AM Best

August 2024

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 Announcements

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

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Ratings of “a+” (Excellent) of Nuclear Electric Insurance Limited (NEIL) (Wilmington, DE) and its subsidiaries, Cedar Hamilton Limited (Cedar Hamilton) (Hamilton, Bermuda) and NEIL Overseas Designated Activity Company (NEIL Overseas) (Ireland). The outlook of these Credit Ratings (ratings) is stable. Cedar Hamilton and NEIL Overseas are wholly owned subsidiaries of NEIL. Cedar Hamilton provides specialty lines capacity to NEIL’s members, and NEIL Overseas underwrites insurance programs for nuclear power stations within the European Union.

The ratings reflect NEIL’s balance sheet strength, which AM Best assesses as strongest, as well as its marginal operating performance, favorable business profile, and appropriate enterprise risk management.

The ratings also acknowledge NEIL’s management culture and its exclusive leadership position in the U.S. nuclear power-generating industry. NEIL essentially underwrites the entire nuclear utility property insurance coverage in the United States. NEIL continues with its mission of maintaining the financial strength to cover two full-limit nuclear losses, while promoting nuclear industry risk management and safety practices.

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

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

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

May 15, 2024.

AM Best Assigns Credit Ratings to Quasar Insurance Company, Inc.

AM Best has assigned a Financial Strength Rating of B++ (Good) and a Long-Term Issuer Credit Rating of “bbb” (Good) to Quasar Insurance Company, Inc. (Quasar) (Mount Pleasant, SC). The outlook assigned to these Credit Ratings (ratings) is stable.

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

Quasar’s overall balance sheet strength assessment is supported by its strong level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), as well as a conservative investment portfolio and adequate reserves and liquidity; however, the assessment is partially offset by no use of reinsurance to protect surplus in the event of natural catastrophes and the high-limit offering relative to the captive’s surplus.

Quasar’s adequate operating performance is primarily based on audited results over the most recent five-year period and the company’s ability to execute its strategic business plan and meet forecast operating results. The captive has reported solid results in recent years, primarily driven by underwriting and investment income, supporting the company's surplus growth. The captive's results are forecast to remain adequate over the next five years with projecting overall earnings in all years. Premiums are primarily derived from the general liability, subcontractor default and builders risk lines of business and are expected to remain consistent in the near term, based on company forecasts.

Business profile is assessed as limited as a single-parent captive established to provide liability insurance to its sister affiliate, DSLD Homes, LLC (DSLD), and its other affiliated companies. DSLD is a large, privately held home builder that specializes in residential construction throughout Louisiana, Southern Mississippi, Alabama, Florida and Texas. DSLD is actively constructing homes in the South with approximately 75% of the homes built in Louisiana. The captive offers nine different coverages providing product diversification; however, general liability and subcontractor default consists of approximately 80% of the business. The senior management team is experienced in the construction and home building industries, and the captive is managed by a third-party captive manager in collaboration with the senior management team.

ERM is considered appropriate. Risk management of the captive falls under the scope of the ultimate parent, which has implemented an active risk management approach, enabling all affiliated subsidiaries to appropriately manage their risks in line with the organization's overall strategic direction and risk appetite. Management strategically evaluates top risks and mitigates severity through active risk management. Best practices include stringent construction processes, annual insurance reviews and bi-monthly, in-person senior management meetings to discuss current and emerging issues. The captive does not currently utilize reinsurance partially offsetting the positive factors above.

May 22, 2024.

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

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

The ratings of BNY Trade reflect its balance sheet strength, which AM Best assesses as strongest, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management (ERM). The ratings of Hamilton reflect its balance sheet strength, which AM Best assesses as very strong, as well as its strong operating performance, neutral business profile and appropriate ERM.

BNY Trade's balance sheet strength assessment of strongest is supported by its risk-adjusted capitalization being at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). Further, the company continues to maintain excellent liquidity measures while generating consistent net annual profits during the past five-year period, driven by organic growth. Hamilton's very strong balance sheet strength assessment is supported by risk-adjusted capitalization at the strongest level, as measured by BCAR, strong liquidity measures exceeding industry composite averages, and benefits from the financial flexibility and support from its ultimate parent, The Bank of New York Mellon Corporation (BNY Mellon) [NYSE: BK]. The operating performance of strong for both BNY Trade and Hamilton reflects favorable combined ratios, driven by excellent loss history and low expense structure.

Both BNY Trade and Hamilton are single-parent captives of their ultimate parent, BNY Mellon, a leading global financial services company. In their roles as single-parent captives, both companies provide comprehensive reinsurance coverage and products to their parent. Both BNY Trade and Hamilton are an integral component of BNY Mellon's overall risk management framework, and benefit from the parent's robust, enterprise-wide policies and procedures in the areas of risk management, resiliency, corporate governance, compliance and ethics.

May 31, 2024.

AM Best Affirms Credit Ratings of Prism Assurance, Ltd.

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

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

Prism's balance sheet strength assessment of very strong is supported by risk-adjusted capitalization at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). Further, the company has strong liquidity measures, and affords financial flexibility through the support from its parent company, Apogee Enterprises, Inc. (Apogee) [NASDAQ: APOG]. The adequate operating performance assessment reflects Prism's five-year average operating ratio that compares suitably with AM Best's workers' compensation composite, despite intermittent volatility. The company continues to generate consistent annual net profits primarily from a steady flow of royalty and investment income, which adequately offsets any volatility in underwriting and generally allows for healthy profits each year. Prism's operations also benefit from its inherent low expense structure as a captive, driving an underwriting expense ratio that is a fraction of its peers' average in comparison.

Prism is the single-parent captive insurance company of Apogee, one of the largest architectural design and construction companies in the United States. AM Best assesses Prism's business profile as limited as the company provides very specific lines of coverage to Apogee, although its risks do have a level of geographical diversification reflecting the scope of the parent's operations. As a captive, Prism is an integral component of Apogee's overall organization's risk management capability and awareness. The company is interwoven into Apogee's ERM program, and as a result, Prism displays excellent risk identification and mitigation processes. Prism works cohesively with business units across the overall organization to reduce claims severity and frequency.

