

# Brighton NEWSLETTER

You insure, We ensure

## Editor's Note

We are seeing a rise in the demand for captives across the Asian and MENA regions. As the hard insurance market conditions continue well into 2021, driven primarily by social inflation and further exacerbated by the COVID-19 pandemic, we can expect to see this trend continuing beyond this year.

As one of the leading specialists in captives, the breadth and depth of captive management services offered by Brighton enables us to assist and advise our clients in building and growing their captives strategically.

I am proud that our work is being recognised by Captive Review. Brighton was recently shortlisted for the category "Captive Manager of the Year" at this year's APAC Captive Review Awards 2021. Congratulations to my team, and a big thank you to our clients and all that have supported us.

I would like to invite you to join me on July 29 as I share insights on how cell captive can be a useful tool in a hard market during the webinar on 'Quick Cover! Turnkey Self-Insurance Solutions via Cell Captives'. This webinar is hosted by Park Lane PCC together with Labuan IBFC. Stay tune for another upcoming webinar this October where I shall be discussing on PCC 101.

As always, I hope you are all staying safe and well during this extremely challenging time.

Annie Undikai,  
**Managing Director**

## Thriving Through The Hard Market

The insurance industry has been experiencing a hardening of the market. This is expected to continue well into 2021 and persist through 2022, according to a Swiss Re report.<sup>1</sup> The report further claimed that the tightening of capacity is largely the result of lower risk appetite by re/insurers rather than a shortage of capital. The reduction in risk appetite was mainly due to uncertainty from social inflation, natural catastrophe losses and pandemic-related losses.

In another report published by AON, global reinsurance incumbents and a number of new players were reported to have raised nearly US\$15 billion of capital last year in order to take advantage of the hard market opportunities that was created by attractive rates.<sup>2</sup>



<sup>1</sup> <https://www.swissre.com/dam/jcr:19f5606d-929c-4ef6-b676-df274aa3fce5/EL-12-2021-reinsurance-underwriting-cycle.pdf>

<sup>2</sup> Reinsurance Market Outlook, AON, January 2021.

There are several factors that are contributing to today's hard insurance market. Social inflation is a significant contributor to rising premiums and reductions in capacity in most liability coverage lines.<sup>3</sup> Social inflation describes the rise in claims caused by higher court awards and legislated rises in claim payments driven by changing societal behaviour.

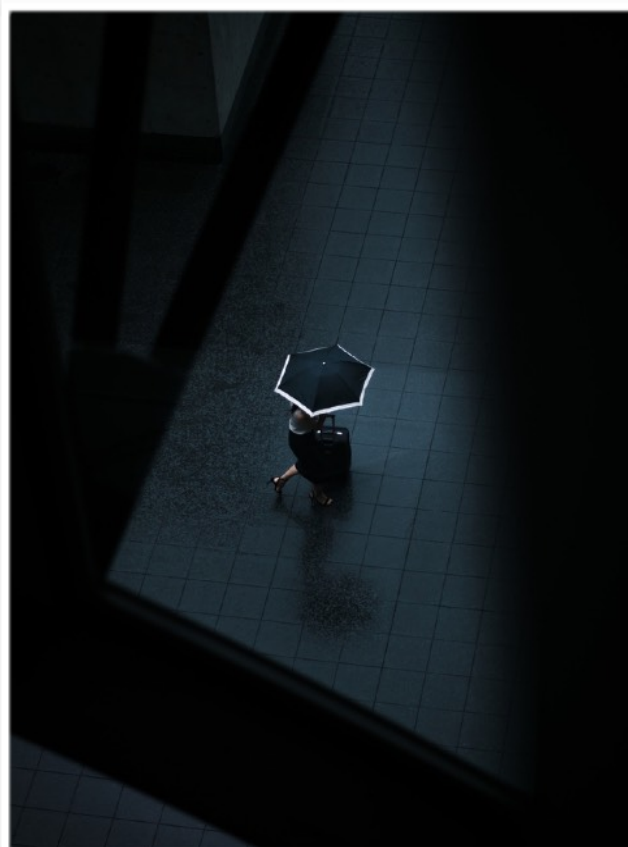
However, in a COVID-19 pandemic environment, it is the non-economic factors that are contributing mostly to social inflation. For example, the pandemic has deepened economic, educational and health inequality. Without any major policy reset, there is no indication that the long-term trend of rising inequality would change.<sup>4</sup>

Recent developments related to the pandemic have intensified social inflation risk in at least two key aspects.<sup>5</sup> First is the risk of retroactive modification of insurance policies, pertaining mostly to business interruption policies. Second is the risk of extended interpretation of directors and officers liability. These new forms of social inflation risk can potentially lead to significantly elevated insurance rates.

