



Brady Young

managing director and president

Strategic Risk Solutions

From its inception under Arkwright Mutual through a management buyout and multi-domicile expansion, Brady Young has steered Strategic Risk Solutions' evolution into a brand-name independent captive manager. By Gavin Bradshaw

STRATEGIC RISK Solutions (SRS) – now one of the captive industry's most prominent independent management firms – was formed by Arkwright Insurance Company in 1993 as a specialist subsidiary by the name of Alternative Risk Solutions (ARS).

SRS' president and managing director Brady Young was head-hunted to join ARS after an eight year stint at Tillinghast. Having spent three years with Tillinghast in Connecticut and another three in London, where he started the Tillinghast Risk Management Practice in 1988, Young was offered the opportunity in 1991 to take over the firm's Boston Risk Management Practice, where he spent two more years before joining ARS.

Five years later, ARS was sold to Winterthur, part of Credit Suisse. "When Credit Suisse decided to get out of the insurance business and started selling off bits and pieces, including Winterthur International, we were not part of that deal," Young recalls. "That really created the opportunity for us to conduct a management buyout in August 2002."

At this time the operation was effectively an ART shop – a fee-based business offering captives, rent-a-captives and underwriting. "I decided at that point that I really wanted to focus on captives," says Young. "The vision I had for the company when we did the buyout was really to become the leading independent captive management firm. I thought at the time there was an opportunity in the market for a strong independent to emerge."

The firm currently sits in third behind USA Risk Group and International Advisory Services in terms of captive premium, which exceeds US\$500m.

Four strategic pillars

The strategy SRS adopted to pursue this goal had four main tenets. Firstly, the company wanted to have a strong presence in all of the major domiciles that US companies would naturally consider for captive formation.

Beginning its independent operation with representation in Vermont and

Bermuda, SRS soon racked up additional management licenses in South Carolina and Arizona in 2002 and 2003 respectively, adding Washington DC and the Cayman Islands in 2004.

Young also felt that instead of having a steep pyramidal-type business with several layers of management and lots of inexperienced people at the bottom, the desired model was a flat organisation with very experienced people in touch with the clients in each domicile. SRS set about accumulating an enviable bevy of expertise from around the captive industry.

Having poached Wayne Cowan from JLT Risk Solutions (Cayman) in October 2005 to become vice-chairman of SRS Cayman, the company then hired Ron Sulisz, president/CEO of the Cayman Islands National Insurance Company as its Cayman director of operations and client management a month later.

Ann Wick, former head of AIG Insurance Management Services' domestic captive operations, followed in August 2007 as president of SRS Arizona. Seamus Tivnan, previously head of Marsh's Cayman captive operation, joined SRS as Cayman director in April 2008.

In July this year, Tivnan and Cowan were appointed joint heads of SRS' new healthcare industry practice. A month later, Derick White, former director of captive insurance for the Vermont regulator was appointed to lead a new specialist risk retention group (RRG) practice in Vermont.

The third pillar was a strong technology platform. "Because we had always been affiliated with large insurance companies our IT platform was really tied to theirs," says Young. "The nice thing about starting fresh is that we could design it specifically for our needs.

"It was a great time because the cost of technology had come down and we were able to create a very robust platform for a relatively modest cost. That's continued to be a differentiating factor for us – the applied use of technology where it can really add value for clients."

SRS began by positioning itself as the captive and ART partner of many of the second and third-tier brokers that were gearing up to break the dominance the big brokers had in the market at the time.

"Our timing proved to be good with all of the problems that the big brokers were having with Spitzer," says Young. "Our broker partners were picking up business as large clients were deciding that having all their eggs with a single broker maybe was not a good idea. We were benefiting from that and kind of riding on their coat tails."

The final tenet embraced the viewpoint that captive management is much more than just accounting. "We really wanted to have a strong consulting team that could provide technical support for those clients that need it and want it," says Young.

