The Road Ahead
Strategic Imperatives for the Bermuda Insurance Market
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Executive Summary

Bermuda has become the premier offshore location for a broad range of reinsurance and insurance lines, outpacing the global marketplace and accounting for 8 percent of the world’s property and casualty exposure. But many insurance firms in this market have reached a fork in the road and now face choices about global growth opportunities and potential.

Threats to the industry – some emerging and others longstanding – that are driving this need to revisit strategy include high local operating costs, a limited talent pool, a changing regulatory environment, and emerging competitors to traditional reinsurance products. Globalization creates both opportunities and threats as new sources of demand emerge and barriers to entry fall, while, in turn, clients and competition become larger, more sophisticated and focused on global growth.

Operationally, companies that succeed in this global marketplace are finding they need to adopt active portfolio management approaches, improve their own risk management capabilities, and develop more sophisticated products to meet their clients’ risk management needs. They must also align their strategy and operations with their shareholder promise, balancing the optimal tradeoff between reinvesting capital and meeting shareholder dividend demands.

No matter which routes they choose, the challenges facing Bermudian insurance companies are diverse and complex. Each puts high demands on the leadership team, and calls for very specific leadership competencies. Increasingly, global companies operating in a changing business context are recognizing that the baseline requirement is for leaders who are multi-dimensional – who know how to lead from their heads to analyze and manage complexity, their hearts to inspire and develop talent, and their guts or raw courage to choose among multiple right answers and resolve conflict.

These leaders are in scarce supply and high demand. It will be important for the Bermudian insurance industry in the coming years to find the right balance between bringing in global expertise and investing in made-in-Bermuda approaches to leadership development. Strong leadership teams, supported by a global organization architecture (structure, process, work, and culture) that will allow them to work effectively, will position the insurance industry well to tackle the critical challenge of growth.
The Bermuda marketplace: Past and present

Key structural factors fuel exceptional growth

The Bermuda insurance market has grown to become a key player in the world insurance industry. Its growth has identified Bermuda as the premier offshore location for a broad range of reinsurance and insurance lines. Bermudian premiums far exceed those of other offshore centers and rival the volume of the cross-Atlantic insurance trade. In fact, Bermuda currently comprises eight percent (8%) of the world’s property and casualty (P&C) exposure.

Bermuda’s recent growth and success have outpaced the global marketplace due to two distinct structural factors: its low level of taxation and its light-touch regulatory environment. A third contributing factor to its success is Bermuda’s ability to serve as an incubator for new ideas. Combined, these factors have encouraged opportunistic market strategies, contributed to organic growth and increased the number of annual start-ups and foreign-domiciled subsidiaries on the island (see Figure 1).

Figure 1: Key structural ingredients

<table>
<thead>
<tr>
<th>Low taxes</th>
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<tbody>
<tr>
<td>No tax on profits, dividends or income</td>
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<tr>
<td>Only incur a Bermuda payroll tax</td>
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<tr>
<td>1% excise tax on US GPW</td>
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<tr>
<td>15 percentage point effective tax advantage over US</td>
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<td>Fitch, 2008</td>
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<tr>
<th>Light touch regulations</th>
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<tr>
<td>Bermuda Monetary Authority: balance between high standards and ease of operation</td>
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<tr>
<td>Shift to risk-based regulatory capital to ensure global competitiveness</td>
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<tr>
<td>License approval within a few months, creating a responsive marketplace</td>
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<th>History of innovation</th>
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<tr>
<td>Strong ability to attract industry talent</td>
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<tr>
<td>Pioneers in the property cat and captives markets</td>
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<td>Home to most sidecar activity in the wake of Hurricane Katrina and significant cat bond activity</td>
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Selected successful start-ups and growth in response to hard markets

ACE and XL CAGR from 1995-2000: 45%
Arch and AXIS CAGR from 2002-2007: 37%

Source: Company reports; Bermuda Monetary Authority; Fitch; Oliver Wyman analysis
Divergent strategies in a maturing market

