TECH COMPANIES TURNING TO CAPTIVES

Marc Reinhardt, of GEB Americas, explains why fintechs and other tech developers are turning their attention towards captives

Faced with a combination of a shrinking talent pool, low wage growth and skills shortages, it perhaps comes as no surprise that finding and keeping the right people for the job is a constant challenge.

Against this backdrop, the latest tech industries are turning their attention towards captive arrangements to help them manage risk while providing a tailored employee benefits package to attract and retain the best talent in a fiercely competitive market. Such companies range from fintech, mobile app and wearable tech developers, to companies specialising in the Internet of Things and virtual and augmented reality.

The changing nature of risk

While captives were traditionally used by industries such as manufacturing and production to help mitigate property and casualty risk, they're also now used to house employee benefits on a global scale. Also, the definition of risk is beginning to expand.

Damage and disruption to business can now come from previously unimaginable areas, hence the rise of specialities such as cyber-security. Plus the concept of 'people risk' has now entered the business lexicon. This refers to the costs that will arise as a consequence of things that happen to a company's people.

Faced with these complexities, tech companies are realising the advantages that captives can bring in terms of not only mitigating risk and reducing volatility but also stabilising costs, improving business intelligence and gaining central control over employee benefits, while also allowing for enhanced service at local country level.

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How and why have employee expectations changed?

All the major employee benefit consultancies are making it quite clear that hanging on to good people, ensuring career progression and skills sharing (i.e. people strategy) is now key to commercial success, hence the rise of conversations around human capital analytics and employee value proposition.

Tech industries are arguably better placed to take on board all of this and implement programmes that meet the needs of their employees because they're not faced with the same legacy set-ups as the more traditional, well-established businesses. This allows tech companies to be more innovative and progressive in their offerings, with a view to appealing to young individuals with the requisite skills.

The younger generations aren't as motived by hard cash as their parents and grandparents. They're much more focused on work-life balance. They want to know what material and non-financial things a company is doing and would prefer to work for companies that are making a difference. In short, they're looking for something above and beyond the job.

What's more, they're more inclined to move around and engage in different jobs, as opposed to sticking rigidly to one career path.

What's the impact on employee benefit programmes?

Saving for retirement is not necessarily top of mind for this generation, if at all. More immediate financial wellbeing is important. For this reason some companies now offer to help employees deal with student loan debt or provide support to help individuals save for their first property, manage rent and budget appropriately.

Workplace perks, wellbeing services and flexibility are key. From providing access to shopping discount vouchers, wearables and health apps to an upbeat, social working environment, flexible working patterns and even 'bring your pet to work' policies.

The typical – and traditional – risk benefits housed in captives include life, accident, disability, medical and business travel insurance. Tech companies might include some or all of these elements,

but mixed up with tailored solutions, as outlined above, and perhaps more generous extensions to traditional benefits. For example, additional death, accident or business travel insurance benefits over and above market standard and provided on a global basis.

Meanwhile, with the emphasis now firmly on wellbeing, it's important to note that global wellbeing programmes should be rolled out as part of the overall employee benefits programme. This allows for fully integrated management information and solutions, such as detailed health and wellbeing trend reports.

The main criteria when deploying a benefit/risk management strategy

- **Cost savings:** Captives allow companies to manage risk and retain what would have been insurance company underwriting margins. Unused premiums and income generated by the captive insurance company are returned to the company, turning what used to be an expense into a potential profit-generating programme.
- **Risk management:** Companies considering a captive arrangement should ensure they have a strong risk management mindset. The company takes on the risk, instead of an insurer, so it's vital to ensure buy-in from senior decision-makers at a local and global level. Having HR and finance management on board is crucial.
- **Flexibility:** Captives give companies the ability to influence employee benefit pricing and terms and conditions. In other words, they make it possible to provide bespoke benefits – to offer something above and beyond market practice where the regulatory environment allows this – because the captive arrangement is taking on the risk. Where an insurer is taking on the risk, anything that breaks away from market standard is generally considered outside the comfort zone and may be more difficult to implement.
- **Business intelligence:** A captive can help provide a picture of total compensation – vital considering that employee benefits can represent a pretty big spend. It can shine a light on all costs, not just profits and losses, but also benefits administration costs, intermediation and compliance costs. The intelligence gained can also be used to identify potential issues and put in place interventions, while also highlighting best practice.

What to watch out for when selecting a network partner

Responsible for fronting the captive, an employee benefits network partner should have capabilities in terms of:

- Solvency of the network used – locally and centrally
- Ensuring geographies match, in terms of the provider's local insurer partners and the local subsidiaries of the client company
- Reporting capabilities – ensure the provider can provide details and bespoke reporting with information split to both company and policy level to help in the development of proactive risk management strategies
- IT capabilities, including the ability to meet data privacy and security standards (GDPR).
- Reinsurance capabilities – what levels, i.e. quota shares, and from which countries can the company reinsure?
- Service elements

Captives effectively bestow upon companies all the advantages that multinational pooling brings, yet take the concept of a globally coordinated and locally sourced programme a significant step further.

This represents a crucial element for emerging tech companies. Their competitive advantage depends upon having the right talent in place. Attracting and keeping the right talent now heavily relies upon the ability to offer meaningful reward, flexibility and, above all, authenticity.