



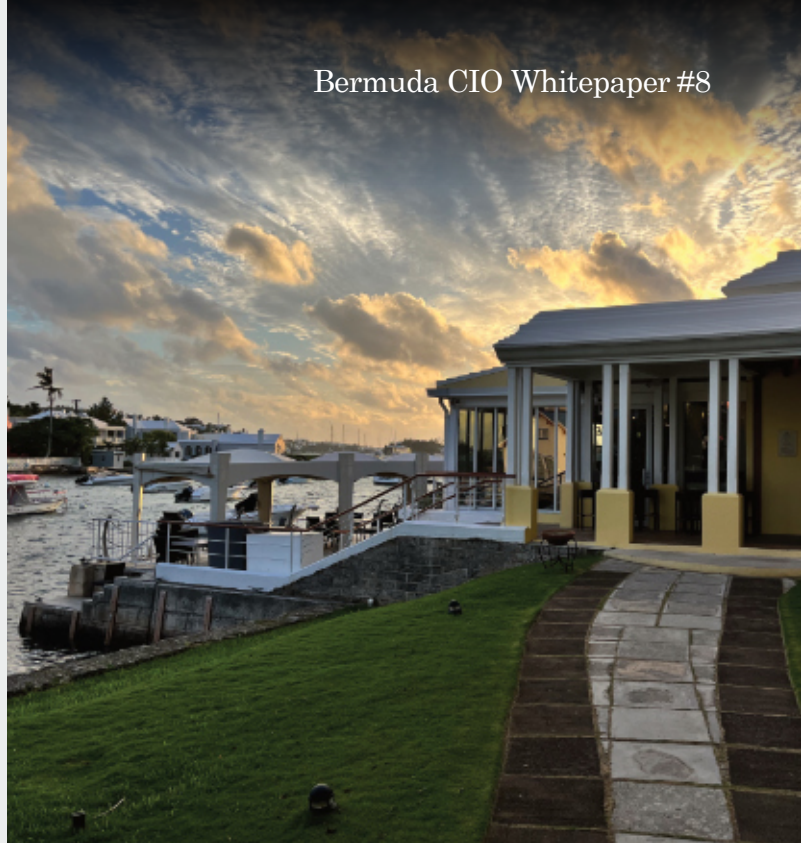
cio investment club

Whitepaper #8

October 2024

Bermuda CIO (Re)Insurance Whitepaper: Preparing for all scenarios





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Introduction

Bermuda has been an insurance and reinsurance hub for decades. From its roots as a captive insurance domicile and a catastrophe reinsurance specialist, the island has blossomed into a diversified, global risk solutions market. Underpinning the industry is a huge capital base. The assets under management of Bermuda (re)insurers amount to more than \$1.65 trillion, as of year-end 2022, according to the Bermuda Monetary Authority (BMA).

The challenges for CIOs differ in each part of this vibrant market, as they manage portfolios of assets to match their companies' varying underwriting strategies, from the short-tail focus of Property & Casualty (P&C) firms to the long-term liabilities of Bermuda's growing cluster of life and annuities reinsurers, many of them launched over the past decade by private-equity firms. Regulation is continuously evolving as the BMA strives to maintain effective oversight of an innovative market shouldering some of the world's most complex risks.

In its first Bermuda CIO (Re)Insurance Roundtable, the cio investment club brought together some of the industry's leading investment management professionals to hear their thoughts on navigating today's uncertain market environment, risk and opportunities, regulation and Bermuda's prospects.



The panellists

- Aileen Mathieson, Group CIO, Aspen, a specialty insurer and reinsurer
- Jamie Steeves, Deputy CIO, Axis Capital, a specialty insurer and reinsurer
- Tom Duggan, CIO, Bermuda & US, Catalina Re, life and non-life legacy reinsurer
- Amar Singh, Investment Director, Portfolio Strategy, L&G Re, an annuity reinsurer
- Dany Bernier, Group Deputy CIO, Lancashire Insurance Group, a specialty insurer and reinsurer
- Jeffrey Morash, CIO, North End Re, annuities reinsurer
- Moderator: Jonathan Kent, JDK Media



Interest-rate outlook

Interest-rate trajectory was a prominent topic for the panellists, after cuts by central banks in North America and Europe this year ended two years of rate increases aimed at taming inflation. The steepness of the interest-rate descent, where rates will settle, and the resilience of the global economy are all key questions for CIOs positioning their portfolios for potentially increasing volatility.

