

Bermuda beckons



Paul Corver



David Taylor

The R&Q Group is raising its profile in Bermuda following its acquisition of Quest Group. **Paul Corver** and **David Taylor** of R&Q told Derek Austin why the move to establish a base in Bermuda makes sense

These are uncertain times for the Bermudian re/insurance market, as it waits to see whether the international community, and the US in particular, will take action on the tax treatment of offshore insurance. But while some companies may relocate or diversify their operations, Bermuda remains one of the major international insurance centres. And whichever way the wind blows, Randall & Quilter Group has concluded there is business to be picked up of one sort or another.

Hence R&Q's purchase of the Quest Group of companies in Bermuda last year. 'The intention behind the acquisition of Quest, aside from getting into captive management, was to gain a foothold on the island,' explains Paul Corver, managing director, captive management services. (Although R&Q already has a Class 3 reinsurer* on the island it has not as yet written any business.) 'At KMS, before we became part of R&Q, we looked at a couple of opportunities in Bermuda but did not succeed because we did not have a presence there.' R&Q decided that in order to provide services in Bermuda it was important to be on the ground and have face to face contact with decision makers there.

Quest is the fourth largest captive manager in Bermuda (by number of companies under management) and the second largest independent (ie. non-broker-owned). Captive management is a new venture for the R&Q Group.

'We are looking to grow the captive management side of the business and perhaps extend it beyond Bermuda,' says Corver. 'But it also gives us a base on the island to extend the R&Q suite of services – the run-off services,

claims management services, reinsurance services – to both the live and legacy sectors. We will use the Quest offices and resources, and bolster those resources appropriately as the work develops.’

David Taylor, newly appointed as R&Q’s business development manager, Bermuda, is now based on the island and heads up the drive to introduce businesses there to the R&Q name and the range of services it offers. In doing so he will draw on the network of connections that the Quest staff already have among the re/insurance community in Bermuda.

‘I will be contacting the key people at the key companies over the first few months, to make sure that people are aware of our presence on the island, that we are there as a service option,’ says Taylor. The main target market will be reinsurance companies and the services offered will include audits and inspections and the acquisition of distressed reinsurance debt, as well as management or acquisition of existing or new run-off portfolios.

‘We are certainly aware that the general climate of pursuit of offshore domiciles by the US and Europe creates uncertainty as to whether Bermuda will maintain its status as a key place to undertake reinsurance,’ says Corver. ‘We want to be positioned so that, if companies feel that they may be better off domiciled elsewhere and perhaps want to shut down a Bermuda operation, then we will be able to take that on, either servicing it or acquiring it.

‘It’s early days, but we have seen a number of companies expanding out of Bermuda, opening up European operations in Switzerland, and extending across into Lloyd’s, so there is a potential we see for legacy books of

business to be coming onto the market within the island,’ he adds.

‘A lot of the money that has gone into Bermuda in recent years has been into Cat reinsurers and now those reinsurers are looking to expand and diversify across other classes and we have seen a big influx into Lloyd’s. We have seen a number of Lloyd’s agencies redomicile into Bermuda, and then diversifying the other way.’

He also says some major reinsurers on the island are stating that they wish to go back to basics, and so may want to dispose of some of the distressed portfolios that may be on their books in order to assist with cashflow.

Corver also sees scope for expansion on the captive management side: ‘There seem to be indications that captives are coming back into vogue. When you have periods of hardening rates, captives become a favourable vehicle for companies that have a good loss record and don’t want to be paying out premiums to an insurance company; if they set up a captive they can keep them on their own group balance sheet.

‘The questions are now where those captive creations will occur,’ he continues. ‘Bermuda has always been a strong player as has Cayman Islands offshore, Vermont is a very significant player onshore. It will come down to the determination of the US companies whether they feel that things are going to change, will there be a more stringent tax regime offshore? So the domicile is a more significant question than before.’

There would also seem to be more interest in protected cell companies (PCCs). ‘To create your own captive entails quite a bit of expense and ongoing management and regulatory fees.

There is a critical mass below which it is not beneficial for a company to create its own captive but if they can slot it into a PCC, which carries much less overhead, it becomes a lot more attractive.’

But how well will Quest’s captive management business sit alongside R&Q/Cavell’s traditional service business? ‘From what I have seen there is an excellent synergy,’ says Taylor. ‘Some of Quest’s existing clients are already expressing a desire, now they know Quest is part of a larger group, for some of the services that can be offered.’

‘We would be able to offer more of a bundled service to the client, rather than the basic accounting and regulatory process,’ adds Corver. ‘If it’s a captive underwriting third party business (Class 3) we can do claims management, reinsurance collections, and commutation and exit solutions. This is a suite of products that are not necessarily normally carried by a captive manager which is predominantly there to do the accounting and regulatory function.’

For R&Q, being in Bermuda completes the ‘insurance triangle’ of the US, Bermuda and Europe. ‘Having the foothold in Bermuda completes our presence in that triangle,’ explains Corver. ‘There is so much interplay between those three major business areas. We are now able to facilitate and cross sell services across the three because we now have strong representation in each.’ ●

** A Class 3 Reinsurer is able to underwrite reinsurance of subsidiary insurance companies and has a limited capacity to underwrite third party business, subject to regulatory approval.*