



# MARKET-LEADING IN BERMUDA

Tom Booth and Eric Haller, of Randall & Quilter, examine the reasons behind captives entering run-off and the regions that will experience the most growth in the near future

**Captive Review (CR):** How much run-off activity are you aware of in Bermuda, and is this an increasing trend?

**Tom Booth (TB):** There are quite a lot of us located on the island, and in terms of our peer group, most have got mergers and acquisitions (M&A) professionals present. Like us, those people are mostly US-facing as opposed to looking at other opportunities on the island. Although, in comparison to our peer group, we are more focused on the island simply because we perform a significantly higher number of captive-related acquisitions. This has somewhat become a speciality for R&Q and as Bermuda is the world's largest captive domicile, we see bountiful grounds. Having said that, we get most of our leads, even for the acquisition of Bermudian captives off the island, normally from US-based brokers and other intermediaries. The majority of Bermudian captives that we find potentially looking for an exit solution are already in run-off.

We wouldn't necessarily need to be in Bermuda, but it does help as a reasonable percentage of the transactions that we partake in involve a Bermudian captive as it is a very mature domicile, which means that it is very fertile ground for us. We are supervised here as a group and have a major presence here with head office, etc. In terms of the core Bermudian market, obviously the largest part of the insurance market in terms of premium and reserves is outside of the captive space, but is dominated by catastrophe reinsurance and large excess covers in the direct specialty market where you don't need to be a licensed onshore car-



Tom Booth

**Tom Booth** joined the Randall & Quilter Group in October 2009 and was appointed to the board of Randall & Quilter Investment Holdings Ltd in May 2013. With more than 10 years of experience in the insurance sector, Tom held the position of corporate finance director at Numis Securities Limited between 2006 and 2009 where he was responsible for an extensive client base ranging from Lancashire and JLT (with market caps of £850m and £1.1bn, respectively) to Abbey Protection and THB.



Eric Haller

**Eric Haller** joined Randall & Quilter in February 2014 as a senior vice-president responsible for the North American acquisitions team. With more than 15 years of industry experience, Eric is leading the analysis and execution of acquisition opportunities, predominantly non-life legacy insurance liabilities, in Bermuda, North America and the Caribbean.

rier to write a cover. Catastrophe business is short-tail and, consequently, there are few requirements for an exit solution. On the liability side, potentially there would be interest but we haven't seen much demand, potentially due to the typical large-sized balance sheets and well-capitalised nature of the main players. Something that we have looked at is whether we can provide solutions to collateralised reinsurance vehicles

(ILS), but demand would likely require a large market-wide claim. To summarise, in the Bermudian market, on the run-off side, the main focus has been on captives and we have very much been at the centre of that.

**CR:** What, typically, are the reasons for captives in Bermuda entering run-off or wanting to sell?

**Eric Haller (EH):** There's quite a few different reasons, although some more frequently cited than others. For instance, they're not writing business anymore, costs are killing them, they want a way out and they want finality. We have also seen a lot being driven by M&A activity, and it's more M&A activity from the corporate side where they end up with multiple programmes, multiple captives, and again, it's driven a little bit more by the cost and administrator side and they don't want to maintain these multiple programmes, and instead want to streamline it, so we can go in and offer solutions for that. Additionally, we have seen a little bit from a jurisdictional standpoint. People want to get in to some jurisdictions or people want to get out of some jurisdictions. Solvency II could be a reason for driving some of that or people just want to get back to their core operations or jurisdictions that they've historically been in.

**CR:** How easy is the process of working with the regulator in Bermuda to change the ownership of a captive?

**EH:** The Bermuda Monetary Authority have been responsive and good to deal with, and we have a good relationship with them,



which has helped facilitate the change of control process. Ultimately, the process takes a few weeks and requires a fair amount of information exchange about future operational and capital plans as would be expected from a strong regulator.

**CR:** Does this process vary between domiciles?

**EH:** The process certainly varies, and quite drastically at that. As an offshore market, I suppose that Bermuda has a more detailed and structured process and is more akin to the US domiciles.

