

MARCH 2018



Value judgement

Twenty-one billion. That's the dollar value of merger-and-acquisition deals announced so far this year in Bermuda's re/insurance market.

The shopping spree on our island by major global entities should come as no surprise. Continued soft-market conditions, coupled with the pursuit of capital efficiencies, regional and product expansion, and other strategic needs, plus the impact of technology as companies look to digitally reinvent themselves, are all key factors driving the current consolidation trend. Late last year, it was predicted that once uncertainty around the passage of the US tax-reform bill settled, M&A appetites would resurge. We are seeing that happen. This year's two major deals are the AIG-Validus takeover, worth \$5.56 billion, and French insurer AXA's \$15.3-billion buyout of XL Catlin.



AIG's all-cash deal strengthens its reinsurance business and provides a Lloyd's of London platform through Validus' Talbot syndicate. AIG also gains ILS asset manager AlphaCat, assuaging investor interest in cat bonds. AIG's largest acquisition in 17 years fits "like a glove," AIG CEO Brian Duperreault told analysts.

The AXA-XL Catlin takeover also made headlines this month. Its mega-agreement effectively anoints the French company as the world's largest property and casualty commercial-lines insurer. The deal makes absolute sense as AXA acquire a renowned and profitable P&C book as well as a North American footprint.

While all this is bubbling on our Rock, it would be a mistake to view Bermuda's merger activity in isolation. Last year, there were 350 completed M&As in the global insurance industry. Deals in the Americas in 2017 constituted 50 percent of the yearly total, followed by Europe at 36 percent. Suffice it to say, it's far from over; we can assume US-focused deal-making will drive transactions throughout 2018. And M&A isn't just happening in re/insurance, either; financial services sectors are also seeing activity.

For those who might infer a negative from the Bermuda market's M&A, it would be prudent to note a few key points:

- > The recent M&A trend has been fuelled by the need to deploy capital and rising competition among large traditional entities that need to reinvent and reinvest. They've been able to achieve this by acquiring and merging with specialty businesses forged in Bermuda's creative reinsurance market.
- > M&A activity relating to Bermuda has tended to create bigger, stronger, more highly-capitalised companies that continue to operate from the island. The amount of capital resident in Bermuda and the volume of premium and risk ceded to our market has only kept increasing. In the large part, job attrition has been negligible.
- > It is important to note that Bermuda acquisitions go both ways. An example is Bermuda-based Argo Group International Holdings Ltd. finalized its \$24.8 million acquisition of Rome-based Italian specialty insurer Ariscom Compagnia di Assicurazioni S.p.A. Last year, Argo also acquired peer reinsurer Ariel Re.



- > Above all else, global companies are paying a lot for Bermuda acquisitions—demonstrating the substantial value, innovation and widely respected expertise of our market and its re/insurance sector.

What kind of value? Alongside London as two of the world’s largest re/insurance hubs, Bermuda offers unique advantages—recent legal and US tax changes have only reinforced its worth. The Bermuda market facilitates strong specialty re/insurers that understand some of the world’s largest, most complex risks in a way no other market does. Indeed, our capital takes on risk from Australia, Canada, China, France, Italy, Japan, the US, UK and more. It truly has global scope.

Beyond that, the island also provides a platform with Solvency 2 full equivalence, US mutual recognition, a globally regarded regulatory regime, and a reputation for adhering to the highest standards for transparency and cooperation. No wonder we’re being asked to dance.

More M&A players will no doubt make headlines this year, but until then, the Bermuda market will continue to take care of business. And while the outcomes of ownership changes and synergy strategies will remain up in the air until all the jostling settles, what is very clear is that companies in Bermuda’s market remain an enviable prize.

ABOUT VIEWPOINT

A monthly blog by BDA CEO Ross Webber, with commentary on industries, issues and influencers affecting Bermuda as a global financial centre. Comments and feedback can be sent to ross@bda.bm

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