

# CAPITAL LEADING TO CONSOLIDATION IN BERMUDA

Jonathan Betts, senior associate in CHW's corporate department, discusses the recent trend towards consolidation in the insurance market and its potential impact on Bermuda



Written by

**Jonathan Betts**



**Jonathan Betts** is a senior associate in CHW's corporate department and advises Bermuda-based and international clients on a broad range of corporate and commercial matters. He focuses primarily on mergers and acquisitions, private equity and banking, and finance transactions, but also advises in relation to insurance/reinsurance matters and the formation of investment funds.

**Captive Review (CR): How significant is the current trend towards consolidation in the insurance market?**

**Jonathan Betts (JB):** It is very significant and we certainly expect the trend to continue. Over the past five or so years, there has been much discussion about the expected consolidation of the market and it has been clear that there has been an appetite for mergers and acquisitions among Bermuda's reinsurer/insurers. However, apart from the acquisition of IPC Holdings by Validus Holdings in 2009 and Markel Corporation acquiring Alterra Capital in 2013 there was relatively limited activity.

Clearly, one of the factors limiting activity was the fact that the hedge funds and others with capital looking to access the reinsurance market have been doing so via new ILS vehicles rather than funding the acquisition of existing players. But the status quo was shaken somewhat by the decision of Endurance Specialty Holdings in Q1 2014 to make a hostile takeover bid for Aspen. Although the bid was ultimately unsuccessful, with Endurance abandoning its proposal in July 2014, it would seem that the failed attempt has spurred other insurers into action. Since then, Renaissance Re has agreed and completed a \$1.9bn acquisition of Plati-

 VIDEO | CHW



num Underwriters, XL Group has announced a \$4.1bn acquisition of Catlin Group Limited, Axis Capital and PartnerRe have agreed to combine in a \$11bn merger, and Endurance has returned to the acquisition market with an agreed deal to acquire Montpelier Re for \$1.8bn.

The consolidation trend has been further 'spiced up' by the recently announced competing bid to acquire PartnerRe being launched by one of its founding investors, Exor, and it is almost certainly the case that some of the smaller to medium-sized island-based reinsurers which have not yet been the subject of an acquisition will either be looking over their shoulders or identifying potential merger partners/acquisition targets.

**CR: What is causing the current trend?**

**JB:** The consolidation is being driven by a number of factors, including the availability of capital to make acquisitions, a general perception that pricing is low for the capital you are buying and the drive to increase critical mass from a capital perspective and/or to diversify business lines, particularly against a backdrop of a softening market with alternate reinsurance

**regard to frontiers and reinsurance services. Should captive owners be concerned?**

**JB:** We are not of the view that, at this stage, captive owners should be worrying too much about the impact of the consolidation on their

business and access to frontiers and providers of reinsurance business.

There is excess reinsurance capacity in the market, particularly with the continued growth of the ILS market as the convergence of the insurance and capital markets continues, and captive owners will have plenty of fronting options with competitive pricing continuing.

**CR: Will having less reinsurance and fronting options impact the cost of accessing these services for captives?**

**JB:** As mentioned, we do not believe that the current trend will have a significant impact on the cost to captives of accessing reinsurance products as the influx of capital into the industry has created a broader range of reinsurance

players who are competing for business. It remains to be seen whether a significant insurable 'event' (or series of events) could result in a hardening of the market but given the significant amount of excess capital in the market, it would seem highly unlikely that premiums are going to be driven upwards to any material degree, if at all, in the near future.

**CR: Are you finding your clients are adapting to this change in the market? What questions are they asking you about this trend?**


**JB:** As yet, we have seen a limited response to the trend from our captive clients, presumably because the consolidation process is still in its infancy and the impact, if any, has not yet been felt by our clients. It may be the case that when we approach the end of the current insurance cycle and the year-end renewals season we will see more activity from our captive clients as they address any potential impact from the consolidation of the reinsurers.

**CR: Bermuda is one of the largest insurance and reinsurance centres in the world. How**

"The various reinsurers that are party to these transactions consider Bermuda as the domicile of choice for property and catastrophe reinsurance"

**much will this recent trend for consolidation affect the domicile?**

**JB:** There is no doubt that there will be some negative impact upon Bermuda generally. The parties to several of the proposed transactions discussed earlier have made it quite clear that one of the principal rationales for the deals is the economies of scale that arise from a larger consolidated business and have headlined the potential cost savings arising from the mergers. Obviously, a significant part of these savings will be payroll related and, unfortunately, that will mean the inevitable loss of positions and employment opportunities in the Bermuda market, at least for a period.

However, it is clear from the announcements made that the various reinsurers that are party to these transactions consider Bermuda as the domicile of choice for property and catastrophe reinsurance. The reality is that the combined businesses (as well as new, substantial reinsurers coming into the market in the near future) will have a far greater footprint in the jurisdiction and these transactions will cement Bermuda's pre-eminent position. 

"We are not of the view that, at this stage, captive owners should be worrying too much about the impact of the consolidation on their business"

capacity, such as ILS and cat bonds, competing in the catastrophe reinsurance market.

**CR: Consolidation in the wider insurance market means fewer options for captives with**