Other non-pandemic factors that are driving this hard market include a significant increase in the frequency and severity of global natural catastrophes, historically low interest rates, industry-wide rapid increases in liability losses, increases in the frequency and severity of ransomware claims.<sup>6</sup>

With the hard market set to continue beyond 2021, captives have increasingly become more attractive as a risk retention tool. According to Swiss Re Institute, the use of captives is expanding particularly amongst mid-sized companies as companies seek a more flexible and efficient insurance solution amidst uncertainty and a hard market.<sup>7</sup> This is against the background of continuing momentum in the global market for captive insurance.

Swiss Re also noted that structure such as Protected Cell Companies (PCC) enables smaller corporates to access the benefits of captive insurance without needing to set up the infrastructure themselves.



<sup>3</sup> <https://roanoketrade.com/what-to-expect-in-a-hard-insurance-market/>

<sup>4</sup> <https://www.swissre.com/dam/jcr:b699e06c-247c-4149-9f72-89003f25090a/EI-37-2020-social-inflation-post-covid.pdf>

<sup>5</sup> Oh, Sangmin, Social Inflation (September 2, 2020). Available at SSRN: <https://ssrn.com/abstract=3685667> or <http://dx.doi.org/10.2139/ssrn.3685667>

<sup>6</sup> <https://investor.ajg.com/news-releases/news-release-details/gallagher-releases-fall-2020-market-conditions-report>

<sup>7</sup> <https://www.reinsurancene.ws/captive-insurance-thriving-in-hard-market-swiss-re/>

## Group & Association Captives: New Frontiers In Risk Management

---



Captives continue to be the largest driving force of innovation in the insurance industry. There has been a notable rise in the use of captives for some complex and specific emerging risks, ranging from cyber risks to terrorism risks and environmental risks. This trend continued in the first half of 2021 amid increasingly challenging insurance market conditions and the impact of the ongoing global COVID-19 pandemic.

Captives vary in structure and form depending on the organisation's needs, strategic plans as well as specific risk profile. Some captives are owned by a single parent and write business only for that parent, while others may be owned by and underwrite risks for an association or an industry group. In some cases, the captives are owned by a party unrelated to the insured, but who 'rents' the captive's surplus to a company wishing to set up a self-insurance programme. However, captives are not solely for large conglomerates. A captive can also be suitable for smaller or medium sized companies, depending on their specific risk profile.

Captives that are structured to directly write insurance for a group of unrelated individuals or organisations are known as group captives. In this regards, a group captive is made up of a number of like-minded companies that band together to form and manage their own insurance entity. This form of captive has over the years become an attractive risk management option for a growing number and type of small and mid-size companies who are seeking to lower their insurance costs and control other aspects of their insurance programme.

Given the inherent nature of a group captive, the risk in a captive is generally homogenous, but it can also be heterogeneous. Homogenous group captives are where the owners are insureds in the same or similar industry niche. Whereas in heterogenous group captives, insureds come from entirely different industry sectors to own the captive.

Another type of captive that is similar to group captive is an association captive, except that it is sponsored or owned by an industry, professional or trade association with common insurance needs and similar exposures. Designed to insure the risks of that industry among its members, the risk in an association captive is generally homogeneous. Contrary to popular belief, cost is often not the primary driver for establishing a captive, either a group or an association captive. The benefits of forming such captives are varied and numerous, and depend on a range of factors such as risk appetite and risk exposure. Some of the most common benefits of a group or an association captive are examined below.

One of the main benefits of forming a group or association captive is that premiums are directly based on individual member's loss experience, and not the insurance industry averages. So there can be significant premium savings in joining forming a group or association captive. Furthermore, members that have better claims histories than their industry averages will benefit from lower costs. Since businesses in a captive tend to improve their claims performance year after year, the compounding of low claims years can produce rates that are dramatically lower than the industry average.<sup>1</sup> In addition to this, cost of insurance is greatly reduced since the traditional insurer's loading costs are excluded from the premium calculation. Here, captive member premiums do not have to cover an insurer's acquisition costs, marketing expenses, administrative expenses, overhead and commission expenses. With the hardening of the market, group or association captives provide members with the advantage of lower premium costs through increased risk control and more cost-effective administration.