May 31, 2024

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

AM Best has affirmed the Financial Strength Ratings of A (Excellent) and the Long-Term Issuer Credit Ratings of "a+" (Excellent) of Solen Versicherungen AG (SVAG) and Noble Assurance Company (Noble) (Texas, United States). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect SVAG'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. In addition, the ratings factor in rating enhancement from SVAG's ultimate parent, Shell Plc (Shell), reflecting SVAG's importance to the group as a well-entrenched risk management tool.

SVAG's balance sheet strength is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). AM Best expects the captive's BCAR scores to remain above the minimum required for the strongest assessment, reflecting its strategy to maintain sufficient capital buffers to absorb a series of large losses. The balance sheet strength assessment also factors in a concentration of assets in intragroup investments and the large gross and net line sizes provided by the captive, relative to its capital base.

SVAG has a track record of strong operating performance, underpinned by robust underwriting results, as demonstrated by a five-year (2019-2023) weighted average combined ratio of less than 25%. Prospective operating performance is subject to potential volatility due to the captive's exposure to high-severity, low-frequency losses, given its large net line sizes relative to its premium base. In addition, the captive is exposed to elevated market risk through its management of the Shell group's foreign currency warehousing activities, which drives a level of variability in overall earnings. Nonetheless, SVAG's key performance metrics are expected to remain supportive of a strong assessment over the medium term.

SVAG's business profile assessment reflects its key role in supporting its ultimate parent's overall risk management framework, as Shell's principal captive. The captive's non-life business mostly consists of offshore and onshore property and liability risks, as well as the associated business interruption cover. SVAG also writes a small book of life business derived from reinsurance of the group's pension liabilities.

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

June 13, 2024.

AM Best Affirms Credit Ratings of Palms Insurance Company, Limited and Palms Specialty Insurance Company, Inc.

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

The ratings of Palms reflect its 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 ratings of Palms Specialty reflect its balance sheet strength, which AM Best assesses as very strong, as well as its adequate operating performance, limited business profile and appropriate ERM.

Both companies are wholly owned by NextEra Energy Capital Holdings, Inc. (NEECH), which, in turn, is wholly owned by NextEra Energy, Inc. (NextEra) [NYSE: NEE]. Palms is a single-parent captive, which underwrites insurance risks of NextEra and its affiliates, providing specialized direct and assumed property, casualty, workers’ compensation, automobile liability and employers’ liability coverages. Palms Specialty, formed in 2022, is a specialty insurer focusing on the U.S. excess and surplus lines accounts, providing coverage for specialty property, professional lines and other specialty lines with manageable gross limits within the risk management structure of its parent.

The balance sheet assessment of strongest for Palms is supported through its strongest level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR). In addition, Palms has grown its surplus each year during the past five years through organic growth, allowing the captive to maintain sufficient capital in supporting its ongoing obligations. The adequate operating performance assessment reflects a five-year average for both combined and operating ratios that outperform the captive composite. Palms continues to generate favorable underwriting results and benefits from its low underwriting expense structure as a single parent captive.

The very strong balance sheet assessment is based on Palms Specialty’s strongest risk-adjusted capitalization, as measured by BCAR. AM Best expects that Palms Specialty will continue to maintain supportive risk-adjusted capital levels throughout its start-up phase. The adequate operating performance assessment is based on the company’s favorable operating ratio since inception, in addition to its clearly defined business plan and income statement projections that contemplate a level of implementation and execution risk for a newly formed entity. AM Best views Palms Specialty’s business profile as limited, given the execution risk associated with a start-up entity and the degree of competition in its selected market. Negative rating action could occur if Palms Specialty’s actual balance sheet strength or operating performance materially differ to the downside from its initial business plan.

Palms and Palms Specialty both benefit from the parent company’s established and tested ERM framework and processes that continues to evolve with further improvements tailored to both companies. The ratings also reflect the role of Palms and Palms Specialty within the risk management structure of its parent company.

June 20, 2024.

AM Best Revises Outlooks to Positive for National Guaranty Insurance Company of Vermont

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 National Guaranty Insurance Company of Vermont (NGIC) (Burlington, VT).

The Credit Ratings (ratings) reflect NGIC’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 (ERM).

The revision of the outlooks to positive recognizes NGIC’s favorable operating results over the past decade demonstrated by consistently strong underwriting and return on revenue metrics. The company has produced exceptional annual, five- and 10-year average combined ratios that outperformed the industry and its peers by wide margins. AM Best's expectation is that NGIC will continue to produce favorable operating results prospectively, driven by the organization's extensive loss controls, which have resulted in a loss-free history for the captive. The positive outlook also considers the continuation of NGIC's very strong balance sheet, with organic surplus growth, and the company maintaining its strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR).

The ratings also reflect NGIC's strategic role as the captive insurance company of Waste Management, Inc. (WM) [NYSE: WM], a leading provider of comprehensive waste management environmental services in North America. As a strategic and integral part of WM's ERM program, the parent wholly funded the captive's capitalization in the form of a demand note that generates net investment income to augment surplus annually. Further supplements have been provided in form of letters of credit as changes in exposures warrant. NGIC benefits from WM's robust risk management strategies, which enable it to support a portion of WM's financial assurance program efficiently and appropriately.

NGIC has a limited business profile and is licensed in two states and operates in 27 states as a non-admitted insurer to meet financial assurance obligations of its parent. The captive's ERM is considered appropriate as a focused insurance company that leverages its expertise to benefit policyholders.

June 20, 2024.

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

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

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

NGICL'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 the captive's BCAR scores to remain comfortably above the minimum required for the strongest assessment, reflecting its strategy to maintain sufficient capital buffers to absorb potential volatility stemming from its exposure to low frequency, high severity losses. The assessment also reflects the captive's conservative investment portfolio, which has been derisked in recent years. A partially offsetting balance sheet factor is the captive's reinsurance dependence, driven by the large policy limits needed by NG. Counterparty credit risk is mitigated partly by the good credit quality of NGICL's reinsurance panel.

NGICL has a track record of adequate operating performance, generating a 10-year (2015-2024) weighted average return on equity of just over 5%. Results over the cycle have been underpinned by good underwriting performance, albeit subject to considerable volatility, as demonstrated by significant losses reported on its property damage business interruption (PDBI) book in financial years 2021 and 2022. Nonetheless, the captive reported a healthy five-year (2020-2024) weighted average combined ratio of 75%. Prospectively, AM Best expects the captive's underwriting performance to be favourable over the longer term, albeit subject to potential volatility given its high net line sizes relative to its premium base.