Many firms in the Bermudian market have reached a fork in the road. These firms now face a choice of either staying close to their specialist Bermudian roots or transforming into major global (re)insurers. Looking across the market today, we observe a spectrum from traditional monoline models to those having broadened out in terms of either or both of their product offering and geographic footprint, often in lockstep (see Figure 2):

- **Monolines**: Traditional property catastrophe reinsurers with lean business models, but typically, highly concentrated portfolios
- **Diversified reinsurers**: Multi-line reinsurers with global reinsurance exposure
- **US-focus**: Multi-line firms whose major business or subsidiaries primarily emanate from the US only
- **Diversified composite**: Globally operating firms with significant primary insurance infrastructure and business as well as reinsurance business

![Figure 2: Bermuda market business models](image)

Source: Oliver Wyman analysis

Each model has its own particular advantages – whether in flexibility and expertise, or growth and diversification – but as we will touch on in the following sections each poses specific risks.
Emerging threats and challenges

The Bermuda market has set up a global insurance center with deep expertise that will be difficult for others to challenge overnight. But challenges do exist. Structural threats within Bermuda and the US loom large. Changing customer and competitor dynamics suggest that globally-minded companies reconsider their strategic positioning as well as taking a hard look at key operational capabilities.

Threats to the Bermudian way

Operational issues associated with being based in Bermuda

Operating costs in Bermuda are relatively high. This will remain an issue as the Bermuda marketplace continues to develop in the future. Although Bermuda is a small island with only twenty-two square miles of land, it accounts for more than $30 BN in insurance capital. The island’s high affluence and physical limitations impose significant challenges to Bermuda’s growth. While not insurmountable, these challenges will continue to cause upward pressures on operating costs.

Another operational issue is associated with the quantity and quality of the insurance market workforce in Bermuda. Aside from the enabling advantages of low taxes and favorable regulation, Bermuda’s success is fundamentally dependent upon the availability of a suitable pool of talent. Attracting mid-level employees from abroad, a common strategy for many, has become extremely expensive and in some cases has grown more difficult than ever. A recent 2001 Bermudian government regulation incorporates more native Bermudians into the industry by limiting work permits to a maximum of between six and nine years\(^1\) for non-“key” staff.\(^2\) The purpose of this regulation is to limit the stay of employees who may be replaced by local Bermudians. These types of restrictions naturally concern the insurance industry

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\(^1\) Work permits are limited to six years, at which point companies may apply to the Department of Immigration for a maximum extension of three years; such an employee must then leave the island, but may gain another work permit after having been in absence for two or more years

\(^2\) For an employee to be considered “key”, the business must demonstrate that one or more of the following is true: the person is among the best practitioners in the world, the person has special expertise not easily found, there is a “severe shortage” of persons having his/her skills in Bermuda, etc. (see www.immigration.gov.bm for a comprehensive listing of qualifications)
since current and expected growth require an increasing number of employees who possess the adequate skills to satisfy the current and expected business needs.

**Bermudian insurance regulations**

The Bermuda Monetary Authority (BMA) appears committed both to maintaining Bermuda’s tax and regulatory advantages while also ensuring its global competitiveness. To this end they are introducing capital regulation reform that would appear to be intended to ensure that Bermudian practices are recognized by other countries regulators as sound, and reduce the chance of “re-regulation” in an environment where reciprocity and single regulation is emerging as the new standard. Although this change is necessary, it will nonetheless come at a cost in the form of required investment in measurement and management capabilities.

The BMA’s recent capital regulation reform movement will likely be implemented for class 4 (re)insurers\(^3\) by year-end 2008. This reform regulation will revamp the current one-size-fits-all-style capital requirements into more risk-based requirements. The new regulations are likely to force many (re)insurers to increase their capital modeling sophistication, which will inherently involve both initial and ongoing investment. For instance, in adapting to meet Solvency II requirements, many European companies are finding their current information systems and data models inadequate for the new risk-based modeling requirements. According to the European Commission, transitioning to the new paradigm will cost EU insurers €2.0-3.0 BN upfront (amounting to about 1 percent of the annual GPW in Europe) along with additional costs of €0.3-0.5 BN per year. Moreover, it is anticipated that these new requirements will compel companies to allocate scarce personnel resources to adhere to these requirements.

