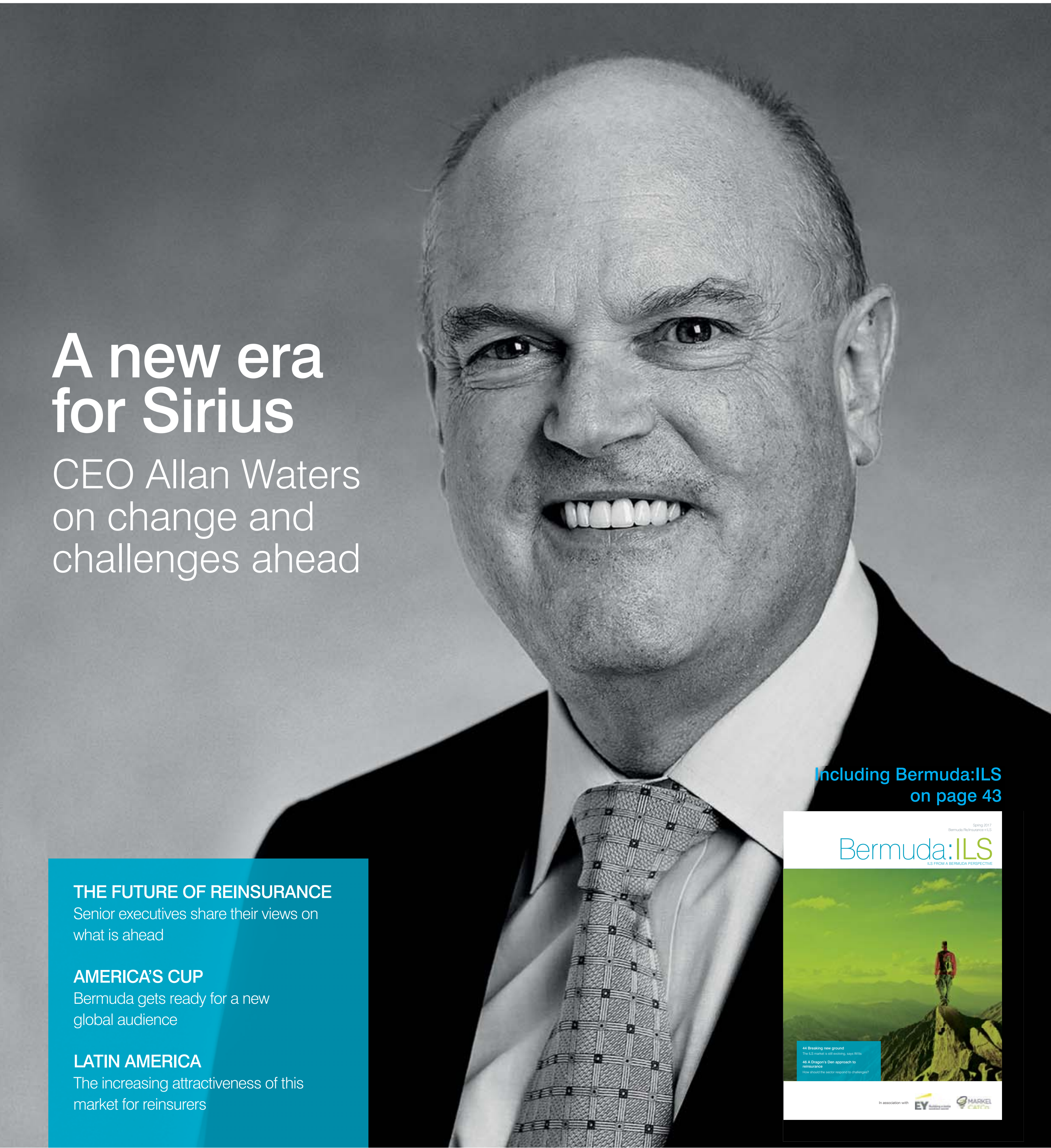
Spring 2017
Bermuda:Re/insurance+ILS

# Bermuda:Re+ILS

GLOBAL RE/INSURANCE AND ILS FROM A BERMUDA PERSPECTIVE



## A new era for Sirius

CEO Allan Waters on change and challenges ahead

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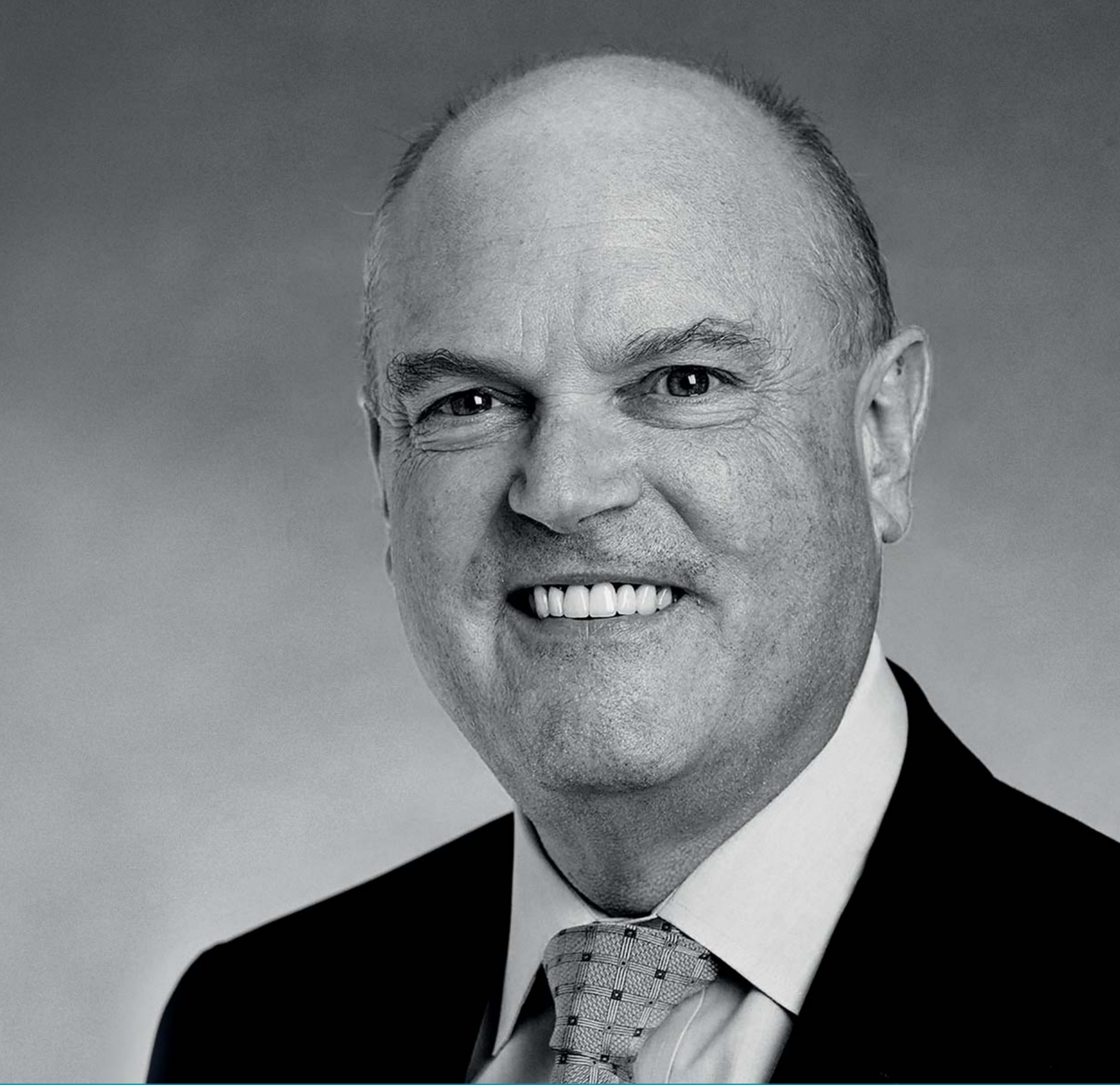

# Sirius keeps shining

Interview: Allan Waters

*More than a year after White Mountains sold Sirius to CMI Holding,* Bermuda:Re+ILS *talks to Allan Waters, president and CEO of Sirius, to see where the company stands under its new owners and what lies ahead.*

In 2016 the sale of Bermuda-based reinsurer Sirius to Singapore-based Chinese investment company CMI Holding, for around $2.6 billion was completed. Since then the market has watched as Sirius brought in new primary surety and environmental platforms and poached two experienced executives from Tokio Marine and Great American Insurance Group, among other announcements.