“When the Fed was hiking, the big question was: How quickly can we manage inflation and get it back down to 2%?” says Tom Duggan, CIO of Catalina Re. “I think it’s now broadly understood that was a misnomer and we may see rates and inflation settling at higher absolute levels. When you consider the long-term target rate for the Fed is 2%, it stands to reason that if you’ve been below 2% for 10+ years, you’ll probably experience periods above 2% for some time.

“We have had some challenges with the market. The US banking crisis came and went and then we recently saw the carry trade unwind very quickly. There are some signs of stress in the US economy, so, I don’t think we’re at a point where we can say the Fed did a great job, there’s no landing and growth continues. My view is that we’re not done with volatility in the market and the economy.”

Jamie Steeves, Deputy CIO of Axis Capital, says: “The economy appears to be relatively strong in terms of employment and corporate profits, but there are signs of softening, such as certain consumer credit metrics. I believe you are generally well protected in most high-quality structured products.”

“There’s a real divide — you see it in Bermuda, because you live next to it, but it’s also happening in the United States, Canada, the UK. People are struggling to make house payments, or to pay the increased cost of insurance for their houses or cars.”

Aileen Mathieson, Group CIO of Aspen, sees economic division along age lines, with older generations faring better than the young, potentially fuelling social unrest and political turmoil. “For us, we may not be seeing impacts on portfolios yet — it’s actually more about the future.”

Mathieson senses “a ‘jittery’ market and expects a relatively steep fall in rates. “By the end of 2025, I think we’ll be looking at probably 3.25% to 3.5%, so I’m less optimistic than the market,” she says. “From my perspective, the challenges are geopolitical tensions, including the war in Ukraine and the rise of the far right in Europe, and also inflationary tailwinds

that could impact government spending in Europe and the US. That could make inflation stickier.”

Dany Bernier, Deputy Group CIO at Lancashire Insurance Group, suggests that whoever wins November’s US presidential election, fiscal restraint will not be a priority. “It seems that neither candidate has strong intentions of reducing budget deficits,” he says. “So, instead of having an equilibrium around 2%, in the long term we might see 2.5% or 3%, but that could be impacted by strong productivity in the US. So, we would expect rates to be a little higher than in the past, but we see the long-term trajectory as lower.”

Amar Singh, investment director at L&G Re, says either party gaining control of both houses of Congress and the presidency would fuel inflation. “Assuming either of those scenarios, on one hand the Republicans may initiate tax cuts and impose tariffs — which could be inflationary,” Singh said. “On the other hand, if the Democrats sweep the election, we can expect fiscal spending and an increase in capital expenditure. Which again could be inflationary in the long run. So, it’s probably a good time to be positioned for shifts in the market.”

Jeffrey Morash, CIO of North End Re, recommends preparing for a range of different scenarios. “For us as CIOs, I think it will be about managing the trajectory of the curve — there’s a significant disparity in where it could go. It’s about running stress tests, understanding how your book reacts to a bigger shift or a recession, and being ready for all those situations.”

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Asset-liability management

When it comes to risks and opportunities in the investment portfolio, North End Re, as an annuities reinsurer and wholly owned subsidiary of Brookfield Reinsurance Ltd., takes a long-term view, something Morash views as a benefit.

“We’re very focused on the long-term and so we’re not making decisions based on what was printed in the paper yesterday,” Morash says. “If you can look past the distraction of the latest headlines and take the longer-term view in today’s world — and that will depend on the nature of your liabilities and ownership structure — then I think you’re going to find more opportunities than those looking for the short-term, headline risks.”

Panellists were in strong agreement that the overarching objective of CIOs of insurance companies is to support the underwriting operation, requiring alignment of strategic asset allocation with underwriting strategy.

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Lancashire’s Bernier says: “Having a very liquid portfolio is one of our main objectives, because our liability profile is very short, and we want to be able to take advantage of market dislocation on the underwriting as they arise. How do we do that? We invest in highly liquid, short-duration assets with strong creditworthiness. Once we feel comfortable with our liquidity position, then we look at our surplus portfolio, and that’s where we can take a bit more risk, with longer durations and some risk assets.”

Steeves echoes those views: “Our role is to support the underwriters, match our liabilities, and contribute to the positive book value over time. Keeping systems and processes as efficient as possible is essential.”

The type of business an insurer underwrites in some cases governs a CIO’s investment options, says Mathieson. “At Aspen, we write both insurance and reinsurance, and about 50% of our book has collateral requirements, some of which we can only invest in mortgages, treasuries and cash funds. On the other

side of our book, we stay close to the underwriters we also pick up a lot of intelligence on liquidity requirements by monitoring what’s coming into the claims department and also the relative volumes of different lines of business.