Another benefit of a group or an association captive is that it affords members with greater control over their unique risk management concerns as captive allows for the customisation of the insurance programme to suit members' specific needs. In this instance, members only pay for the coverage that they need and require.

Unlike a traditional insurance company that retains unused premiums, a group or association captive returns unused premium (net of costs) to its insureds. In a recent study on group captives, it was found that the initial cost to enter the captive was 33% less than traditional insurance, with a final net cost after dividend that was 70% lower than traditional insurance.<sup>2</sup>



At Brighton Management Limited, we offer several alternative captive solutions, including group and association captives. We are ready to discuss how this may be a viable solution for members of a common industry or trade association seeking greater control over their insurance plans, reduced costs and enhanced risk management strategies.

<sup>1</sup> <https://www.odigroupcaptive.com/guide-to-group-captive-insurance/chapter-03-benefits-of-group-captive/>

<sup>2</sup> [https://www.americanbar.org/groups/construction\\_industry/publications/under\\_construction/2021/spring2021/trending\\_group\\_captive\\_insurance\\_programs/](https://www.americanbar.org/groups/construction_industry/publications/under_construction/2021/spring2021/trending_group_captive_insurance_programs/)



# Captives: Effective Tools To Navigate Uncertain Times

---



The global insurance industry has been experiencing several challenges following years of claims inflation with global insurance prices, on average, have risen every quarter since the fourth quarter of 2017.<sup>1</sup> The tight market conditions deepened with the global outbreak of COVID-19 pandemic and its resulting worldwide business disruption.

In what has become an increasingly difficult insurance landscape, more and more companies are turning to captives to provide the protection and financial flexibility they are looking for. And this growing interest in captives is set to become a long term trend.

Companies are also exploring captives as a strategic vehicle to manage the insurance market cycle. For example, captives can be viewed as a strategic door opener to reinsurance and alternative capital markets when there is a shortage of capacity or an increase in rates.

Captives are also playing a greater role in risk strategies of businesses, largely via increased participation and filling gaps in coverage, particularly in the energy and property space where capacity remains a challenge.<sup>2</sup> There has been an increasing trend in third-party coverages, such as warranty and tenants' liability, as companies look at their captives as a separate business unit and source of revenue. Companies are also expanding the use of their existing captives to encompass additional geographies and different lines of business such as cyber, trade credit and marine.

Businesses can mitigate financial losses arising from uncertain times via captives in a number of ways. For example, through captives, companies can write policies that cover contingency risks tailored to their exposures. Captives also serve as formal mechanisms for pre-loss funding. Hence, businesses can tap the captive's funds as coverages are triggered.

<sup>1</sup> The 2020 Captive Landscape Report, Marsh. Available at [https://www.mmc.com/content/dam/mmc-web/insights/publications/2020/september/2020\\_Captive\\_Landscape\\_Report--FINAL--US--English.pdf](https://www.mmc.com/content/dam/mmc-web/insights/publications/2020/september/2020_Captive_Landscape_Report--FINAL--US--English.pdf)

<sup>2</sup> <https://www.aig.com/about-us/knowledge-insights/keeping-up-with-captives>

Captives can also provide businesses with options to improve liquidity as surplus and investment income built up in a captive can be used to support captive owner's need for liquid assets during uncertain times. In addition, businesses experiencing cash flow issues or unexpected expenses may use captives to provide relief through pre-loss funds as well as access to alternative capital, including inter-company loans.

According to the 2020 Captive Landscape Report published by Marsh, the hardening market has also prompted companies that previously did not consider themselves to have the critical size to establish a captive to explore this risk management alternative in light of shortage of capacity or substantial retention levels. However, for companies that are not ready to justify the commitments involved with forming their own captive, a cell captive structure may provide a simpler, more cost-effective alternative. For instance, the use of a protected cell company (PCC) allows companies to take advantage of the risk transfer and other benefits of a captive without having to form their own. A PCC is a single legal entity subdivided into 'cells' each of which can act as a captive for third party companies.