NGICL's business profile assessment reflects its key role in supporting NG's risk management strategy as its principal captive. The captive is well-integrated into the group's overall risk management framework, providing a broad range of primarily PDBI, casualty and cyber cover to meet NG's insurance needs.

July 18, 2024

AM Best Affirms Credit Ratings of Quanta Insurance Company, Inc.

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" (Excellent) of Quanta Insurance Company, Inc. (QIC) (Houston, TX). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect QIC'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.

QIC is a single parent captive of Quanta Services, Inc. [NYSE: PWR], a leading specialized contracting services company, delivering comprehensive infrastructure solutions for the utility, communications, pipeline and energy industries.

QIC was domiciled in Texas in 2017 and writes, on a direct basis, workers' compensation, commercial auto and general liability coverages to its parent and affiliated entities on an occurrence basis. QIC's captive orientation not only affords the company with ready access to business, but it also benefits from its parent's extensive training, fleet management, loss control initiatives and workplace safety.

July 19, 2024.

AM Best Affirms Credit Ratings of Greenval Insurance Company 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 Greenval Insurance Company Designated Activity Company (Greenval) (Ireland). The outlook of these Credit Ratings (ratings) is stable.

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

Greenval is the captive motor insurer for Arval Service Lease S.A. (Arval), a vehicle-leasing company wholly owned by BNP Paribas SA, a global banking group headquartered in France.

Greenval's balance sheet strength is underpinned by its risk-adjusted capitalisation, which was at the strong level at year-end 2023, as measured by Best's Capital Adequacy Ratio (BCAR). BCAR scores were supportive of the very strong assessment at year-end 2022, and decreased in 2023, mainly as a result of an increase in underwriting risk tied to the company's significant growth. Risk-adjusted capitalisation is expected to remain at least at the strong level prospectively. The balance sheet strength assessment considers the company's prudent reserving, appropriate reinsurance programme and liquid investment portfolio.

Greenval has a track record of a strong operating performance, as demonstrated by a return on equity (ROE) of 42.4% in 2023 under IFRS 17 and a five-year weighted average ROE of 40.4% for the period 2018-2022 under IFRS 4. Underwriting results have been consistently strong, benefiting from the captive's privileged access to Arval's good quality business.

As a captive insurer providing motor insurance covers for Arval, Greenval's underwriting portfolio is concentrated in motor insurance, but well-diversified geographically. Greenval's neutral business profile assessment also reflects its strategic importance to Arval, as its only affiliated motor insurer. Greenval's ERM is considered developed and appropriate for its risk profile and operational scope.

July 24, 2024.

AM Best Assigns Credit Ratings to CVS Caremark Indemnity Ltd.

AM Best has assigned a Financial Strength Rating of A (Excellent) and a Long-Term Issuer Credit Rating of "a" (Excellent) to CVS Caremark Indemnity Ltd. (CVS Caremark Indemnity) (Bermuda). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect CVS Caremark Indemnity'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).

CVS Caremark Indemnity whose parent company is CVS Health Corporation (CVS Health), assumes Medicare Part D business from an affiliated insurance company, SilverScript Insurance Company (SilverScript) under a quota share agreement and writes liability coverage, workers' compensation and other property/casualty cover for affiliates within the CVS Health organization.

CVS Caremark Indemnity's very strong balance sheet strength assessment is supported by the strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR) model, which is driven by its favorable level of capital and surplus. Additionally, CVS Caremark Indemnity has adequate liquidity ratios and has reported positive cash flows from operations in each of the last three years. CVS Caremark Indemnity currently does not use a line of credit or a credit facility.

CVS Caremark Indemnity's adequate operating performance reflects consistent earnings on an operating and net basis. Underwriting income is primarily driven by its quota share reinsurance agreement with SilverScript for its Medicare Part D business, which comprises approximately two-thirds of net premium written. Net investment income has also been a consistent contributor to overall earnings.

AM Best assesses CVS Caremark Indemnity's business profile as neutral. This is driven by CVS Caremark Indemnity's concentration in its reinsurance assumed business, which is offset by geographic diversification. In addition, all business written and assumed by CVS Caremark Indemnity is derived from CVS Health entities.

CVS Caremark Indemnity is incorporated into the larger CVS Health Corporation ERM program, which AM Best assesses as appropriate. The ERM program coordinates a holistic risk management process that emphasizes collaboration and information sharing among business functions to identify and collectively respond to the organization's full range of risks.

July 30, 2024.

AM Best Assigns Credit Ratings to S-Squared 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 S-Squared Insurance Company, Inc. (S2) (Honolulu, HI). The outlook assigned to these Credit Ratings (ratings) is stable.

The ratings reflect S2'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).

The stable outlooks consider AM Best's expectation that S2's balance sheet strength assessment fundamentals will continue to strengthen over the medium term, with internal profit generation and retention levels that support continued growth in the company's surplus, while maintaining profitable operating performance.

S2's balance sheet strength assessment is underpinned by its risk-adjusted capitalization, which is at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). This captive insurer is a strategic and integrated extension of Micron Technology, Inc.'s [Nasdaq: MU] (Micron) corporate ERM strategy, and Micron provides S2 capital and financial flexibility. S2's risk-adjusted capitalization is expected to remain at the strongest level, supported by increased retention of earnings. S2 has a conservative investment portfolio with conservative loss reserving strategies.

S2's operating performance reflects actuarially needed premium for its coverage offerings of U.S. workers' compensation and participation in the property tower covering production facilities in Japan and Taiwan. Though S2 is a new formation, Micron has experience with both of these lines since its founding in the 1970s. Micron has had minimal workers' compensation losses historically and brought this business into the captive for efficiency. Micron believes that S2's participation in the property tower can provide a portion of the coverage as efficiently as the traditional property market.

S2's limited business profile reflects its position as a single-parent captive of Micron with product and geographic concentration. Property exposures are concentrated in the Asia-Pacific region with workers' compensation coverage provided for Micron's U.S. facilities.

August 2, 2024.

Solvency

Connecticut Commissioner Orders PHL Variable Insurance Into Rehabilitation

(Updates to add comment from Nassau Financial Group starting in the 11th paragraph.)