**US tax code**

Potential changes in US tax regulations of foreign affiliated reinsurers are also an ongoing threat to the Bermudian market. For the third time in 20 years, large US insurers began lobbying Congress in mid-2007 for tax reform. The proposed legislation would affect the taxation of related-party transactions between foreign reinsurers and their US affiliates. Such proposals seek to effectively remove the tax advantages of these related party transactions yet reinsurance ceded to non-affiliates would remain unaffected. The Bermudian

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\(^3\) All of the companies analyzed herein are registered as class 4 (re)insurers, which are designated as companies capitalized with over $100 MM that write property cat and/or excess of loss lines
affiliate reinsurance market is sizeable (at $17 BN) and any change in dynamics is likely to affect the Bermuda market as a whole. It is unlikely that legislation will be passed by year’s end, but some members of the coalition are already suggesting they would re-domicile. While certainly not a “new” threat, tax treatment continues to be a potentially disruptive issue for the market overall.

Substitutes to traditional reinsurance

With investors seeking uncorrelated yield and insurers looking to tap the deep pockets of the capital markets, the transformation of insurance, particularly cat bonds, has been on the rise and is a potential threat to Bermuda’s place in the property cat reinsurance market (see Figure 3). Investment banks and large European reinsurers have been pioneering the cat bond, with Bermudians largely left out of a market with nearly $14 BN in capacity. Cat bonds remain expensive, and the current (high) costs of issuance mean they are only economical for the largest cedents. However, the opportunity is too large and the traditional markets too inefficient for this to remain the case. While reinsurance has the benefit of greater flexibility and less basis risk, the demand for long(er)-term certainty and to better manage counterparty concentrations point towards capital markets solutions. We expect such innovations to seriously affect market dynamics – both by dampening prices and diverting capital – after the next cycle. This has wide-ranging strategic and operational implications for insurers and reinsurers alike.

Sidecars have also proliferated recently to meet the capacity need in the wake of Hurricane Katrina and, unlike for cat bonds, about 90 percent of global sidecar capital resides in Bermuda. It is widely believed that capital inflow to sidecars will outweigh that into start-ups during the next period of market hardening. While we tend to agree with this sentiment, the channel dynamics in commercial insurance and reinsurance, particularly the prevalence of a small number of large intermediaries, may serve as a competitive counterbalance. The large intermediaries have a long track record of encouraging and facilitating start-ups, thus incumbents should not feel too secure in their position. Nonetheless, to be in position to make the most of changing – and, in our view, shortening – market cycles, contingent capital sources such as sidecars will prove to be of increasing importance.

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4 Examples include (but are not limited to) MBIA and W.R. Berkley Corp
Go global or go home

Worldwide economic interdependencies are increasing. The major insurance companies have become larger, more sophisticated and internationally-focused. These “global balance sheet factories” have been driving cutting-edge portfolio and risk management to deal with risks that have increased in both size and scope. Additionally, these trends have increasingly opened emerging markets, which remain ripe with growth potential.

Growing importance of global and developing markets

Economies of emerging markets have been growing. There has been a corresponding rapid expansion in the demand for insurance products. Emerging regions now comprise 11 percent of global insurance premiums, and within ten years, this financial deepening is projected to double. In addition, some regions, including the Baltic States and Southeast Asia, have developed particularly favorable and stable business conditions for market growth and foreign entry. To meet the needs of these markets, a number of insurance centers have established themselves across the world with regulations beneficial to insurers and other financial services firms (see Figure 4).

