strongest reflects its stability and constantly growing capital base, characterized by a responsible asset-liability management and a low underwriting leverage. Sapphire has defined policies and procedures that are attached to its risk tolerance and the company is currently implementing a transformation plan, which will digitalize its operations, rendering AM Best's ERM assessment as appropriate.

Operating performance is considerate adequate given the company's positive net income results, sustained by stable and ongoing improvements on its technical ratios.

The stable outlooks on Sapphire's ratings reflects the expectations that the company will continues to obtain positive operating results, maintaining its balance sheet strength assessment.

Positive rating actions could occur if the company keeps up with its good operating performance results in a sustained way. Conversely, negative rating actions could also take place if Sapphire experiences a deterioration in its risk-adjusted capitalization as a result of weak operating performance and/or capital outflows.

December 20, 2023

AM Best Revises Outlooks to Positive, Affirms Credit Ratings of Ocean International Reinsurance Company Limited

AM Best has revised the outlooks to positive from stable and affirmed the Financial Strength Rating (FSR) of A- (Excellent) and the Long-Term Issuer Credit Rating (Long Term ICR) of "a-" (Excellent) of Ocean International Reinsurance Company Limited (Ocean Re) (Barbados).

The Credit Ratings (ratings) reflect Ocean Re'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 positive outlooks recognize the disciplined underwriting by the company to deploy its capital with profitable results. Operating performance metrics continue showing a positive trend, in conjunction with growth targets based on diversified geographical exposures, potential new businesses and successful growth of the risk-bearing portfolio.

Ocean Re is a Barbados-based reinsurer, licensed as a Class 2 insurance company, which offers a diversified product mix worldwide with a relevant presence in Latin America. Ocean Re also offers facultative reinsurance programs, which are fully funded to the projected ultimate losses of the company's clients. Ocean Re's business development strategy clearly identifies an increase in the proportion of traditional reinsurance in its portfolio, as compared with its captive portfolio.

Ocean Re's regional geographic footprint has continued to expand, having presence in 114 countries as of December 2022, being able to further diversify its risks insured throughout Latin America, Asia, the Middle East and North Africa, among other regions. To further improve its underwriting, the company has acquired some of its business partners' operations (including personnel), gaining expertise and exclusivity over those channels, regions and markets.

Ocean Re's risk-adjusted capitalization remains at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR) and has benefited from a capital contribution received in early 2020 and profitable results up to Sept. 30, 2023. In addition, the broader geographic diversification could reflect an improvement in the required capital over the medium term; however, AM Best will continue to monitor the influence of the holding company on Ocean Re's balance sheet strength, due to its financial leverage and evolving corporate structure.

Ocean Re's operating performance in 2022, and up to September 2023, resulted in positive net income, due to good levels of premium sufficiency derived from the performance of its expanding traditional reinsurance lines, as well as from the nature of its captive business. Up to September 2023, results had almost reached those of year-end 2022, pointing to a consolidation of the underwriting strategy in some markets, while others are still being developed, with appropriate ERM policies and procedures to mitigate any upcoming risk.

Positive rating actions could take place as a result of the successful evolution of Ocean Re's diversification strategy, in line with the positive trend in operating performance metrics. Negative rating actions could occur from material changes to risk-adjusted capitalization either as a result of losses or implementation risk of the business strategy. Also, negative rating actions could occur if there is an increase in the financial leverage of the holding company putting pressure on the balance sheet strength of Ocean Re.

January 24, 2024

Domiciles

UK Government to Launch Consultation on Establishing Captives

The government of the United Kingdom is planning a consultation to introduce a regime for captive insurance companies by spring of 2024.

In a notice in HM Treasury's Autumn Statement, the government said it "will consult on the design of a new framework for encouraging the establishment and growth of captive insurance companies in the U.K. The consultation will launch in Spring 2024." The Chancellor of the Exchequer Jeremy Hunt gave the Autumn Statement, an overview of the U.K. tax and spending policies for the upcoming year, to Parliament last week.

Tucked deep inside the plan was the statement calling for the consultation on captives.

The London Market Group responded favorably to the news.

"The London Market Group is delighted by the announcement today by the Treasury that it will consult on the creation of a U.K. captive regime by spring next year, taking on board the recommendations within our Plan for the Future," said Chief Executive Officer Caroline Wagstaff in a statement. "As the global center for risk transfer, London needs to be able to offer all the tools in the toolkit, so this is a great step forward. We look forward to working closely with the government and regulators to ensure the U.K. remains a highly competitive insurance center."

Regulatory barriers are preventing the United Kingdom from being perceived as a top destination for captive insurance business, Insurance Institute of London President Chris Lay said in a speech at the institute last year (BestWire, Nov. 28, 2022).

The overall outlook in the Autumn Statement was restrained. It said the U.K. economy showed weak performance since 2022 and that it will grow more slowly than the Office of Budget Responsibility had forecast in March.

"Inflation is now forecast to be more persistent and domestically driven. Higher domestically driven inflation improves the outlook for the public finances, boosting tax revenues by more than it raises public spending," said a summary of the Autumn Statement.