A Connecticut Superior Court has placed life and annuity carrier PHL Variable Insurance Co. and two subsidiaries into rehabilitation under the state's insurance commissioner, Andrew Mais.

Along with Connecticut-domiciled PHL Variable, the order also places Concord Re Inc. and Palisado Re Inc., both captive insurance companies whose only business is reinsuring PHL's liabilities, into rehabilitation, according to a statement issued May 20 by the Connecticut Insurance Department.

The CID said the companies are in a "hazardous financial condition." In aggregate, their capital and surplus is approximately negative $900 million and assets are projected to be exhausted in 2030 with about $1.46 billion of policyholder liabilities projected to remain unpaid, the CID said in a court filing seeking the order.

"Today's filing underscores the department's commitment to protecting consumers and ensuring the availability of a financially sound insurance industry in Connecticut," Mais said in the statement. "This action is a critical first step for the department to begin developing and implementing a plan of rehabilitation that both maximizes the value of the companies' assets and equitably administers PHL's business for the benefit of all policy and annuity holders."

The Superior Court also entered an order imposing a moratorium limiting payments under some policies while a rehabilitation plan is developed over the next year. The moratorium will not have any immediate effect on recurring payments and death benefits for most policy and annuity holders. Life insurance and annuity holders will receive a letter detailing any restrictions on their policies, the statement said.

According to court documents, life insurance policies issued by PHL Variable's general account may receive death benefits equal to the lesser of the face amount or $300,000. Similar limits exist for policies issued by sub-accounts of the company, according to court documents. Policyholders also won't be able to receive surrender payments, withdrawals or policy loans, CID said.

Most annuities will remain eligible for payments under the original terms up to $250,000, the order said.

"The companies lack sufficient assets to pay their ultimate liabilities and obligations; they do not have access to additional capital from their parent or affiliates; they face short and intermediate term shortages of liquidity; and they do not have a realistic plan to address their deteriorated financial condition," the CID said in a court filing. "The department has concluded that placing the companies into rehabilitation is necessary to protect the interests of policyholders, creditors and the public."

According to court documents, PHL Variable is a direct, wholly owned subsidiary of PHL Delaware LLC, a Delaware company whose ultimate parent

company is Golden Gate Private Equity, Inc., also domiciled in Delaware. Prior to 2021, PHL Delaware was a direct subsidiary of Nassau Insurance Group Holdings L.P., according to regulators.

A phone call to PHL Variable was redirected to Nassau Financial Group, its former parent.

In an emailed statement, a spokesperson for Nassau pointed out that it and PHL are different companies.

"Nassau has provided PHL with administrative and investment services since the two companies separated in 2021," the statement said. "We will continue in this role at the direction of the Commissioner of the Connecticut Insurance Department, who is appointed rehabilitator."

PHL Variable ceased underwriting and issuing new policies at year-end of 2019, and received CID approval to form Concord Re, a Connecticut-domiciled captive that reinsured 100% of its liabilities not otherwise reinsured. Concord Re entered into an excess of loss reinsurance agreement with Nassau Re Cayman that also saw the Nassau Companies make a capital contribution to PHL.

At the time the transactions closed, internal projections showed PHL Variable and Concord Re would maintain adequate assets to pay policyholders in full but its financial condition had deteriorated significantly by the end of 2020. "This deterioration was the result of increased mortality, in part due to the COVID-19 pandemic, the sustained low-interest rate environment and investments that did not perform as projected," CID said.

In mid-2021 PHL Variable took additional steps took including more reinsurance agreements. In November 2021, Palisado Re was formed as a Connecticut-domiciled captive and wholly owned subsidiary of PHL. Nassau Re Cayman transferred its rights and obligations under the excess of loss agreement to Palisado, according to court documents and the Nassau Cos. made an additional capital contribution.

In November 2021, the CID approved a reorganization plan that saw PHL and subsidiaries transferred to GG Holding Co. by the Nassau Cos. and de-consolidated from Nassau, according to a timeline in the filing.

The financial condition of the three companies continued to deteriorate and on March 31, 2023 the commissioner placed them under supervision.

In another case involving the measure, a Cole County, Missouri, court ordered Cameron Mutual Insurance Co. and its wholly owned subsidiary, Cameron National Insurance Co., into rehabilitation after they sustained a slow decline in market share and increasing losses from storms (BestWire, Aug. 9, 2023). The property/casualty carrier, which mainly provided auto, homeowners, commercial and farm coverage across the Midwest, is now under the control of Department of Commerce and Insurance Director Chlora Lindley-Myers.

PHL Variable Insurance Company is not rated by AM Best. Underwriting entities of Nassau Financial Goup L.P. have current Best's Financial Strength Ratings of B++ (Good).

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com).
May 29, 2024

Domiciles

Vermont Governor Signs Captive Insurance Legislation

Vermont Gov. Phil Scott has signed legislation making it easier for captive insurers to become so-called protected cell companies, as a component of the state's regular update of captive guidelines.

Under the measure, H.659, a captive domiciled in Vermont may be converted into an unincorporated protected cell with written approval from the state's insurance commissioner. The conversion would not affect the entity's assets, rights, benefits, obligations or liability.

The legislation also revises guidelines for parametric insurance and lowers the statutory capital and surplus requirement for agency captives to $250,000 from $500,000. The bill makes it clearer that captives can write parametric coverage.

It also strengthens confidentiality requirements for captive insurers and contracts.

"Vermont continues to strengthen the captive insurance industry in the state through strong partnerships between the Department of Financial Regulation and industry," Scott said in a statement announcing the signing. "This bill continues to modernize laws, bringing more captives to the state and positioning Vermont as a worldwide leader in this respect."

North Carolina Insurance Commissioner Mike Causey said in April his state is now the third-largest domicile for U.S. captive insurers after Vermont and Utah (BestWire, April 17, 2024).

A statement issued by Causey's office said North Carolina has become an attractive destination for the insurers in the decade since passage of the state's Captive Insurance Act. Since that time, it has licensed or approved more than 1,500 risk-bearing entities after licensing just three in its first year.