With a tradition of established centers in Switzerland, Luxembourg, London, and Dublin; Europe has always aggressively courted insurance business and now serves as the home for many of the largest global (re)insurers. To reach the developed and emerging Asian
markets; however, insurance companies have set up operations in Hong Kong and Singapore. Hong Kong and Singapore (like Bermuda) have regulations and conditions that facilitate superior ease of business operation. Looking to fill the gap between the West and the Far East, Dubai and Qatar have recently opened financial centers with the freedom of offshore locations and the standards of established global markets. Companies that set up operations in these centers will be well positioned to reach a relatively untapped market that is projected to reach over $40 BN in premiums by 2010.

Figure 4: Regional insurance heat map with selected insurance centers

The emergence of active portfolio management
The underlying business structures of insurers are changing along with the geographic mix. Insurance clients are able to retain and diversify more risk themselves, and increasingly tap the capital markets directly for those large accumulations of risk they are unable to adequately diversify internally. This has been, in part, driven by insurers adopting active portfolio management approaches pioneered by their banking cousins to optimize their balance sheets (see Figure 5). The implication for reinsurers is clear: global insurance clients will be armed with better talent, better information and more choice than ever before. Furthermore, insurers not yet developing similar capabilities are overlooking an important enabler of capital efficiency.
Increasing sophistication of risk management practices within the global economy

Sparked by the escalation in risk in all its manifestations – socio-demographic, technological, environmental, economic and political – and themethodological and technical advances in the measurement and understanding of risk, both corporate and government/public sector bodies are being compelled by shareholder and political pressure to focus more heavily on active management of their risks and the ex-ante mitigation of avoidable “accidents”. To meet these emerging client needs, (re)insurance companies must improve their own risk management capabilities while developing more sophisticated products targeting these needs.

Risk management has played an increasingly important role as (re)insurance companies move beyond compliance and realize real value creation out of managing risk (see Figure 6). Progress is most apparent in Europe, where at the turn of the millennium the Dutch and British regulators implemented risk-sensitive, principles-based regulatory solvency assessments for insurers and banks alike. The European Union’s Solvency II project will harmonize similar practice across the European insurance industry.

Separately, the introduction of Standard & Poor’s ERM evaluation in 2005 has served as a significant catalyst for firms to review and reconsider their risk management framework. Bermudian (re)insurers have found themselves in the middle of the pack, with 55 percent earning scores of “adequate” and few earning “excellent” ratings. Other rating agencies, A.M. Best in particular, have yet to formalize their approach to evaluating risk management but we anticipate this to eventually feature in their ratings assessment.
Figure 6: Industry progress embedding risk management across key business applications

<table>
<thead>
<tr>
<th>Business application</th>
<th>Description</th>
<th>Impact on overall value creation including risk considerations</th>
<th>Industry progress</th>
</tr>
</thead>
</table>
| Strategic planning and capital allocation | - Manage business within group risk appetite and return ambition  
- Allocate resources consistently to most promising opportunities  
- Ensure that business focuses on optimizing risk-adjusted profitability instead of other measures | | | |
| Performance measure                   | - The performance measures take into account the use of group resources (e.g. risk capital) in a consistent and systematic way  
- Financial key data adjusted to exclude the effects of factors from outside the relevant field of responsibility | | | |
| Compensation system                   | - Profit targets for managers according to responsibility for contribution to value enhancement  
- Only essentially caused contributions to enterprise value to be honored | | | |
| Pricing                               | - Use contribution to overall risk profile as key input into technical prices  
- Allows improved pricing discipline and group-wide standards | | | |
| External disclosure                   | - Allows clearer communication to investors of sources of value creation  
- Demonstrates financial discipline and management on sound economic basis  
- Helps remove the “opacity discount” | | | |
| Asset allocation/investment strategy  | - Focuses investment decisions on improving the risk-return trade-offs  
- Sets clear performance benchmarks consistent with the ownership of the value chain  
- Frees asset management from sub-optimal constraints | | | |
| Reinsurance strategy                  | - Optimize overall risk funding, retention and transfer options/trade-offs internally/externally and across different markets | | | |

Source: Oliver Wyman analysis
Imperatives for success

The challenges to the Bermudian model and the dynamic global environment alike underscore the need to define and deliver against a coherent strategy that is positioned to succeed in the new marketplace. For example, firms that remain specialists must adopt robust risk management practices to manage concentrations while maintaining flexible capital structures and discipline through market cycles. More diversified and/or growth-seeking firms need to focus on managing organization risks within potentially sprawling networks and in varied local markets in order to compete with sophisticated global insurers and the regional incumbents.