“Social inflation is an area of focus. It can lead to bigger payouts than you would normally expect. It’s quite prevalent now for insureds to go straight to settlement to avoid the effects of social inflation. We can’t invest in a way that will counter that social inflation, but we need to be aware of changing trends in claims.”

Morash agrees that investment teams serve as “partners to the underwriters” and that regular communications with the chief risk officer, chief actuary and pricing team are important to remain in lockstep with the underwriting strategy.

Duggan adds: “The important thing from communication between teams is to clearly define the requirement. If we can do that, then we know how to match a book and what assets we need in what buckets to insulate ourselves from things moving in a direction you don’t want them to.”





Private credit

Private credit, which refers to lending by institutions other than banks, sparked plentiful discussion at the roundtable. As an asset class, private credit has grown strongly since the global financial crisis of 2008. Morgan Stanley estimated the size of the private credit market at around \$1.5 trillion at the start of 2024 and estimated it would grow to \$2.8 trillion by 2028, fuelled by investors seeking higher-yield alternatives to traditional fixed-income assets and lower correlation with public markets.



Duggan says: “Private credit has moved to the front and centre of insurance portfolios. One of the attractions is that you can now get duration in a private form, with spread, within a structure. It’s a big opportunity to lock in spread through transactions that are not available on the street. As always happens, everyone says it’s the best thing since sliced bread. I don’t think that’s true. It’s corporate credit risk at the end of the day. A deal that comes in with 150 bps of spread may look fantastic, but perhaps it should be 250! But it is certainly an increasing trend. And it seems inevitable that insurers and asset managers will continue to support that flow of private transactions.”

Mathieson stresses the need for a focus on private credit quality. “It’s important to know the quality of underwriting that has been done. Some asset managers seem to be expanding into private credit because the banks pulled away, but how well do they really understand it? The quality of the credit analysis matters and also the quality of the managers to manage it if things go bad.”

Singh agrees, adding: “It’s been a benign period for the most part, but everybody is thinking about the default risk. Because of the private nature of these assets, there is scope to work around troublesome situations. So, all things being equal, I would probably

prefer to pick private credit as an asset class over public. But obviously, quality of underwriting as well as manager experience in dealing with restructuring and stressed situations is critical. Subject to that, it’s an interesting asset class.”

Bernier, while stressing that private credit makes up a very small part of Lancashire’s portfolio, says: “There are certain pockets of private credit that present attractive opportunities such as real estate that is currently benefitting from repricing due to higher interest rates, and strategic risk transfers (SRTs) transactions with the banks. SRTs are highly bespoke transaction and can potentially offer an additional 500 bps over comparable structured credit products in the public market.”

The search for broader opportunities in today’s credit markets is challenging for insurance CIOs.

“Investment Grade and High Yield corporate spreads are well below long-term averages, making these opportunities unattractive, yet they are core to most insurance portfolios,” Steeves says. “The challenge is: when do you trim that risk? Cycles can last a long time with an array of support from governments and central banks. Spreads may widen at some point, but for now, strong cash flows and safe carry present the opportunity to add value.”

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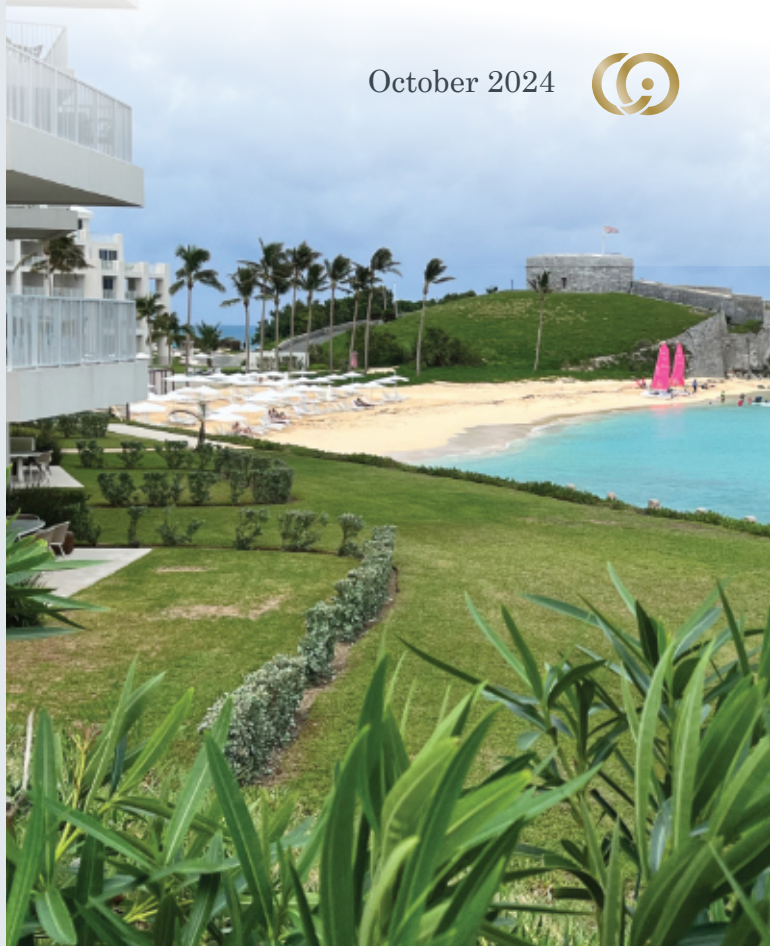
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Regulation