An important feature of a PCC is that a claim against one cell cannot be covered by the assets of another cell. Hence, PCCs offer the advantage of segregation of assets and liabilities within a single umbrella. PCCs are also synonymous with economies of scale. A key factor and advantage of PCC structures is that they allow for the sharing of resources between the core and different cells, particularly capital, governance and human resource, with the added benefit of the segregation between cells. Hence, putting captives at the centre of risk management strategy and exploring different uses of a captive enables businesses to gain multiple advantages and protect their future, especially during uncertain times like the present.

## **Lloyd's of London Secures £650 million Innovative Cover For Its Central Fund**

---

Lloyd's of London recently secured a £650 million reinsurance cover for its Central Fund, which is the first reinsurance cover for the central fund in two decades. The Central Fund cover has been designed to protect Lloyd's and its members against major industry loss events, such as another global pandemic or future global financial crisis, and provides aggregate reinsurance protection from an attachment point of £600 million, up to £1.25 billion.<sup>1</sup>

The first £450 million of the cover is provided using a newly established cell company, Constellation IC Limited, and financed by JP Morgan. The remaining £200 million has been backed by eight major global reinsurance firms, including Arch, Berkshire Hathaway, Everest Re, Hannover Re, Munich Re, RenaissanceRe, SCOR and Swiss Re.<sup>2</sup> This move aims to protect Lloyd's against adverse tail risk, while supporting growth and bolstering the market's balance sheet.

<sup>1</sup> <https://www.reinsurancene.ws/lloyds-central-fund-cover-will-enable-faster-market-growth/>

<sup>2</sup> <https://www.artemis.bm/news/lloyds-secures-650m-central-fund-cover-450m-collateralised/>

## JOINT WEBINAR

# QUICK COVER! Turnkey Self-Insurance Solutions via Cell Captives

Thursday, 29 July 2021  
4.00PM (GMT +8)



Media Partners



[CLICK HERE FOR MORE INFORMATION & TO REGISTER](#)

From a risk manager's point of view, the pandemic could not have descended at a worse time. As the market was already "hard" (read: expensive) with reinsurers being selective in the risk profiles they would cover, the natural move into self-insurance, seemed logical. However, as many risk managers will share, setting up a pure single parent captive can be time consuming. Hence, the use of cell captives has seen an unprecedented surge globally.

In light of this development, Park Lane PCC Limited together with Labuan IBFC Inc will be jointly hosting a webinar on the topic **Quick Cover! Turnkey Self-Insurance Solutions via Cell Captives**, on July 29, 2021 (for Asia and MENA region only). Join Ms Annie Undikai (Founder & Director of Park Lane PCC Limited) and 4 other panel experts who will share their insights into the Asian risk landscape (present and post COVID-19), and how cell captives may indeed be the solution towards developing a customised risk management programme.

### SPEAKERS



**Annie Undikai**  
Founder & Director,  
Park Lane PCC Limited



**Woon Khai Jhek**  
Senior Economist,  
RAM Rating Services Berhad



**Oliver Schofield**  
Head of Captive & Alternative Risk  
Transfer (ART) Consulting, Principal Re



**Abdul Halim Jantan**  
Chief Executive Officer,  
Sterling Insurance Brokers



**Firas El Azem**  
Managing Partner,  
FEA Versicherungsmakler GmbH



**Farah Jaafar-Crossby**  
Chief Executive Officer,  
Labuan IBFC Inc

Scan QR code to register







APAC SUMMIT & AWARDS 2021

We are proud to announce that  
**Brighton Management Limited**  
has been shortlisted for

**CAPTIVE MANAGER  
OF THE YEAR**

by  
**APAC Captive Review  
Awards 2021**



# *Heartiest Congratulations*

**A huge congratulations to our clients who have been shortlisted for the APAC Captive Review Awards 2021:**

**AFR Asia Pacific Limited – Broker of the Year**

**Hub Risk Solutions – Broker of the Year**

**Principal Re Limited – Captive Consultant of the Year**

**And heartiest congratulations to Labuan IBFC for being shortlisted in the Asian Domicile category at this year's APAC Captive Review Awards 2021.**

**We are delighted with their nominations!**

**Best of luck from all of us at Brighton  
Management Limited.**