



# FINAL WORD

Oliver Schofield from RISC talks to *Captive Review* about the large increase in cell captive interest, and why it isn't going away anytime soon

Captive Review (CR): There's been a lot of movement, a lot of change when it comes to cell captives since the start of 2020. What have you been seeing in the cell captive market over the last 18 months?

Oliver Schofield (OS): I've been giving some thought to this. It's quite intriguing that we are 25 years on since the establishment of legislation for cell captives this year. And I think the single most important and exciting innovation that we can point to this year, which is the 25th anniversary, is the new pre-authorization status that certain locations have decided to implement. And those, the three leading domiciles, are Bermuda, Guernsey, and, as of a couple of weeks ago only, Labuan. Which is very exciting.

We have seen a large number of our clients this year going for the pre-authorization. And the reason why they love that is it gives them maximum flexibility from a timing perspective when they're trying to juggle their excess market renewal terms with whether or not to get a captive in play. And because these things can be set up literally in 14 days from start to finish, subject to getting a bank account set up. It gives them that huge flexibility, which is the reason why I think that is one of the big, big success stories for 2021.

CR: What are the trends that have emerged when it comes to the lines of business being covered in cell captives?

OS: The big trend that we found this year in the northern hemisphere, particularly from a European perspective, is professional indemnity and particularly professional indemnity in the financial services sector. That has been by far and away the

largest sector that we have seen looking at cell captives over the last 10 months.

Second would be travel-related exposures. The travel insurance market is completely in paralysis at the moment. It's very, very hard for schemes, large schemes, to find the appropriate breadth of cover and the quantum of capacity. So we have seen some of our clients in the travel space setting up captives to provide them with that primary layer of cover. So that's the second largest.

Then I'd say the third largest is moving away from traditional insurance coverages, looking at non-traditional insurable risk exposures, the organisations seeing how they can monetise the value of the risk that they hold on their own balance sheets by using a captive operation. And that's not hard market dependent.

CR: The past 18 months have been extremely difficult for the travel sector, but do you think that this will change in the future? While the travel industry is paralysed at the moment, that may change as Covid-19 restrictions around the world start to lift.

OS: I think those trends will continue in the travel space. The reason for that is that we have had a conversations with a lot of operators in the UK travel market, and by that I mean UK operators who send people from the UK overseas. They are so distressed with what has happened in the travel market that the trust has broken down, and it's going to take a lot to bring that trust back.

That's the first point. I think the second point is because the capacity has withdrawn, it's not just a question of not being

able to get an acceptable price. Back in April through June of last year, 33 different travel insurers pulled out to the UK market. And for those companies to actually want to come back, they've got to see a massive change in fortunes from a point of view of the pandemic, and of a potential global catastrophe. I just don't believe that those insurers are going to be rushing back into the market in 2021, 2022, 2023. Therefore the captive space has a huge role to play.

CR: There has also been a recent trend of more parent organisations wishing to convert a cell captive into a pure captive, and I know that RISC has recently completed a transaction of this type. Do you think this trend in particular will continue?

OS: Yeah, I absolutely do. And the reasons for the conversion we did were very specific to the strategic direction of that particular captive parent. So that was a sort of one-off type arrangement for them. But I do believe that once people have got their toe in the water when it comes to cell captives, once they appreciate what captives can do for their one or their two lines of cover, then they'll be thinking, 'you know what? We could actually use this vehicle for more than just those two distressed lines of cover'. Let's use that as a much broader risk management tool.

And actually, that means they may want to convert it to a full captive, because that brings us much more flexibility when it comes to the type of risks and the number of risks that we can put into the vehicle under the existing licence. And we would absolutely welcome that and we will continue to bang that drum. 🥁