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

North Carolina Extending Captive Insurer Tax Holiday

North Carolina is extending the premium tax exemption it gives to captive insurance companies that redomicile in the state, while also offering risk retention groups a 1.85% premium tax, according to a new state law signed by Gov. Roy Cooper earlier in July.

Captive insurers operating outside of North Carolina that receive approval from the state's insurance commissioner to redomesticate and domicile in North Carolina are exempt from any premium taxes that would be imposed during the year the redomestication occurs as well as the following year. The tax holiday provision will remain in place until Jan. 1, 2026, according to the law's text.

Additionally, the law sets a 1.85% premium tax rate for risk retention groups, according to the new law.

Previously, risk retention groups were subject to the same 5% tax rate that surplus lines insurers face. Premiums paid by purchasing groups will continue to be taxed under the old system, which sets tax rates based on “similar coverage from a similar insurance source by other insureds,” according to state statute.

Attempts to get further comment on the new law from the state’s insurance department and Sen. Benton G. Sawrey, the law’s primary sponsor, were not immediately successful.

North Carolina is the third-largest domicile for captive insurers in the United States, behind Vermont and Utah, according to an April release from the state’s insurance department. In the decade since passing laws allowing captive carriers, the state has licensed more than 1,500 entities.

“North Carolina’s competitive premium tax rates and laws provide us with a lot of discretion in the regulation of captive insurers, which helps us remain attractive to captive owners and captive managers alike,” Insurance Commissioner Mike Causey said in the April statement. “Laws drafted over the years designed to meet insurance needs of North Carolina businesses have had a positive economic impact, attracting new businesses to our state.”

In addition to updating its captive insurer laws, North Carolina recently changed its rules to make underinsured motorist coverage mandatory for private automobile policies (BestWire, July 8, 2024).

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com).
July 12, 2024

New Connecticut Law Further Supports Captives Sector Growth

Connecticut is hoping to attract more captive insurance companies into the state after enacting laws that add flexibility and ease to the conversion of a sponsored captive’s protected cells, according to a release from the Connecticut Insurance Department.

Going into effect Oct. 1, the bill allows for protected cells nestled in sponsored captive plans to be converted into new, entirely separate captive structures, such as sponsored captives, special purpose financial captives and association captives, according to the release. These conversions occur without affecting the protected cell’s assets, rights, benefits, obligations and liabilities.

The regulations were updated to allow captive insurance programs to evolve alongside a business’ risk management needs, according to Fenhua Liu, director of the Connecticut Insurance Department’s captive division.

Organization’s leverage sponsored captives might initially lack the capacity, desire or in-house expertise needed to create their own pure captive. Liu explained after a few years in a sponsored captive program, a company might decide it would rather strike out on its own and form a pure captive.

With these new laws, that conversion will be seamless, she said, adding captive owners now have more clarity and more certainty that they can change easily if and when they are ready.

“It gives (businesses) more flexibility and more comfort. Then they are encouraged to form more sponsored captives if they need it or add more cells if they need it,” Liu said, adding the regulations give more flexibility to both captive owners and business owners.

These updates build upon the suite of laws passed in recent years that include allowing captives to accept and transfer risk through parametric contracts (BestWire, June 28, 2023), reducing minimum capital requirements and waiving examinations for “well-governed” pure captives.

Updating regulations around captives shows the insurance industry and wider business community that the state is pro-business and Connecticut’s leadership is on the same page when it comes to supporting captive insurance programs, Liu explained.

To this end, the captive division will advance new policy ideas annually to improve and support the sector, according to Liu, who said to anticipate some fresh proposals this coming fall in advance of next year’s legislative session.

In addition to updating rules for protected cells, the most recently enacted laws redefine “small employer” for insurance purposes and enhances the insurance department’s investigative authority and response to insurance law violations, according to a statement from Sen. Jorge Cabrera, co-chair of the insurance and real estate committee.

"All in all, these are positive advancements for Connecticut where we have the highest concentration of insurance jobs in the nation," Cabrera said in a statement.

Attempts to get further comment from Cabrera were unsuccessful.

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com).
July 19, 2024

Regulation

DOL Proposes to Issue Exemption Allowing NYC Cancer Center to Reinsure Pension Through Captive

The U.S. Department of Labor has proposed a prohibited transaction exemption that would allow a New York cancer center to use a captive insurer to reinsure pension risks.

According to a notice of the proposed exemption published July 9 in the Federal Register, Memorial Sloan Kettering Cancer Center would be granted the exemption for the reinsurance of risks and the receipt of premiums by MSK Insurance US Inc., in connection with a single premium group insurance contract sold by an unrelated fronting insurer, according to the notice.

MSK had 29,732 employees as of Dec. 31, 2022, and operating revenue that year of about $6.63 billion, the DOL said. The pension plan as of that date covered 8,263 participants and held $1.35 billion in total assets, DOL said. It was closed to new enrollments in December 2012 and future benefit accruals were frozen in 2020.

The DOL is considering granting the exemption under the authority of the Employee Retirement Income Security Act, according to the notice.

"MSKCC is expected to receive a financial benefit from this exemption that will equal approximately $126,444,000," it said. "This exemption would require MSKCC to ensure that plan participants and beneficiaries will receive the majority of that derived benefit in the form of a uniform percentage increase to the monthly retirement benefit of all participants and beneficiaries."

Written comments and requests for a public hearing on the proposed exemption must be submitted by Aug. 23, according to the notice.

Nine life insurance trade groups filed a joint lawsuit against the U.S. Department of Labor to overturn its fiduciary rule, which they contend would reduce consumers' access to retirement investment advice (BestWire, June 4, 2024).

The suit was filed by: the American Council of Life Insurers; the National Association of Insurance and Financial Advisors, as well as its chapters in Texas, Dallas, Fort Worth and NAIFA-POET; Finseca; Insured Retirement Institute; and the National Association for Fixed Annuities, according to a joint statement issued by the group.

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com).
August 9, 2024

News

Apollo Launches First Lloyd's Captive Syndicate Under Revised Model

Apollo Syndicate Management Ltd. said it launched what it calls "the first captive syndicate of the modern era at Lloyd's."

Managed by Apollo, the syndicate is in partnership with an unnamed major global client, Apollo said in a statement,

Dawn Miller, commercial director, Lloyd's, said Captive Syndicate 1100 is the first syndicate to be launched under Lloyd's revised captive syndicate model.

