



The BIG unbundle

After recently joining the Strategic Risk Solutions team in Europe, David Lewis explains how, in the next few years, the market will see the unbundling of captive insurance services in Europe

David Lewis, Strategic Risk Solutions

For over 30 years, David Lewis has been involved in large corporate risk financing, providing advice and support to some of the world's largest companies.

For almost 20 years, he headed Willis Towers Watson's specialist Japanese business in London, providing risk solutions to over 600 Japanese parented companies across Europe. Following seven years with Marsh Asia client services, Lewis moved to Portugal to become head of

insurance for one of Europe's largest property developers.

In 2010, he moved back to Willis Towers Watson to join their captive business in Guernsey, before returning to London in 2012 as European director of consulting and development for the firm's global captive practice.

Lewis now serves as managing director for Strategic Risk Solutions, as well as holding a number of non-executive director and chair positions.

How did the role at SRS come about, and what swayed you to join?

I originally intended to retire from Willis Towers Watson and start some non-executive work but after SRS approached at the beginning of this year, they intrigued me with their different and fresh outlook on the type of services they think a modern captive advisor should be providing to clients. The more I spoke with SRS, the more

I realised that it was married to a real ambition to become a new force in Europe and that is very much something I hope to help them progress with.

What trends are you currently seeing in the European captive insurance market?

The big trends that we're going to see over the next couple of years are what I refer to as the unbundling of captive insurance services. I've come from one of the big broker-owned captive managers and companies like that are very keen to offer a one-stop-shop to clients—going from broking all the way through to reinsurance to captive consulting and captive management all in one place.

I don't think this approach always delivers the best value for the client or offers the level of flexibility that many clients are now looking for. My experience with most European clients, certainly over the last 12 months, is that there is a demand for innovation.

People are looking for new ideas, to make better use of growing their captive, new solutions for new and emerging problems, however, they don't want a packaged solution, they are looking for something more tailored and bespoke because that's the nature of their business environment and it's the nature of the challenges they face.

We are going to see more clients looking to unbundle services and buy a more tailored package instead of the

packaged products that they're being presented with up until now.

Another trend we'll see, certainly from SRS's perspective as a growing marketplace advantage, is the growing demand for captive advice in the upper end of the small and medium enterprises (SME) market. The larger players in captive consultancy/captive management are still focusing on the very large conglomerates because that's where traditionally the demand for captive advice has come from.

However, in the upper end of the SME market, we're seeing far more complexity as well as sophistication and seeing more demand for risk financing. In many instances, the networks that service that market are either unable to provide the required level of expertise or, including the major national brokers, are not really focused on providing it because it doesn't give them the margin or the big-ticket income that they're all looking for.

As a result, the upper end of the SME market particularly in those areas, there is an opportunity for SRS to meet a growing demand.

How do these trends tie in with the work SRS is currently doing?

One of the things that appealed to me about SRS in Europe, is that we have a largely blank canvas to create a network that is purpose-built for the demands of today's client. Over the past 18 months or so, we have made significant strides, opening business operations in both

Dublin and Malta, but we see enormous potential to grow that network much further. Our goals over the next year or so are to build on the momentum achieved so far, clearly define our business model in a way that better meets client demands and requirements, and expand our resources by bringing in more of the best in the captive industry.

In my view, the European market has actually been a little stagnant in the services that it has provided to captive owners in the past and I think SRS has an opportunity to position itself in a completely different way and provide a genuinely viable alternative.

I don't think there is an existing model that we want to follow, other than following the SRS ethos of exceptional client service, but we want to be more agile and flexible as well as prepared to unbundle our services to clients without any other internal vested interests—that will be the differentiator for us.

What do you see as the main challenges in the European captive space?

Of course, Brexit remains one of the biggest challenges, not just to captive owners and managers, but to business in general. The uncertainty generated over the past few years has made it very difficult for anyone—captive owners and consultants alike—to define their future strategy. At the time of writing, it remains almost impossible to predict the eventual outcome but, whatever shape it takes, there will be challenges to address to ensure that captives remain fit for purpose.

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One of the other challenges in my view is the absence of new talent in the captive industry. If we want to continue to develop and deliver innovative solutions to our clients, we must create an environment where we encourage the brightest young professionals to join our industry. I am not convinced that enough is done by the major players to pave the way for emerging talent, a challenge that I fully expect SRS to seek to address as we bring more people into our business here in Europe.

Are you seeing any challenges around regulations?

Everyone is well aware that regulation has heightened in recent years. We have seen the introduction of what now seems to be a long-established regulation in terms of the Organisation for Economic Co-operation and Development's (OECD) base erosion and profit sharing (BEPS) framework, that has caused captive owners to take a greater interest in the management of their captive. In addition, the BEPS initiative—while it was originally welcomed with some degree of concern and trepidation—has been very good for the industry because all it is really asking a captive owner to do is evidence that they are running their captive properly but more importantly they are running it for the

right reasons and efficiently. In my opinion, any captive owner should be only too pleased and find it easy to demonstrate that.

We are also seeing a rise in compliance, oversight and governance as well as external scrutiny of captives and to an extent, you could argue that it represents a challenge.

The most important thing for captives, particularly in Europe, and the challenge for us as an industry in Europe, is to continue to identify and meet emerging issues with new solutions. That is how we collectively ensure the future health of the European captive industry. If you look at areas such as ILS solutions, longevity risk and employee benefits too, you can see great examples of how our industry has shown itself to be a catalyst for innovation in responding to the modern demands of captive owners.

What are your predictions for the European captive industry over the next 12 months?

I would expect to see a continuation of the trend of preference for cell solutions over pure captives, which is purely an

economic response. If SRS is successful as well as other advisors in opening up captive technology to the upper end of the SME market those lower-cost entry levels of cells will certainly prove beneficial so we will continue to see the interest in cell technology.

It is difficult to say whether we will see total numbers increase over the next 12 months—a lot will depend on what happens with Brexit and the general economic environment. I don't think we will see a significant downturn in the number of captives—if anything I expect modest growth—but that growth may be more evident in the cell environment than the pure captive environment.

We will also start to see more risk managers looking for help in demonstrating the value of their captives to their internal boards and stakeholders far more effectively than before.

The advisory industry has a big role to play in supporting the way in which risk managers are able to put the captive very much at the centre of corporate strategy and helping boards to understand the many areas where a captive can come into play, whether that be in terms of financial efficiencies, greater risk protections, greater self retention of risk or in terms of trying to better coordinate a global risk network. Providing that independent support will be an important role for SRS to play. ■