Next the roundtable turned to regulation, and in particular, the BMA's enhanced supervisory regime for commercial insurers, primarily focused on long-term insurers. The BMA has explained that (re)insurers owned by private-equity and alternative investment management firms required "intensified supervisory engagement". The new rules require insurers to demonstrate robust risk management of their asset-liability portfolios, and necessitate approvals for structured, affiliated and connected assets.



Despite the increased workload for CIOs and the need for more engagement with regulators, Morash sees the advantages. "The complexity of the assets, liabilities and structure of players in our industry has increased dramatically in the past few years. As the industry gets more complex, the oversight needs to do the same. If Bermuda shows it can adequately provide oversight, that will benefit the industry. We have to be prudent, pragmatic and show the world transparency to sustain growth in the industry."

"On the asset side, it's important to show that you understand the investment risks you're underwriting, and you're not taking the word of some third party or outsourced service provider."

Duggan agrees with the need for insurers to be transparent with regulators to ensure a clear understanding of the benefits of private-credit investments and how companies manage them. "From my side, the interactions I've had with the BMA have been informative, collaborative and focussing on areas they absolutely should focus on," he adds.

Singh agrees and believes that consistently demonstrating a commitment to act in the spirit of the rules is a prerequisite for a successful relationship with regulators. "They want to know you're committed to do right by all your stakeholders, including the policyholders and the regulators themselves. A large part of my job is dealing with private assets, which has a lot of focus from regulators globally. And therefore, as prudent investors, I always need to think about the investment risk of these private assets from multiple perspectives."

Mathieson says she has enjoyed a positive relationship with regulators, who appreciate transparency and proactive communications, especially when things go wrong. "The one thing I disagree with them on is the idea there's a conflict between the short-term ownership interests of private equity and the long-term interests of life insurance and pension holders. Most of the big life insurers are publicly listed, so they are equally focused on the short-term, three- to five-year shareholder value, for example. So, I'm not sure the difference between public and private ownership is so great that it would create a conflict as extreme as regulators may think."

Steeves says he finds the quality of the BMA's people to be as high as anywhere else. "Regulators have a stake in the game and understand the competitive nature of the market," he adds. "There is a balance, and if regulatory environments are not conducive, assets may relocate. Based on Bermuda's success in recent years, the regulatory regime is effective. For all regulators, in a changing landscape, there is always work to be done."

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Bermuda's future

Bermuda has enjoyed prolonged growth and success as a (re)insurance centre, an economic miracle on a 21-square-mile mid-Atlantic island. Among the ingredients of the island's "secret sauce" suggested by the panellists were its talent base, regulation, tax regime, that it's a beautiful place to live and work, and its geographical position between New York and London.



But how will the imminent Corporate Income Tax (CIT) affect Bermuda's prospects? Due to take effect in 2025, the new 15% tax brings Bermuda in line with Pillar 2 of the OECD's anti-base erosion rules. Multinational companies with annual revenues of €750 million fall within scope of the CIT. The panel was divided on the likely impact.

Duggan feels Bermuda's prospects remain strong. "From a corporate perspective, tax is just one element of myriad advantages of doing business here, including the established regulator and a solid rule of law,

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quality of life for employees, etcetera. My personal view is that the CIT will have some impact, but not on Bermuda's overall attractiveness as a place to do business, or as a place to live.”

Bernier expects a larger impact, particularly in terms of narrowing margins. “Companies will have to run super efficiently. It's easy for capital to change location and there are emerging markets such as Dubai that will welcome capital.

“A bigger story we need to think about is the eventuality that Trump wins the election and is empowered to bring the US corporate tax rate down to 15%. So, where is the tax advantage now? Then in Bermuda, we will have to rely on efficiency and flexibility to have a competitive advantage.”