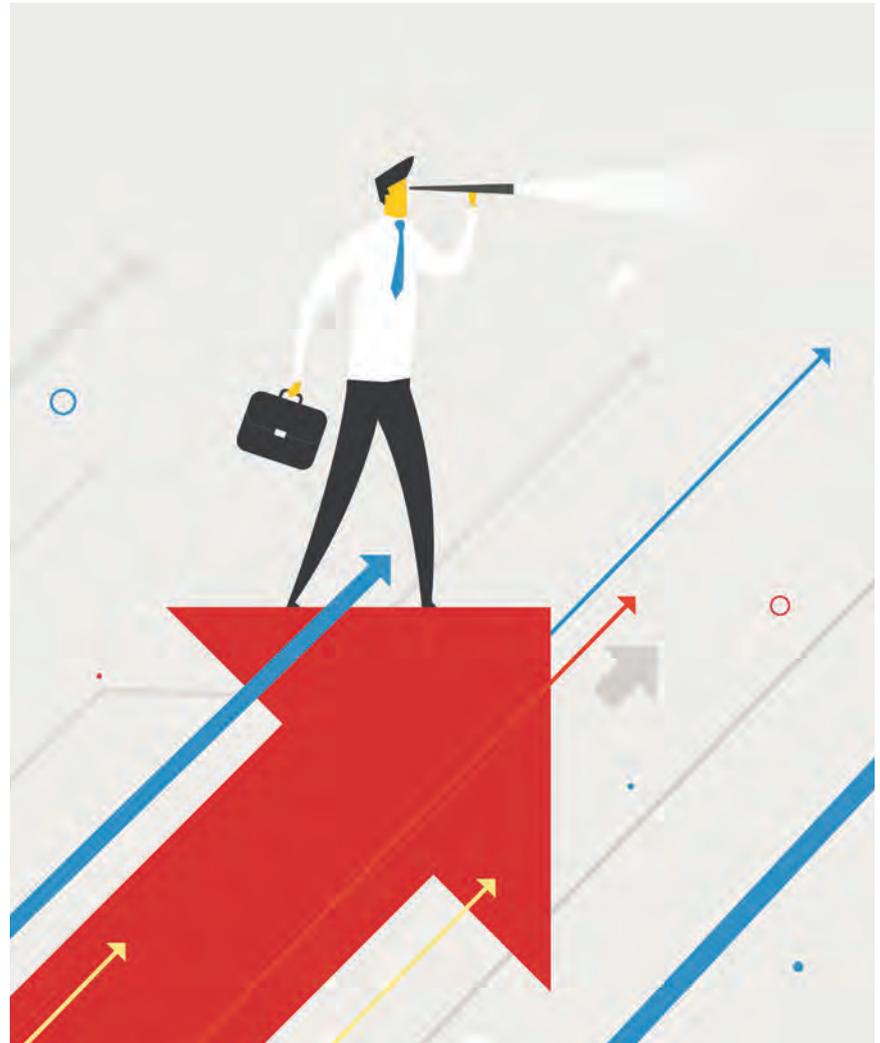
**TB:** We have completed a couple of innovations from Cayman captives to our Bermuda company. The process ran smoothly and there wasn't a significant amount of time that it took to get approval from the Cayman authority. We provided the information, which was relatively straightforward, so were the transactions, which helped them get comfortable with it. It was an efficient process, but we weren't doing a very complicated transaction.

**CR:** What are your predictions for captive run-off activity globally over the next 18 months?

**TB:** We are starting to see a little bit more activity coming out of Vermont. Onshore US is a developing area and not to blow our own trumpet, but it is mostly down to our marketing, capability and efficient pricing. This is because we are the frontrunners in terms of providing solutions to this through our experienced track record and the fact that we are more innovative than most.

**EH:** We also tread the circuit with US brokers who control a lot of these captive programmes. I think that quite a few of them started off in the offshore market as it is a slightly more mature market, albeit Vermont is mature. A number of the US states have only recently introduced legislation and don't have a huge number captives or not fronted typically. We have been quite active in Guernsey and the Isle of Man, offshore UK areas, and that continues and we are getting transactions coming through there. That will continue in Bermuda and in the Cayman and I think that we will see more activity coming out of the US.

**TB:** I would expect that Ireland would be quite a fertile ground, as due to the full implementation of Solvency II, it's not a



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particularly attractive place to be for some captive owners, with issues both on the capital front and on disclosure. There will be people who would probably like to exit Ireland because they are in either in run-off or because they think they might actually like to go into a non-Solvency II environment. Other emerging jurisdictions include China and we aren't going to see much action there in decades as it is only just evolving. For us

it will be a combination of Solvency II driving from mature jurisdictions and the usual reasons why we think the US will evolve, that will be of the most significance.

**Self-insurer and risk retention groups**

We are using our A-rated licensed onshore carrier, which is in the US, to basically offer finality for these types of entities. It depends on the state as to how, or if, you can create that finality. There are not many people that are focused on this market, our larger peers simply will not enter this space because it is very fiddly and rather small. It is somewhat difficult work because there is quite a lot of regulatory red tape and admin, but because R&Q is flexible and we are focused on small to medium-sized market, we are well suited to doing that and we are very much apart from others as we can offer that type of solution. ☺