Hunt used much of the improvement in the public finances to fund business and personal tax cuts, it said.

Still, Hunt said the statement was a message of growth with the government taking on more than 100 initiatives, including cutting business taxes, unlocking foreign direct investment and cutting red tape.

"The Office for Budget Responsibility say that the combined impact of these measures will raise business investment, get more people into work, reduce inflation next year and increase GDP," Hunt said.

(By Timothy Darragh, senior associate editor, BestWire: Timothy.Darragh@ambest.com).
November 27, 2023

Finance Minister: Captive Increasingly Turning to Canada's Alberta Province

Alberta, Canada, has licensed 17 captive insurers since becoming a captive jurisdiction in 2022 and the provinces head of the Treasury Board and Finance Minister Nate Horner said he expects more.

Alberta and British Columbia are the only two provinces in Canada that allow the captive insurance arrangement.

"After less than two years, Alberta's captive insurance program now rivals those found in already established and globally recognized captive jurisdictions like Barbados, Bermuda and Vermont," Horner said in a statement. "In fact, only a few months after legislation was passed, a captive insurance company moved from Barbados to Alberta."

Alberta lawmakers in late 2021 approved a measure to allow the formation of captive insurance companies, making the province the second in Canada to allow the creation of the alternative risk-sharing arrangements (BestWire, Dec. 7, 2021).

Horner said Alberta by allowing captives offers “a unique advantage” for businesses seeking risk solutions in a “challenging” global insurance market. That allows additional insurance options at manageable costs that sometimes cannot be obtained through traditional insurers, he said.

As the number of captives in Alberta increases, Horner said the province anticipates a growing hub of specialized skills and experts like captive managers and actuarial services.

“In conversations I’ve had with folks from industries such as hospitality, transportation, construction and farming, companies are choosing Alberta as their captive jurisdiction for several reasons, including our six-week turnaround time for licence approvals and low costs that are more favourable than accessing offshore captives,” Horner said. “In addition, Alberta’s captive insurance program allows companies to cover business risks from outside the province within Alberta.”

Companies have also told province officials they have an easier time navigating Alberta’s captive regulation because the superintendent of insurance is easily reachable, responsive to feedback and prudent in its reviews.

Under a captive insurance arrangement, a business owner forms an insurance company to fund losses, using their own risk capital rather than paying to use the capital of commercial insurers. Risk is covered through a formal insurance policy, which includes actuarially adjusted premiums for anticipated losses. It is different from self-insurance, which typically uses after-tax funds to cover losses (BestWire, May 6, 2020).

(By Terrence Dopp, senior associate editor, Best’s Review: Terry.Dopp@ambest.com).
January 22, 2024

Taxation and Litigation

US Supreme Court Declines to Hear Delaware Appeal in IRS Battle

The U.S. Supreme Court will not hear an appeal by the Delaware Department of Insurance in its battle with the Internal Revenue Service over sharing communications with microcaptive insurers.

The high court denied the department’s petition to argue its case without explanation.

The denial leaves intact a ruling by the 3rd Circuit Court of Appeals declaring the written communications sought by the IRS are not part of “the business of insurance” and therefore not under the department’s sole control.

The circuit court said the “touchstone” of the definition is whether the issue at hand has an impact on the “relationship between the insurance company and the policyholder.” The court later admonished not everything that indirectly affects policyholders in some way falls within the “business of insurance” (BestWire, July 24, 2023).

The IRS is investigating whether some microcaptives are exploiting a tax code provision allowing small captive insurers to avoid paying federal income tax on premiums received, it said (BestWire, June 21, 2023).

The summons enforcement action on appeal arises from the IRS’ investigation of Artex Risk Solutions Inc. and its wholly owned entity Tribeca Strategic Advisors, LLC, which began in 2017. The investigation seeks to determine whether Artex and Tribeca are liable for penalties for promoting abusive tax shelters.

The department in a statement said it is disappointed by the Supreme Court’s decision, but will abide by it. The department and Commissioner Trinidad Navarro will continue to fight to protect state-based insurance regulation, including confidentiality provisions, and will continue to obey state statutory requirements, it said.

“The dispute involves a provision of Delaware law that expressly prohibits the commissioner from releasing certain information except to other insurance departments, or to law enforcement agencies agreeing to hold the information as confidential,” it said. “The IRS refused to abide by that provision required by Delaware law. The commissioner sought the court’s intervention to clarify his duties in the face of the conflict.”

The statement also said in all other federal courts around the country, the McCarran-Ferguson Act has been interpreted to bar a federal agency from overriding conflicting provisions of state insurance law.

“In deciding the conflict, the 3rd Circuit Court of Appeals utilized a different test to decide the conflict issue than all other circuits who have considered the issue, and used a different test than the supreme court has previously said is proper," it said. "The National Association of Insurance Commissioners, on behalf of all states, had joined with the Delaware department in asking the supreme court to review this matter and correct the lower court's error."