Regardless of the direction chosen, there are certain core capabilities which firms must embrace for success in today’s marketplace (see Figure 7). In this paradigm, effective strategic planning is supported by capital management and risk management. Successful capital management and risk management are dependent upon efficient organizational structures and committed talented leadership. Together, these form the basis of several key imperatives that will contribute to successful operation in today’s dynamic marketplace.

**Figure 7: Linking strategy, risk and capital**
Aligning your strategy with the shareholder promise

Insurance stocks have a history of trading below book value owing partially to opaque financial reporting and consequently wary investors.\(^1\) When given the choice between reinvesting surplus cash and paying dividends, 80 percent of investors prefer insurers pay dividends rather than retain the capital.\(^2\) This sentiment is not reserved for Bermudian firms, although the more pure-play nature of the majority of Bermudian firms makes this effect more apparent.

At first glance analysis suggests that in valuing insurance firms, investors seemingly do not differentiate on the basis of ROE (see Figure 8).\(^3\) However, this masks underlying sentiment. In fact, our research point to three broad sentiment categories which help to explain the otherwise seemingly inconsistent view of returns and company value:

- **Capital redeployment bets**: Companies that put forward credible capital redeployment stories will be priced at a premium by the market
- **Profitable growth stocks**: Companies with strong growth potential and high performance, often coupled with weaker capitalization
- **Value stocks**: Cash-rich companies with weak growth prospects that are viewed with skepticism by the market as representing “bought growth”

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1. For more information, see Oliver Wyman, *Return of the King – How insurers can find the right balance between cash and value*, June 2008
3. Source: Oliver Wyman market interviews
Figure 8: Snapshot of Bermudian and competitor P/E versus return on cash equity

P/E (2007 average)

Return on cash equity (2007)

Key:
A: Everest Re, B: ACE, C: Partner Re, D: Montpelier, E: IPC, F: Aspen, G: Platinum

Source: Bloomberg, Oliver Wyman analysis

The implication is that to stand out from the competition, companies must essentially change stakeholder expectations, which is no small task. At its core, this requires a well-defined strategy and an operational model that delivers. The choice of strategy – whether traditional Bermudian specialist or diversified and growth-seeking – will shape the shareholder proposition and an array of corporate challenges. Consequently, it will be essential for traditional Bermudian specialists to not only clearly articulate opportunistic capital management and insurance risk mitigation plans, but to also back them up with capabilities. Meanwhile globally diversified insurers must focus on scale economies, whether in acquisition or servicing, and a coherent growth strategy.

It is not sufficient to merely have a sound strategy. Effective communication to the marketplace is key. Thus, when evaluating strategic options, management must balance both external perceptions of the company in the market and an internal view of the optimal business portfolio.

**Sweating your equity**

Current industry conditions put capital management decisions at a premium. The market currently values $1 of retained capital at roughly 80¢ for the insurance industry as a whole, and even less for some insurers. In addition, the insurance sector has (until the recent

4 Note: this only applies to equity performance during the 2007 fiscal year and does not necessarily reflect current conditions
 meltdown elsewhere) traded at a 20 percent P/E discount to the rest of the financial services industry, the largest sustained discount over 30 years. This puts enormous pressure on management to remove “idle capital” and ensure at-risk capital is put to work productively.

Transition to a risk-adjusted paradigm
Insurers who maximize shareholder value will increasingly be those who possess the tools to optimize their capital needs. This requires determining how capital can be most effectively deployed towards profit-making opportunities, or whether it should be returned to shareholders. This is not a new concept. However, what is new is the technology that enables such insights. In particular, those innovations in risk measurement are driving more timely and thoughtful insights.

