

INTELLIGENT INSURER

More captives may move onshore

29-05-2013

Correction: MetLife's Exeter Assurance captive was in fact based in Cayman, rather than Bermuda as was reported. Intelligent Insurer's interview with Clive O'Connell spoke about the threat posed to Bermuda, but equally the issue is pertinent to Cayman and other offshore domiciles.

Increased political pressure could see more captives move onshore in the coming months, according to Clive O'Connell, a partner at Goldberg Segalla Global.

"There are lots of reasons why companies set up in Bermuda and why they move away. At present there is a lot of governmental pressure on both sides of the Atlantic against what might be perceived as tax havens. Some companies are taking a very strict view on that."

The surge in concern surrounding offshore captives has come to a fore as Benjamin Lawsky, superintendent of the New York Department of Financial Services, has been investigating the use of captives by some insurance and reinsurance companies.

"Companies are under pressure from their shareholders to maximise returns, when under such pressure they obviously try to make sense of the tax they pay," said O'Connell.

The latest company to close operations of its offshore captive following accusations from the New York Department of Financial Services that the entity was obscuring risks held by the insurer, is the US' largest insurer, MetLife.

"The New York Department of Financial Services' industry inquiry regarding captives was an important factor in our taking a closer look at our offshore reinsurance subsidiary," said MetLife CEO Steve Kandarian at an investor presentation.

"We're going to take steps to bring these businesses back on shore and to a more highly capitalised, US-based and US-regulated entity."

This could be the first of many offshore exits, which if they occur, are likely to be “taken in the short to medium term”, according to O’Connell.

“Over the coming months insurers are going to look at the arrangements that they’ve made in order to ensure that they are acting within the arm of the law and socially acceptable parameters,” he said.

As the Neal Bill looms, it has been suggested that if several insurers follow in the same footsteps as MetLife, this may encourage support for the proposed plans, however O’Connell doesn’t believe this to be the case.

“In some ways if companies start doing this off their own volition then there’s no need,” he said.

“Politically there’s a growing momentum among governments to try and regulate global businesses on a national scale, but this is a difficult thing to do.