(By Timothy Darragh, senior associate editor, BestWire: Timothy.Darragh@ambest.com).
November 21, 2023

US Tax Court Rules Against Microcaptives in Dispute Over Arrangements

The U.S. Tax Court ruled in favor of the Internal Revenue Service in a case involving a microcaptive insurer, as the agency seeks to strengthen regulation of the industry.

At issue was whether Risk Management Strategies Inc., an S corporation that had primarily banks administering special needs trusts as its clients, correctly reported $1.2 million of expenses it listed for insurance coverage provided through its captive insurer, Risk Retention, and other insurers in tax years 2012-2014. The case involves RMS shareholders Terence Keating, Cheryl Doss and Arthur Candland.

The IRS argued the arrangement didn't actually provide insurance and the shareholders cannot deduct the amounts for tax purposes nor take advantage of a preferential rate for dividends paid by Risk Retention.

"Petitioners have not proven that RMS' payments that they seek to deduct as insurance expenses were for insurance in the commonly accepted sense," a Jan. 4 memo from the court said. "Petitioners have therefore failed to prove that the payments were for insurance for federal income tax purposes."

The suit ruled the three had a tax deficiency of more than $1.7 million collectively during the period and must pay about $348,000 in penalties.

In a June 18, 2012 email to an external auditor, Candland described the captive program as RMS self-insuring workers' compensation claims although the scope of the program wasn't limited to those policies, according to court documents. In a subsequent email to a potential buyer, he also described it as a vehicle for funding workers' compensation and liability insurance deductibles, and covering esoteric risks that couldn't be covered commercially or had such low risks that it made o sense to purchase them commercially, the documents said.

Last year, the National Council of Insurance Legislators, insurance departments and captive insurance associations across the United States are urging the Internal Revenue Service to back off a proposed rule they say would improperly allow the federal government into insurance regulation (BestWire, June 27 2023).

The IRS is looking to address proposed regulations that identify transactions that are the same as, or substantially similar to, microcaptive transactions as listed transactions and certain other microcaptive transactions as transactions of interest, both types of reportable transactions, it said.

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com).
January 5, 2024

Company News

Compre Completes Two European Liability Portfolio Acquisitions

Legacy acquirer Compre has completed the acquisition of two liability portfolios from undisclosed international insurance groups.

The portfolios are for European casualty and motor liabilities from separate insurance groups, Compre said in a statement.

All necessary approvals were granted by regulators in Bermuda and Europe, which allows Compre's Bermuda reinsurer Pallas Reinsurance Co. Ltd. to reinsure about (EURO)200 million ($218.9 million) of reserves across France, Germany, Italy and the Netherlands, Compre said.

"These transactions demonstrate how our experience in the European liability market continues to be valued by our clients following an excellent year for Compre in 2023," said Simon Hawkins, chief executive officer, Europe, Compre, in a statement.

Legacy acquirer Darag Group earlier agreed to assume expired long-term liability insurance policies from an undisclosed Benelux-based captive insurer (BestWire, Oct. 5, 2023). The deal is between the captive, the captive's policyholder and Darag's German insurance carrier Darag Deutschland AG, the company said at the time.

Under the agreement, Darag will assume expired long-term liability insurance policies through novation and will provide full legal, operational and economic finality. Guy Carpenter acted as broker and sell-side adviser on this transaction.

(By David Pilla, news editor, BestWire: David.Pilla@ambest.com).
January 11, 2024

Envision Captive Launches Arizona Builders Captive in Partnership With Axa

Envision Captive Consultants LLC said it launched a group captive in partnership with Axa XL Insurance covering contractors.

Phoenix Captive Insurance launched in March 2023 after years as a "concept," beginning with a group of contractors who felt the need to collectively fight against legal and economic pressure facing the industry, Envision said in a statement. Envision focuses on general liability defense strategy and safety practices, and the firm welcomes all types of residential and commercial construction companies, and contractors in the energy sector, according to its website.

"We've built one of the most unique group captives in the industry and brokers want to be a part of it," Andrew Cardoza, relationship manager with Envision Captive Consultants, said in a statement. "This captive program is growing within Envision's pre-qualified broker network, which includes a partnership with the InCite Network."

Envision didn't immediately respond to a request for additional comment.

The risk management-focused PCI is a heterogeneous contractor program in partnership with Axa, Envision said.

"We at Axa XL are thrilled to partner with Envision Captive Consultants and the Phoenix Captive on this collaborative endeavor," said Mark Benz, senior vice president and head of Group Captives at Axa. "We are looking forward to the success of the program."

The National Council of Insurance Legislators, insurance departments and captive insurance associations across the United States are urging the Internal Revenue Service to back off a proposed rule they say would improperly allow the federal government into insurance regulation (BestWire, June 27, 2023).

The IRS is looking to address proposed regulations that identify transactions that are the same as, or substantially similar to, microcaptive transactions as listed transactions and certain other microcaptive transactions as transactions of interest, both types of reportable transactions, it said.

Most underwriting entities of Axa S.A. currently have a Best's Financial Strength Ratings of A+ (Superior).

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com).
January 11, 2024

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:

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:

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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