"As part of our ongoing work to provide specialist risk solutions for our customers, we have sought to align our captive structure with the needs of third parties seeking access to operational benefits through Lloyd's global insurance expertise, license network and financial strength ratings," Miller said in a statement. "We look forward to welcoming further businesses to our captive platform in the near future."

An Apollo spokesperson said the company has no further comment.

Apollo said the launch "signals the start of Lloyd's new initiative where large captive clients can retain risk through their own Lloyd's rated syndicate, instead of via more traditional captive models." It increases the flexibility of a client's risk retention and allows them to take advantage of what their own Lloyd's syndicate offers, the company said.

"Establishing the first captive syndicate is a great achievement for our client, Apollo, and our industry," said David Ibeson, chief executive officer, Apollo, in a statement.

NormanMax Insurance Holdings recently launched Lloyd's Syndicate 3939, which began underwriting natural catastrophe parametric (re)insurance products for hurricane, tropical cyclone typhoon and earthquake risks (BestWire, May 22, 2024).

Lloyd's has a current Best's Financial Strength Rating of A (Excellent). June 3, 2024

Captive Insurers in Michigan Grew Premiums by 25% in 2023

During 2023, premiums generated by captive insurers in Michigan surpassed $3 billion, a nearly 25% increase compared with the prior year, according to the Michigan Department of Insurance and Financial Services.

The number of captive insurers in the state increased to 26 this past year, DIFS said, noting this combined with the premium growth displays that Michigan businesses and other organizations are increasingly looking to alternative insurance options. The state is among the top 10 in the United States for captive domiciles based on premium volume, it said.

Captive insurers are licensed insurance companies and subject to some of the same rules as traditional admitted carriers. They are usually used by an organization when other types of insurance coverages are either unavailable or too expensive, DIFS said, giving cannabis-related risks and cyber coverage as examples.

In addition to general risk management needs, Michigan is seeing growing interest in captives around the automotive and cannabis industries, according to Dave Piner, director of Michigan's captive insurance program.

He said pure captives are more attractive than other risk transfer methods, such as insurance pools, because they are easier to control. Additionally, captives can be more attractive than self-insurance options, as the latter might not meet the definition of insurance coverage cited in state and federal laws.

"Also, if the premium isn't substantial, there can be tax benefits in a captive structure," Piner said in an emailed statement.

In August 2023, Piner told AM Best TV that he expected premiums from captive insurers to exceed $3 billion by the year's end after reaching $2.5 billion in 2022. During that interview, he indicated that captives would see further growth (BestWire, Aug. 15, 2023).

"I see a lot of more Michigan companies coming back," he told AM Best TV. "For whatever reason now, there are certain risks that the offshore domiciles would rather not have, and it makes more sense to have it onshore. Again, I've heard through the grapevine that there could be more offshore business coming onshore."

(By Steve Hallo, senior associate editor, BestWire: Steve.Hallo@ambest.com).
June 25, 2024

Gallagher's Artex Launches Vermont Protected Cell Company

Arthur J. Gallagher subsidiary Artex Risk Solutions said it has launched a Vermont protected cell company, Artex Axcell PCC.

"With Vermont now established as the largest captive domicile globally, we selected Vermont as part of our U.S. onshore strategy but also to complement our global offering," said Artex North American Executive Vice President of Sales, Analytics and Advisory Barry White in a statement.

According to Artex North American Chief Executive Officer Jennifer Gallagher, PCCs have been "one of the most important evolutions in the captive insurance marketplace in recent years."

Clients can use a protected cell company as a stepping stone to a single-parent captive, the company said. The

PCC offers participants “the flexibility to choose between incorporated and unincorporated cell structures, access to reinsurance and capital market capacity, cash flow benefits” and more.

PCCs offer control over an insurance programs at a lower cost than a wholly owned vehicle, Artex said.

The company is Gallagher’s alternative risk and capital subsidiary, operating in more than 35 domiciles internationally.

Last year the U.S. Supreme Court refused to hear an appeal by the Delaware Department of Insurance in its battle with the Internal Revenue Service over sharing communications with microcaptive insurers.

The IRS investigated whether some microcaptives were exploiting a tax code provision allowing small captive insurers to avoid paying federal income tax on premiums received, it had said (BestWire, June 21, 2023). The summons enforcement action on appeal arose from the IRS’ investigation of Artex Risk Solutions Inc. and its wholly owned entity Tribeca Strategic Advisors, LLC, which began in 2017.

(By Renée Kiriluk-Hill, senior associate editor, BestWire: Renee.Kiriluk-Hill@ambest.com).
July 16, 2024

Generali GC&C, SRS Altitude Enter Alternative Risk Transfer Partnership

Generali Global Corporate & Commercial is entering the structured (re)insurance solutions segment through a strategic partnership with European managing general underwriter SRS Altitude, the company announced.

It said the partnership will allow it to enhance its alternative risk transfer and captive offering, and to “expand its client base across various lines of business.”

“I am proud of this partnership with SRS Altitude, and I am convinced that it represents a unique opportunity to further strengthen our alternative risk transfer offering,” Generali GC&C Chief Executive Officer Christian Kanu said in a statement. “This agreement will enhance cross-selling opportunities and strengthen our overall value proposition.”

The partnership will also allow SRS Altitude to “leverage the dedicated (re)insurance capacity, global reach and technical excellence of Generali Global Corporate & Commercial to originate, tailor, and provide a diverse range of ART solutions for corporate clients and their captives,” the MGU said in a separate release.

“Our combined strengths allow us to deliver supreme expertise and capital to clients, catering to their unique needs,” SRS Altitude CEO Loredana Mazzoleni Neglén said in a statement. “This collaboration empowers SRS Altitude’s commitment to innovation and excellence in the field of Alternative Risk Transfer.”

In the first quarter, Assicurazioni Generali S.p.A. said it was deploying property/casualty capital under positive rate and underwriting conditions, helped by the acquisition of Liberty Seguros in Latin America (BestWire, May 21, 2024).

Underwriting entities of Assicurazioni Generali S.p.A. have current Best’s Financial Strength Ratings of A (Excellent).