He estimates that the Boston consulting team works with 40% of SRS clients that need this support. The consulting business is headed by Mike O'Malley, an SRS veteran of 14 years service.

The company set about growing its captive book by concentrating on its service provision to existing clients. "One thing I've always believed in is that it doesn't do to be adding new business if existing business is walking out the door just as fast," says Young.

"We monitor that in terms of metrics of how we run the business. Our goal for this year is to not lose one client and I'm pleased to say that, so far, we have achieved that. If you take care of the clients you have then word spreads and they are great references for new business."

SRS also markets itself hard through monthly webinars and quarterly newsletters. Young says that this approach came in response to client request. "They want to know what is going on and expect us, as their captive manager, to keep them abreast of industry developments," he says.

Young also stresses the company's focus on strategic partnership as a strong aid to growth – the firm currently works with approximately 39 different firms as a captive partner.

In the early days of SRS, much of its growth came from new formations – around 70%, compared with 30% takeovers. However, in the last few years the figures have reversed.

Young attributes this to being partly a function of the soft market and fewer formations and also an increase in opportunities from existing captives. What he doesn't say is that SRS has effectively grown at the expense of every major competitor, taking business (and staff) from Marsh, Aon, HSBC, USA Risk Group, Beecher Carlson and AIG.

It's not all been straightforward though. Expanding offshore presented some difficulties. "Running businesses in Cayman and Bermuda in particular is challenging because you have immigration issues and they are expensive places to do business," admits Young.

Captives as ERM

As captives increasingly become more of a financial tool, Young sees their use becoming more integrated into the overall financial and risk management strategy of firms. "Maybe it is part of the trend towards enterprise risk management – the holistic approach to risk management," he says.

"With the whole view of captives – which historically have been focused on traditional risks like property/casualty, liability, workers comp and so on – the blinders are coming off. There's a variety of financial regulatory or political risk where the captive could be part of the solution."

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One of the biggest trends in the US, to Young's mind, is captives being considered as a tool to deal with human risk. Applications to fund employee benefits through a captive have not only grown but are broadening beyond long-term disability and group life into other types of risk, such as pensions, retiree medical and healthcare.

In the near-term, however, Young feels captive owners are likely to be more preoccupied with the challenges ahead in securing fronting and collateral arrangements.

"Clearly there is going to be movement in fronting arrangements. Who knows what is going to happen with AIG but there is going to be pressure on those relationships," he says. "More clients are going to try to do as much as they can direct. That bodes well for RRGs."

But Young doesn't see the AIG situation having a direct bearing on the current soft commercial market. "If anything is going to turn the market in the near-term it's going to be the investment environment – the lack of returns and pressure on the balance sheets of insurers and reinsurers," he says.

The creation of SRS' dedicated Cayman healthcare practice seems perfectly timed in this respect. Approximately 30% of its clients are healthcare related – largely hospitals, physician groups and nursing home/assisted living companies.

"The whole medical malpractice market is a unique animal," says Young. "The generalisations you can make about hard or soft markets don't apply to med mal. There's a difference by geography and there's even a difference of large hospitals versus physicians.

"Those types of risks are always going to take fairly significant retentions and want to use captives to finance them. That's one of the reasons we like that business. It's a tough class of business, it's a volatile risk and as a result it lends itself to captives. Med mal is here for the long term."

STRATEGIC RISK SOLUTIONS

HQ: Concord, Massachusetts

No. captives: 100+

Annual captive premium: In excess of US\$500m

Domiciles: Arizona, Bermuda, Cayman Islands, Hawaii, Kentucky, Nevada, South Carolina, Utah, Vermont, Washington DC

Principal: Brady Young

No. staff: 30+

Formed: Alternative Risk Solutions formed in 1993 by Arkwright. Name changed to Strategic Risk Solutions in 1999 when Arkwright sold ARS to Winterthur Credit Suisse Group.