

# CIT

CAPTIVEINSURANCETIMES

**Conference**

Special

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# Follow the regulatory road

How to be a whiz of the biz

## **Captive 101**

**What is a captive?**

## **Domicile Departments**

**New laws in the spotlight**

## **The IRS**

**Taking a keen interest in captives**

## **The NAIC**

**Coming to terms with the business**

An established captive and PCC jurisdiction  
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## **ROUNDSTONE HITS THE MARK**

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### **EXPERIENCE**

Since 2003, Roundstone consistently delivers captive program solutions to a myriad of traditional and unique exposures.

### **INNOVATION**

Roundstone invented the producer friendly incubator captive with turnkey underwriting facilities.

### **FOCUS**

Committed to accurate quarterly reporting, fully executed agreements and transparent communication.

### **RESULTS**

Roundstone introduced stop loss group captives in 2005 and remains the largest manager of stop loss group captives today.



**ROUNDSTONE**  
TURNING RISK INTO RESULTS



## The evolution of the captive manager

Roundstone's Michael Schroeder explains how and why the company first entered the captive market, and what shaped it into the established industry name it is today

### The beginning

Like many owners of captive insurance companies, our parent company formed its captive facility because we were not finding what we needed from the standard insurance market. It was 2000 and we were repeatedly confronted with "no" or "cannot do that" when a submission was made for our nursing home professional liability programme. Despite acting as a full-service managing general agency and having an innovative game plan to avoid the staggering losses that were rocking the market, there were no takers for our book of nursing home risk. So we did what many others have done: we formed our own reinsurance facility.

If no one wants the risk, then we will take it. We needed a risk-bearing entity to put our money where our mouth was. We felt comfortable our captive idea would pay off at the price the market was getting for this type of coverage. We were right, but never knew where the captive idea would take us.

Our company included several experienced insurance professionals, but the idea of forming an insurance entity was new to all of us. Questions about where, when, how much and will it work were pondered every day. We looked at all the name brand domiciles: Vermont, the Cayman Islands, Bermuda and others. We spoke to actuaries, regulators, managers, attorneys, banks, reinsurance

intermediaries, auditors and underwriters. We prioritised our objectives and laid them against what we were hearing from those who already travelled this road. In hindsight, flexibility, professionalism, security, quality of provider and stability became our primary objectives. Surprisingly, time, cost and location did not override our commitment to them.

In reviewing each of our goals, we chose Bermuda as the domicile for our new insurance entity. Bermuda offered flexibility through its Segregated Account Companies Act 2000. Our interaction with the regulators and service providers delivered a consistent professional experience. We felt like we were working with folks that had done this before and understood

what we were trying to accomplish. The more we visited Bermuda, the more we became comfortable with the territory's stability and security. I can still recall a lunch meeting with a long-tenured insurance manager at an open air restaurant overlooking Hamilton Harbour. His 60-plus years of experience and track record for building successful insurance facilities made our captive formation seem so easy and automatic.

So off we went, engaging one of the island's prestigious law firms to undertake our company's formation. We would end up spending a lot more time and money than we originally planned, but when we reached the finish line (12 months and a few hundred thousand later) we were glad we did it. Roundstone Insurance was born and ready for business—or so we thought.

## Captive management

Initially, we engaged a captive manager that was a division of a primary insurer. At the time, we were working with this same insurer as their managing underwriter for the nursing home liability business. It maintained an office in Bermuda, costs were reasonable and we felt its role was inconsequential. We learned very quickly how wrong we were. One of the primary responsibilities of a captive manager is accurately reporting the financial condition and transactions undertaken by the captive. Reading the first batch of reports presented many problems, including missing transactions, improper entries, and other information that made decision making impossible. Making matters worse, the poor accounting caused us to submit additional capital to avoid unnecessary oversight by the Bermuda regulators.

After a year of trying to work through the reporting and other communication questions, we decided to undertake the captive management function ourselves.

Fortunately, our ownership group at the time was made up of a regulatory lawyer, actuary and two other insurance management professionals. While the financial reporting for this entity may have seemed daunting, we understood accuracy was paramount if we were to realise the value of the business unit that we had created. We hired an accountant. We purchased a software system developed for insurance company management. We began to dig into the details. We were glad we did. Understanding how accounting inaccuracies were not only causing us to contribute additional capital, but how we could better manage our programme, made the change a good one.

After a year of seeing first-hand the opportunity that a well-run reinsurance captive could provide any insurance programme, we decided to expand the business assumed by our segregated account captive facility. We also

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began marketing our captive management capabilities and started managing other captive facilities for customers across many different product lines. Why not, if the captive could help provide much needed capacity to our medical malpractice programme?

We thought other insurance programmes could equally benefit from a captive insurance facility that didn't take more than a year and a couple hundred thousand to form. Helping other captive participants in the market avoid some of the mistakes we made over the past two years, while offering a well-managed, turnkey, flexible captive facility, sounded like a good strategy.

## Managing general underwriter

After successfully managing numerous captive programmes and witnessing first-hand where the traditional market was failing to provide adequate solutions, Roundstone took another step in its evolution.

We became a managing underwriter for several lines of business, beyond the original medical malpractice, in 2008. Offering underwriting, policy and claims management services, in addition to captive management, made sense.

As captive managers, we were actually seeing where claims were coming from and what underwriting factors contributed to positive loss ratios. We developed an underwriting, policy and claims function with the latest systems and experienced professionals. We knew how important it was to receive accurate policy-level detail when we went to prepare the captive's financial statements. The focus on details carried over to the underwriting business.

Still, Roundstone never left its captive origins. All of our programmes maintain an element of captive self-insurance as part of

their strategic advantage. The four pillars of “experience, innovation, focus and results” that were relied upon when building our captive management business have proven to be an equally successful approach for growing our managing general underwriter business.

## The butterfly experience

Today, Roundstone offers a turnkey captive solution with the same quality insurance management service that our founders were seeking in 2000.

Accurate, timely reporting, combined with flexibility and creativity, has proven to be a good recipe for attracting customers.

From the spring of 2005 to the present day, Roundstone has seen its business increase 25-fold, all built on the original captive formed to resolve a capacity problem in medical malpractice. As my wife reminds me, even a blind squirrel finds an acorn once in a while. **CIT**



**Michael Schroeder**  
President  
Roundstone