(By Anthony Bellano, associate editor, Best’s Review: anthony.bellano@ambest.com).
July 30, 2024

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

Rated U.S. captive insurance companies reported another strong year in 2023, generating a 53% increase in net income with surplus gains while continuing to outperform their commercial market peers, according to a new AM Best report.

The Best’s Special Report, “Growing Captive Insurance Market Highlights Risk Management Expertise,” states that the population of AM Best-rated U.S. captives posted net income of $1.4 billion, up from $923 million in the previous year. Additionally, the five-year average combined ratio of 86.5 for the AM Best-rated U.S. captives outstripped the 97.5 of their commercial casualty peer composite. Year over year, the U.S. captive composite did see some volatility, which led to a 10.2-percentage point deterioration on their combined ratio to 91.1 in 2023. However, between 2019 and 2023, they added $4.3 billion to their year-end surplus while returning $2.0 billion in stockholder and policyholder dividends, representing $6.3 billion in insurance cost savings that the captives retained for their own organizations by not purchasing coverage from the commercial lines market.

“Although captives are not created with the intention of being profit centers for their organizations, they are highly profitable," said Dan Teclaw, director, AM Best. "Unlike some of their peers in the commercial market, captives have not been materially impacted by the higher frequency or severity of weather and natural catastrophes in the past five years. Barring any unforeseen systemic catastrophic events, we expect captives' results to be favorable again in 2024."

According to the report, the number of U.S. captives continues to rise amid the persisting hard market. Since the pandemic, business interruption has frequently been customized by captive owners to ensure they have some predictable coverage should a future event emerge. At the same time, group medical stop-loss has emerged as one of the fastest-growing coverages considered by captives due to increased medical inflation and the continued rise in health care-related insurance costs. Additionally, the cyber market has generally stabilized, though not softened, but rapidly escalating pricing has prompted captive owners to contemplate offering higher limits. Other potential risks and lines captives are being utilized for include directors and officers, professional liability, product liability and surety bonds.

"In a hard market, owners-sponsors often broaden the use of their captives to provide coverage for non-traditional risks, or they may replace all or a portion of coverage offered with unfavorable terms, such as workers' compensation, general liability or auto," said Teclaw. "Captives and other alternative risk transfer-type entities can also offer an effective and efficient option to support a policyholder's ERM coverage requirements in periods of difficult commercial market conditions."

To access the full copy of this market segment report, please visit http://www3.ambest.com/bestweek/purchase.asp?record_code=345369.

AM Best will host a market briefing on the state of the captive insurance industry today (Wednesday), Aug. 7, 2024, at 2:00 p.m. (EDT). Please visit the briefing page to register for the event.

August 7, 2024

Best's Briefing Participants Expect Continuing Captive Growth

Even as the current hard market levels off, experts see continuing captive growth as the entities proved their worth amid cycle vagaries, and expansion of captive use into lines beyond traditional property and the rise of new risks such as cyber.

There is a lot of activity in the captive market, said Steve McElhiney, senior vice president and global director of reinsurance, Artex Risk Solutions. In the hard market there has been a lot of activity in terms of formations of captives and inquiries.

"We're also seeing some repurposing of existing single-parent captives," McElhiney said. He noted that a captive that was originally set up to fund deductibles or take in one line of insurance like workers' compensation may look to repurpose for property excess, for example.

McElhiney was part of a panel discussion on trends for captives and developments with alternative risk transfer instruments that examine current market conditions for the captive industry, efficiencies that the captive industry is trying to realize, and noticeable trends in new formations and ART structure types.

Captive domiciles are seeing a lot of new formations coming in activity that's driven by the hard market. McElhiney said property has seen the most activity.

Captives are a very familiar concept in the energy industry, with big risks and big retentions, said Jo Mather, insurance director, Phillips 66. She has seen significant benefits from that as an industry for a number of years.

Soft market conditions went on for a long time, but then the hard market showed the captive's opportunity to showcase the purpose and benefits of having captives, especially if you've had them for a while and built up some capital and some strength in them, she said.

There is an advantage for the parent to have the captive and then buy reinsurance, Mather said.

Captives continue to outperform AM Best's Commercial Casualty Composite both annually and for the long term, said Dan Teclaw, director, AM Best, confirming the viability of the segment.

AM Best looks at a captive insurance composite, which includes single-parent captives, group captives and risk retention groups, he said.

Single-parent captives generally have low combined ratios because they have low expenses, Teclaw said.

The RRGs generally perform close to the market and are a good alternative to the commercial market for companies in a similar line of business that want to efficiently get their insurance for members, usually smaller entities, he said.

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The Best's Special Report, "Growing Captive Insurance Market Highlights Risk Management Expertise," said the population of AM Best-rated U.S. captives posted net income of $1.4 billion, up from $923 million in the previous year.

The five-year average combined ratio of 86.5 for the AM Best-rated U.S. captives outstripped the 97.5 of their commercial casualty peer composite, the report said. Year over year, the U.S. captive composite did see some volatility, which led to a 10.2-percentage point deterioration on their combined ratio to 91.1 in 2023.

However, between 2019 and 2023, they added $4.3 billion to their year-end surplus while returning $2.0 billion in stockholder and policyholder dividends, representing $6.3 billion in insurance cost savings that the captives retained for their own organizations by not purchasing coverage from the commercial lines market, according to the report.

Written premium continues to grow in the captive industry composite as the hard market persists, Teclaw said. Growth since 2022 drove a 27% increase in written premiums in the composite.

Results for captives led to $6.4 billion in insurance expense savings for those entities that could have gone to the commercial market but instead were better able to manage their own risks and grow their surplus to cover future risks as well as distributing $2 billion in dividends, he said.

There has been improvement in the underwriting of RRGs, Teclaw said. "We have not seen a lot of new formations except in commercial auto liability line," he said.

Generally, there has been 5% to 10% net growth in each of the top 10 captive domiciles, he said.

There had been about 3,000 cells and series captives in the United States in 2020. Now there are 3,365 as formations are also offset as they go into dormancy or runoff, he said.

Beyond the hard market some carriers are retrenching in terms of their appetites, a common reason why accounts have been nonrenewed, McElhiney said. The client forms a captive through Artex, and it can access reinsurance and go from there, he said.

The market is now much more aware of the captive tool, and brokers are looking to provide solutions to their clients, he said. The market is much different than it was 10 years ago.