According to Allan Waters, the president and CEO of the company, the sale made sense for all concerned.

“China Minsheng Investment Group (CMIG) International was looking to enter the insurance and reinsurance space, and they recognised that they didn’t have any expertise in the industry,” he says. “They were looking for a company that had a solid management team and was well-run; that was demonstrated by Sirius’s superior financial results over a long period of time.

“We were also a good size, but not so big that they’d have to increase their financing; they were able to fund the purchase out of their initial capital.”

Waters had been with White Mountains since its IPO in 1985, when it was Fireman’s Fund Corporation. When he came back to full-time status in 2007, his primary job was to oversee Sirius’s operations for White Mountains.

“The goal was to optimise return on deployed capital and return undeployed capital to White Mountains, with the eventual goal probably of selling the company,” he says.

According to Waters, from 2007 through 2016 Sirius returned $2.6 billion of capital to White Mountains, and then came the sale for $2.6 billion in 2016. As a result White Mountains reaped about $5.2 billion from the Sirius investment over a 10-year period, which was exactly what they were looking for.

“That was the mission with White Mountains: highly disciplined underwriting, which of course resulted in reduced writings as the market softened, returning unused capital, and a sale of the company,” he says.

“We’ve now been acquired by CMIG, who handled the purchase very wisely. First, they formed a Singapore intermediate holding company, CMIG International, and capitalised it to acquire Sirius.”

Waters points out that the location is a very important distinction, because Singapore has British jurisprudence, British economics, is English speaking and is triple-A rated. The Ministry of Finance there has a reputation as a tough regulator.

“By creating CMIG International in such a strong country which has close ties to the West, CMIG put in place a layer of additional regulation and governance between us and the ultimate parent Chinese company,” says Water.

He stresses that it’s not that Sirius needed additional protection, but that has made a difference to rating agencies and regulators versus other Chinese organisations building global presence in insurance.

He adds that CMIG International has now raised some of its own capital, so it’s no longer wholly owned by the Chinese parent. The Chinese parent currently owns 81 percent of CMIG International, with third party shareholders. Additionally, Sirius expects soon to bring on its own third party shareholders, so at some point the company will no longer be wholly owned by the Singapore company.

## Governance

Sirius has maintained public company governance and as a result Waters claims that it could go public with very little change in its governance other than the addition of some more independent directors. Sirius basically has the same governance that it did as part of White Mountains as a public company.

“We have two strong independent directors: Sandy Frucher is vice-chairman of NASDAQ and Rob Friedman used to run the Mutual Series funds for Franklin Templeton, so they’re both very experienced, very skilled, high-powered people who bring a lot of independence to the board,” he says.

The board comprises six people: three from management—Waters, CFO Kip Oberting and Sirius International CEO Monica Cramér Manhem—the two independents and one member from CMI, Lawrence Liao, making what Waters describes as a very independent board.

“All these things were done in part to differentiate ourselves from other Chinese organisations/companies trying to build a global insurance presence,” Waters explains.

“CMIG International said ‘we don’t know insurance, you know insurance—we see you as our cornerstone investment and we want you to lead the charge in terms of developing our global insurance and reinsurance enterprise’.

“They have a fairly broad appetite—they’re interested in P&C, in life, in insurance, in reinsurance, asset management and perhaps some brokerage. They’re looking to Sirius to help them head in that direction. Most important, they don’t want to change the way we run the business—they said ‘you’ve been running the business well, continue what you’re doing’.”

In addition, Waters claims there is one difference being owned by CMIG instead of White Mountains, and it’s a good difference—CMIG wants Sirius to grow over time.

“While we were at times constrained by our mission at White Mountains—which worked well for White Mountains—there were things we could have done, business we could have written that we perhaps had to pass over because our mission was really to clamp down and return capital,” he says.

*"They don't want to change the way we run the business—they said 'you've been running the business well, continue what you're doing'."*

"CMIG International wants us to retain at least half our earnings, if not more over time, to grow the capital base and the business.

