

Captive opportunities

I Alan Kentish of STM Fidecs Insurance Management says Gibraltar benefits from captive entrepreneurs and innovation

Over recent decades Gibraltar has had to make the transition from an economy heavily dependent on MOD contracts to become a competitive finance centre. Gibraltar's growing and credible insurance sector exemplifies this change.

Although it was not obvious at the time, a key decision was Gibraltar's choice to join the EU in 1973 along with the UK. This choice gave rise to some concerns as the Corporate and Trustee Service Provider sector grew through the 1990s; however, it created an unparalleled opportunity for insurance vehicles to access the EU and EEA market on a direct basis, an opportunity not available to other finance centres, such as the Channel Islands, Isle of Man and the more exotic Caribbean jurisdictions.

Other factors helped. In 1997, Gibraltar had its passporting legislation in place, allowing an insurance company based in Gibraltar to passport into other EU member states on either a services basis or a permanent establishment basis – the insurance sector was launched and a new breed of insurer was created.

Flair play

A characteristic common to many Gibraltar-based insurers – and one which

may set them apart from their competitors elsewhere – is that the businesses are led by entrepreneurs and innovators who are invariably significant or majority shareholders and put their own wealth up as capital.

This entrepreneurial flair is seen right across the spectrum from the drive and energy of Henry Engelhardt at Admiral Group to the hands-on principals of smaller niche players such as Phil Cunningham at Carrraig Insurance or Danny Gibson at Casualty and General Insurance.

The regulatory environment helps. Gibraltar Financial Services Commission's approach to regulation complements the entrepreneurial business model. Ease of access and communication and the ability to get regulatory decisions promptly allows Gibraltar insurers to capitalise on opportunities and market conditions before the rest of the market can adapt. In addition, regular communication and proximity to the Regulator allows for a more competitive capital requirement structure that, in turn, allows a Gibraltar insurer to deliver a far greater Return On Capital Employed (ROCE) to its shareholders than, say, its peers in the UK.

Flexibility encourages innovation. Product innovation such as Admiral's



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multi-car policy or Carraig’s specified declaration requirement shows how market share can be grown, as well as using risk management to improve underwriting performance.

All round opportunity

A significant proportion of the 60-plus insurers based in Gibraltar are niche players writing less than £25m of Gross Written Premium (GWP). This in turn means that share capital and reserves are limited – say, less than £7m. The protection of the balance sheet is therefore critical. Typically, Gibraltar insurers use a significant amount of quota-share to lay-off a proportion of each risk, while protecting against volatility of their own account by buying excess of loss reinsurance that incepts at a relatively low level. In addition, there is growing use of co-insurance as a risk-sharing mechanism. Working in this way has allowed Gibraltar insurers to grow their gross account, while reinsurers benefit from more GWP, resulting in a healthy and sustainable relationship for both parties. This is in marked contrast to, say, the larger insurers operating in the UK personal lines market, who tend to use little or no proportional reinsurance.

It is not only niche open market insur-

ers who are attracted to Gibraltar. The captive insurer/risk-financing vehicles of larger businesses are revisiting Gibraltar as their jurisdiction of choice either for a stand-alone captive or for the use of a cell within a PCC.

Surveys show that the number of businesses and multi-national groups using a captive insurance company to manage and retain risk continues to grow. However, in the current economic climate the structure and jurisdiction of existing captives is under increasing scrutiny, particularly those businesses that have a pan-European operation. It is becoming increasingly difficult to justify the use of a fronting insurer to reinsure into a non-EU based captive when EU jurisdictions such as Gibraltar and Malta offer a compelling direct writing-based solution.

The EU Solvency II capital requirements are due to come into force in late 2012. This will have an impact on non-EU based captives using a fronting insurer as costs are likely to increase: under the Solvency II regime insurance companies ceding reinsurance to a third country (non-EU) will not be able to take credit for the ceded reinsurance unless the third country’s regulatory regime can be considered equivalent to Solvency II. Fronting insurers will have more strain on their capital position which will im-

pact on their ROCE and additional costs are likely to be passed on to the captive/insureds.

Gibraltar and other EU jurisdictions will no doubt benefit from this and Gibraltar in particular as it has legislation in place that facilitates re-domiciliation into Gibraltar from all the popular non-EU captive jurisdictions.

Tax efficiency

Gibraltar advisors have continued to develop innovative capital solutions for their insurance clients, be they captive or open market insurers. The use of redeemable preference shares is an efficient profit extraction mechanism, which can be coupled with an intermediary holding company that uses the Parent-Subsidiary Directive to mitigate unnecessary tax exposures. For captives, the lack of controlled foreign company (CFC) legislation in certain parent company jurisdictions may also allow for further tax deferral benefits in conjunction with the

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benefits of using one's own risk financing vehicle. For the entrepreneurs who are considering the move to Gibraltar, there is also the added incentives of possible personal tax breaks under existing legislation.

Gibraltar's market is the whole of the EEA. With EU compliant legislation and its ability to attract the entrepreneurs and innovators of the insurance and risk management sectors, Gibraltar's insurance market will continue to flourish and be a core pillar of its finance centre.

Company listings

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Casualty & General Insurance Company (Europe)

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