

Small Company, Big Plans

Olympus Reinsurance Company, one of the newest companies in Bermuda, is taking a conservative strategy and remaining small as a way to respond to market changes.

BY ROGER CROMBIE

In the fourth quarter of 2001, so much capital was destined for Bermuda, in such large parcels, that some of the smaller start-ups became merely footnotes in a sea of ink. The prevailing attitude within the industry was that the price of admission to the reinsurance market was now a \$1 billion or more. Bigger, it was assumed, was better and growth the only real objective.

To form an all-purpose insurance and reinsurance global behemoth, a \$1 billion in fresh capital may indeed have been the ante, but every market has its niches and every niche its players. One smaller start-up that joined the Bermuda wave last December—"smaller" as in half a billion dollars of clean capital—was Olympus Reinsurance Company Ltd. Unlike other smaller start-ups that hope one day to graduate to supersized operations, Olympus Re intends to remain a smaller, more tightly-managed venture.

Registered in Bermuda on December 3, 2001, Olympus Re had its capital in place 18 days later and began writing business on January 1 this year. It became the eighth re/insurer to open in Bermuda to take advantage of favorable pricing in the property/casualty market after the events of September 11, 2001.

Olympus Re was formed to write property catastrophe reinsurance and other short-tail lines of business. Its financial backers include Leucadia National Corporation and Gilbert Global Equity Partners. Gill & Roeser, a reinsurance intermediary based in New

York, acted as financial advisors for the transaction.

Bermudian Sheila Nicoll is president and chief underwriting officer of Olympus Re, and at mid-August 2002 was the company's only employee, yielding one of the highest capital-to-employee ratios in the world. That situation likely won't last, as new staff is added, but the ratio will remain unusually high, because Olympus Re is pursuing a different strategy from the other new players in the post-September 11 market.

The company has a quota-share agreement with Folksamerica Reinsurance Co., a subsidiary of Bermuda-based White Mountains Insurance Group Ltd. "We're not starting completely from scratch trying to build relationships," Nicoll said at the time the company's formation was announced.

Nicoll is an industry veteran. She was a leading figure in Johnson & Higgins in Bermuda and subsequently worked for Marsh and McLennan Companies. Most recently, she had spent time with Careers in Insurance, an insurance recruiting and training company. She is well respected as a leader in the development of opportunities for Bermudians in the local re/insurance market.

Nicoll was identified by Gill & Roeser and received an exploratory phone call in late November last year. The concept had been developed during the previous weeks, and much of the business plan was in place, including the idea of writing quota-share reinsurance, thereby allowing Olympus

Company Snapshot

Name: Olympus Reinsurance Company Ltd.

Domicile: Hamilton, Bermuda (class 4 insurer)

President: Sheila Nicoll

Initial Capital: \$500 million

Began Operation: December 2001

Investors: Leucadia National Corp., Gilbert Global Equity Partners

Products offered:
Property/
catastrophe
and short-tail
lines



Sheila Nicoll: Olympus Re will stay "small, lean and mean."

Re to maintain a low overhead ratio. The arrangement permits Folksamerica (and other ceding companies) to underwrite a larger share of the market without seeking additional capital from its parent.

"From our perspective, the relationship with existing insurers such as Folksamerica allowed us to benefit from an existing team of underwriters and start business on Day One," Nicoll says in an interview at her office in Cumberland House in Hamilton. By relying on the expertise of primary underwriters, such as those at Folksamerica, Olympus Re earns a degree of comfort with the quality of the business it reinsures. "Our board of directors and our investors are familiar with the Folksamerica team and

track record, which are details into which you would normally need to carry out considerable research," Nicoll says. "Our business is not simply the hands-off assumption of a portion of someone else's work. I speak regularly to our ceding underwriters and they, of course, provide us with regular reporting. Considerable qualitative analysis is carried out, and we will have an extensive year-end review and contract renegotiation."

Olympus Re has adopted a conservative strategy toward its investment portfolio. The company has made no investments in equities. "We are taking our risk on the underwriting side, so we have concentrated on a high-quality, short-duration fixed-income investment portfolio," Nicoll says. An

external manager is responsible for managing the portfolio within defined parameters.

As to the use of capital, the 2:1 ratio that some U.S. insurers take as standard is not the preferred model in Bermuda's more conservative atmosphere, where less reinsurance is purchased than is generally the case in the United States. Bermuda companies run nearer a 1:1 ratio and Olympus Re will probably end up somewhat below even that.

The company has grown "slightly less

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Sheila Nicoll, Olympus Re

fast than our original business plan" indicated, Nicoll says, partly because of pricing issues and partly because of oversubscription. She confirms anecdotal evidence of price firming in the property catastrophe sector. Her experience has been that premium rates have increased by an average of 40 percent at the low end and perhaps as much as an average of 75 percent in the July 1 renewal market. Market conditions since September 11 have been nothing less than extraordinary, she says.

"The crucial principle is to maintain underwriting discipline," Nicoll believes. "Properly priced transactions are oversubscribed, sometimes by as much as 200 percent. Other deals cannot be completed at all; that's not the normal dynamic of the marketplace."

In some ways, in a Bermuda market renowned for its use of alternatives, the strategy of Olympus Re represents a return to more traditional reinsurance values. Conservative underwriting, fixed income investing, and low overheads were once the hallmark of companies such as Ace and XL Capital, before they moved to higher profiles and more aggressive operational strategies. Nicoll was part of the market when those companies were formed, but agrees that the Olympus Re business model is very different.

"I expect us to stay small, lean and mean," Nicoll says. "Part of the reason for wanting to go that route is the perception by our investors that when you build up large infrastructures, it is hard to slow down when circumstances call for such a move. Our way, if the market changes, which it undoubtedly will sooner or later, we will be able to change with it, because we will still have a small, lean team," she says.

"The way we intend to stay small is to outsource as much as we can," she adds, which explains the rented space at the offices of Aon and the as-yet tiny staff complement. "We have outsourced the back office to Aon Insurance Managers, who have helped us with office space, accounting, and other support functions," Nicoll says. She was with J&H when Renaissance Re started up in Bermuda, and Ren Re's lean profile and continuing success have not been lost on her.

As to growth, Olympus Re will look partly to the east, to Dublin, where Mark Stockton and his underwriting team, once suitable approvals have been obtained, will help source a book of international business via White Mountains Underwriting Ltd. The Bermuda constitution of Olympus Re does not allow it to seek business from within the United States.

The new capital that has flowed to Bermuda since September 11 has brought with it a flood of brokers and clients, who now visit Bermuda as they once visited Lloyd's in London. Among the giants now stalking the Bermuda islands, they will find Olympus Re, a Bermuda reinsurance company that believes, perhaps refreshingly, that size is not everything. Quality, rather than quantity, will be its guiding force.

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