"When the hard market levels out, and there are signs that it will, the interest is already, I think the interest in captives will remain," he said.

From a downstream energy sector perspective, it continues to be a tale of two markets, Mather said. "For the largest insurance programs such as that of Phillips 66, its property and excess casualty risks are important."

On the property side, after several years of rate increases the property market leveled off last year, she said. This year the outlook is positive from the broker community and there may be rate reductions through the rest of this year.

Phillips 66 works with smaller joint venture companies that are seeing a significant hardening beginning this year, Mather said.

"I think we're going to see a continued interest in captives as those other companies catch up and want to have alternative solutions," she said.

Excess casualty is a challenge for large capacity buyers like Phillips 66 and the industry in general, Mather said.

"We're still seeing companies scaling back capacity or exiting from our market sector completely," she said. "There are new players coming in and the opportunists are seeing that rates are good, and they're not hindered by some of the historical losses that the markets have seen."

Mather said she is not seeing a healthy excess casualty market yet.

McElhiney said captives have traditionally been a good tool for lines like workers' compensation, property and excess casualty, as well as commercial auto and transportation.

A more challenging use for captives can be cyber and directors and officers risks, he said.

Cyber can put large retentions into a captive for higher attachments, although one of the key benefits from cyber in the traditional marketplace is incident response and post-event, which would have to be unbundled and put it into a captive, he said.

D&O is also a difficult proposition for a captive, he said. Some states and jurisdictions prohibit that, and there are issues around the inherent conflict of a company responding through a captive vehicle on behalf of directors, he said. Part of that would have to be kept out of a captive, but there could still be applications for captives.

Relatively new risks for captive include areas such as cyber and group medical, Teclaw said. Group captives in education and other companies covering general liability and commercial auto continue to face significant social inflation.

RRGs run into a fair amount of social inflation in their claims management and resolution, especially in commercial auto and professional liability, or in higher education, he said.

August 8, 2024

Darag Agrees to Sell North America, Bermuda Businesses to RiverStone Group

Europe-focused legacy acquirer Darag Group said it has agreed to sell its businesses in North America and Bermuda to the RiverStone Group.

The sale is subject to regulatory approvals and is anticipated to close by year-end, Darag said in a statement. Terms of the transaction were not announced.

Darag said the sale simplifies its operations, allowing it to focus on core European business and bring additional capital to execute on a pipeline of transactions there, some of them in advanced stages of negotiations.

“We are pleased to pass this excellent and well-established niche business into the hands of a great company like RiverStone,” Darag’s Chief Executive Officer Tom Booth said. “I also look forward to the opportunity this transaction presents to bring focused firepower to our European core. Our strong, well capitalized niche position, and good market conditions, give us great optimism for our European business. “

Bob Sampson, president of New Hampshire-based RiverStone, said the acquisition will add talent and build on its success in the legacy and captive insurance markets.

“This acquisition perfectly fits our growth strategy, bolstering our capabilities and significantly boosting our market visibility in several North America insurance segments,” Sampson said. “We’re confident that this transaction will fuel innovation, inspire superior service, and create a powerful synergy that benefits our clients.”

A Darag spokesperson declined to give further information. RiverStone did not immediately respond to requests for comment.

DARAG was advised by PJT Partners and Nomura as lead financial advisers, RBC as financial adviser, and Proskauer Rose LLP as legal adviser. RiverStone’s legal advisers were Norton Rose Fulbright US LLP, the statement said.

Legacy acquirer Darag Insurance Guernsey Ltd. earlier this year said it signed a sale and purchase agreement to acquire a Cayman Islands-based insurance and reinsurance captive (BestWire, April 19, 2024).

The deal is subject to regulatory approval from the Cayman Islands Monetary Authority, DIGL said in a statement at the time. The company said it intends to merge with the acquired captive and reinsure the longer tail portion of the portfolio to its core risk carrier in Germany, Darag Deutschland AG.

(By Terrence Dopp, senior associate editor, Best’s Review: Terry.Dopp@ambest.com).
August 8, 2024

AM Best TV: Growing Captive Insurance Market Highlights Risk Management Expertise

AM Best Director Dan Teclaw discusses a new Best's Market Segment Report that finds from 2019 to 2023, AM Best-rated captives generated $4.3 billion in surplus growth and $2.0 billion in dividends; and previews the Vermont Captive Insurance Association's 2024 Annual Conference.

View the video version of this interview here:

Following is an edited transcript of the interview.

Q: How did AM Best's rated captives fare in 2023?

A: Well, same as it has been the past few years. We've seen a lot of outperformance on the underwriting side. Our captives are well capitalized that we rate. The underwriting continues to be solid, and we expect that to continue into the future. We saw a little bit of higher loss in the single parent side, which you get from time to time and the loss ratio on the risk retention groups improved a little bit. All in all, pretty good year, actually.

Q: Dan, I know you and your team have been covering the captive sector for quite a long time. How is it changing?

A: It's changing in a couple of different ways, with new people feeling they've got access to the market and with the hard market the way it is, other people are looking into the feasibility in order to establish captives. We're seeing formations, we're seeing new uses of captives, and we're seeing different types of captives. We're seeing some groups that are being used for different lines of business. We're also seeing some RRGs in the commercial auto. And then finally, I guess we're seeing more and more cell captives, which give access to the market for small to medium enterprises and small private businesses.

Q: I know that you and your team are going to be at Vermont, at the Captive Conference. What are the hot topics?

A: I think we'll see a lot of the same type of things that we here have been talking about. The formations and the lines of business that I'll put in there. I think the lines of business that they'll probably be discussing are cyber, property, hard market and maybe, I think some business interruption type of things where they want to be more predictable in their coverage, where they might have thought they had coverage during Covid, but they didn't. They're going to start to put some of that in their captive, I believe. Then finally, parametric always seems to get some attention. I guess opportunities also include, group medical stop loss and, just employee reimbursement type of programs for enterprises.

The report is available at ambest.com

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

(By Lee McDonald: Lee.Mcdonald@ambest.com).
August 9, 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.

These press releases relate to rating(s) that have been published on AM Best's website. For additional rating information relating to these releases and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this document, please see AM Best's Recent Rating Activity web page

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AM Best is a global rating agency and information provider with a unique focus on the insurance industry.

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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