"In a way it's unshackled the underwriting team a bit. It's a soft market and we're maintaining the long-term disciplined underwriting approach that differentiates Sirius, but we were able to grow our gross premiums 10 percent last year and an additional 13 percent as of January 1 this year."

As a result, Waters says, Sirius has accelerated its growth and is adding new lines of business. Sirius has now re-entered the casualty space in the US, where it used to write quite a large chunk of casualty ($470 million in 2004). Sirius has hired team leaders there and also in the surety and environmental insurance lines and they will each be building out significant teams over the course of the year.

Waters also claims that there's a lot of highly skilled underwriting talent available in the market at the moment and that all the M&A activity has created a lot of opportunities for companies like Sirius.

"There are guys out there who have been running books of profitable business for 20 years. All of a sudden someone's looking over their shoulder and they're thinking that they don't need that, so they're ready to jump ship with their teams—they're ready to go. It's amazing how much talent is out there.

"We're looking for talent, we're looking for opportunities, and we're in more of a growth mode than we've been in for some time. The mindset of management is the same as always in terms of underwriting discipline and how we approach the business, but now we have more room to manoeuvre, and management likes that."

## The road ahead

Waters also stresses that it's important to keep an eye on the road ahead in case the market finally turns. The re/insurance industry has been making its way through a fairly soft market for some time but he feels that this soft market is different from some of the harsher soft markets of the past, as there's been more pricing and underwriting discipline on the downside this time around.

"People are probably making the type of large loss underwriting decisions that they were making perhaps in 1999," he says.

"That said, there is increasing pain in the market and pain is what causes the market to eventually turn. In the first quarter of 2017 quite a bit of news came out, the latest being the change in the discount rate in London, and AIG's $5.6 billion prior year adverse reserve development.

"These are signs of pain and as the industry sees more of those then it will come closer to a market turn."

While pricing is certainly deteriorating the pace of deterioration has slowed quite a bit. He points out that Sirius, particularly as it is headquartered in Bermuda, has an unusual portfolio of risk. Sirius International has been around for 72 years and Sirius America has been in existence since 1980, so those portfolios have been built over decades and they are very local-oriented and granular.

Waters also stresses that Sirius's branches around the world, with the exception of Bermuda, are managed and staffed by indigenous personnel—locals who have grown up in the market. They know all the commercial companies and all the re/insurers in the market and that makes for a very different portfolio that's been built up over decades as opposed to something that's been assembled in bigger blocks over a shorter period of time.

"Sirius's risk portfolio is stickier and less prone to market price swings. Certainly it's softened and it will continue to soften until the market turns, but not as severely as the more commodity components of the market," he says.

"A lot of our clients are local and regional companies of modest size. They don't have the scale or appetite to use capital markets solutions, so they're just going to continue buying traditional reinsurance. While market conditions are not good, they are perhaps not as severe as for many of our brethren."

One area that Waters sees Sirius getting involved in a little more is that of insurance linked-securities (ILS).

"We will likely utilise ILS a bit more going forward," he says.

"We have an unusual property retro programme which is regionalised around the world. We have 13 uncapped pro-rata treaties and we cede a significant amount of our business through that programme. It has been used historically to manage our risks up and down through a cycle quite effectively.

"It has a nice override that covers our costs and a profit commission. By having regional pillars in the programme one profit commission might suffer in one year in a certain region, but the other ones can still pay, so it's been pretty effective for us."

Waters adds the caveat that given the current pricing in the ILS market for risk Sirius is studying whether it could or should replace some of that pro-rata retro capacity with ILS executions. The company will make that decision over the course of 2017.

Sirius is happily ensconced in Bermuda. In early 2016 the company requested that the Bermuda Monetary Authority (BMA) become its group supervisor under Solvency II, as the Bermuda insurance market is substantial and the BMA has significant experience overseeing complex global companies.

"It made a lot of sense to pivot to Bermuda as our Solvency II supervisor," he points out. "They have accepted us and become our supervisor. We have a good working relationship with them and they're doing a great job. They understand our business and we understand what they're looking for, so BMA oversight is working well for us—we're very pleased to be here. ■


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