Mathieson points out that transition measures in CIT rules enable insurers to soften the impact by establishing deferred tax assets which they can use to reduce their tax bill over the next 10 years. Most notably, Athene Holding has set aside an approximately \$1.5 billion deferred tax asset, and Arch Capital Group \$1.2 billion.



Participants



Amar Singh

Investment Director of Portfolio Strategy, Legal and General Reinsurance

Amar Singh is the Investment Director of Portfolio Strategy with Legal and General Reinsurance, located in Hamilton, Bermuda. In this role, he leads the development and execution of investment strategy for L&G Re multi-asset investment portfolios. Prior to his current role, he was responsible for building out illiquid asset sourcing platform and developing FX hedging program for LGRRe to support growth initiatives.

Prior to joining LGRRe, Amar worked in Investment Strategy and Portfolio Management roles with National Life Group, a life and annuity provider, and was based out of Vermont. Amar started his career with Deutsche Bank and worked with credit and equity derivatives structuring teams.



Jamie Steeves

Deputy Chief Investment Officer, AXIS Capital Holdings Limited

Jamie is the Deputy Chief Investment Officer at AXIS Capital Holdings Limited, with 30 years of industry experience across a broad range of investments. As a core member of the AXIS team for the past 21 years, Jamie leads fixed income and credit investments.

Jamie began his professional career at PricewaterhouseCoopers and is a Chartered Professional Accountant of Canada and a CFA charter holder.





Jeffrey Morash

Chief Investment Officer, North End Re Ltd

Jeffrey is Chief Investment Officer for North End Re Ltd. and previously held the role as Chief Risk Officer. Over 15 years of experience in various roles covering reinsurance, financial services, and investment banking. Wide range of risk management experience with a focus in financial risks.

Jeffrey holds the Chartered Financial Analyst designation and obtained Bachelor of Commerce from Dalhousie University.

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Aileen Mathieson

Group Chief Investment Officer, Aspen

Aileen Mathieson joined Aspen in November 2021, as Group Chief Investment Officer. Aileen is based in our London office with regular visits to our Bermuda and New York offices. She brings more than 30 years of experience as a finance leader in a number of industry sectors, including more than 17 years in financial services and investments. Aileen is also an Advisory Board member of Rewired Earth.

Prior to Aspen, Aileen served at Aberdeen Standard Investments where she was Global Head of Insurance and at Zurich UK between 2014 and 2019 where Aileen was Chief Investment Officer and Head of Wealth Management. During her career, Aileen also held senior finance roles at Nucleus Financial Group plc, Standard Life Group, Diageo plc and EMI Music. Aileen started her career at KPMG and is a qualified Chartered Accountant (Scotland) and Chartered member of the Chartered Institute for Securities and Investment.





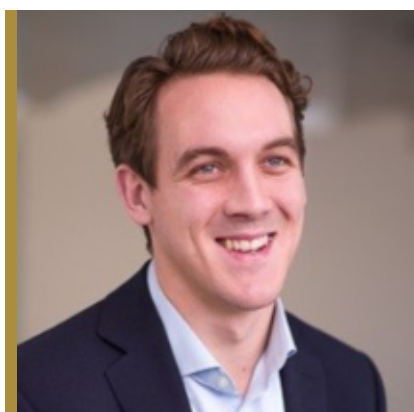
Dany Bernier

Deputy Chief Investment Officer, Lancashire Insurance Group

Dany is the Deputy Group Chief Investment Officer at Lancashire, a role he assumed since September 2023.

Before joining Lancashire, he served as Vice President of Investments & Treasury at Maiden Re for six years, overseeing the investment portfolio and treasury operations. Prior to Maiden Re, Dany worked as Senior Manager of Portfolio Monitoring at Fidelity International.

Dany holds a Master of Science in Finance and a Bachelor of Business Administration with a concentration in Finance and a major in Economics. He is both a CFA Charterholder and an FRM designation holder.



Tom Duggan

Chief Investment Officer, Catalina Re

Catalina Re



In attendance



Jonathan Kent (Moderator)

Director, JDK Medi

Jonathan is a freelance corporate writer for clients in the international business sector and a business journalist. He previously worked as Deputy Editor and Business Editor of The Royal Gazette, Bermuda's daily newspaper. He started his career in the UK, where he covered news and sports for national and regional newspapers and magazines.



Sean Thompson

Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.



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The voice of chief investment officers and investment professionals at institutional firms

The cio investment club hosts events throughout the year helping to educate and inform, whilst providing thought-provoking content to our members ... and so much more:

- Data-driven insights
- Intelligent research
- Roundtables
- Investment Breakfasts/Lunches
- Peer-to-Peer Discussions
- Conferences

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