At the foundation of capital management decisions should be a fully consistent, enterprise-wide value (i.e. risk and return) framework. This permits insurers to move beyond blunt regulatory- and rating agency-focused requirements to a true economic view of capital needs, which allows for an optimization of enterprise-level capital (see Figure 9). Economic capital modeling is part of this. Its utilization of external disclosures allows clearer communication of value creation sources to investors and demonstrates financial discipline and management on a sound economic basis to ratings agencies. While risk measurement is commonplace amongst Bermudian firms, and in some areas their methods are cutting edge in the industry, this has to a certain extent been confined to underwriting risks. Largely absent from many firms frameworks is a similarly rigorous analysis of other financial and non-financial risks.

Once the answer to how much capital they ought to have is determined, then insurers can decide how to deploy excess capital – whether to relinquish the surplus or target new growth opportunities.
The shift from traditional performance measures to risk-adjusted economic measures can radically change the perception of profitability throughout the business. Figure 10 demonstrates this shift for a typical property cat-writing Bermudian insurer during a hard market scenario (generated using publicly available information and our internal economic capital parameters). In this example, under the risk-adjusted paradigm, the volatile, capital hungry property excess of loss line sees a dilution in profitability as the cost of risk is recognized.

Source: Oliver Wyman proprietary Economic Capital model, Bermuda Monetary Authority, AM Best
Indeed, leading (re)insurers have begun extending their economic capital concepts beyond solvency assessment into applications such as product pricing, compensation, and performance management.

Managing the risks so you can focus on the rewards

In the volatile Bermudian insurance environment, sophisticated risk management capabilities are no longer a luxury – they are a necessity. For companies that pursue a global path, the demands of running sprawling networks and entering infrastructure-heavy lines of business make company-wide risk control procedures essential. And, although regarded by leading firms as a critical enabler, the risk management capabilities of Bermudians and their North American cousins generally lag behind those of the leading Europeans. Indeed, risk management is increasingly becoming a driver of client and investor trust as prominent insurers look to push the envelope in terms of sophistication.

Effective risk management results in a number of advantages including: potent risk oversight and governance, risk alignment assurance with a firm’s strategy and balance sheet capacity, a decreased amount of surprises in business activity shifts due to increased risk awareness, and enhanced risk-return decision-making. With increased emphasis from ratings agencies such as S&P, firms with robust risk management are likely to gain significant competitive advantages.

**Figure 11: Risk management framework for (re)insurance companies**

- **Risk strategy and culture**
  - Risk considerations are central to strategic planning process
  - Organization-wide understanding risk appetite and tolerance
  - Embedded risk culture of shared attitudes, values and goals

- **Governance and organization**
  - Clear delegation of authority with accountability and empowerment
  - Identified lines of defence in compliance, risk management and audit
  - Comprehensive and up-to-date risk policies

- **Identification and assessment**
  - Identification of all emerging risks
  - Early prioritization of risks requiring detailed quantification

- **Quantification**
  - Consistent modelling methodology across organization
  - Capital model strikes appropriate balance between complexity and transparency

- **Measurement and management**
  - Mitigation actions thoroughly evaluated to determine cost vs. benefit
  - Pre-defined contingency plans for all identified key risks

- **Monitoring and reporting**
  - Efficient but effective risk monitoring through key risk indicators
  - Coordinated and efficient management information reporting to executives
Overall risk strategy and organization
The starting point of an effective risk management strategy is a coherent framework as illustrated in Figure 11. Change must start from the top and requires embedding risk management in the strategy process and as part of the culture among top-level managers. The starting point is the board’s designation of a risk policy framework and risk appetite statement, which includes capital, income, cash-flow, operational and strategy-based risks. It is this risk appetite that helps identify “on-strategy” and “off-strategy” risks, and provides a rationale for good decision making.

In addition, clarity and accountability around risk ownership, monitoring, and management must be established. The company-wide culture must be reoriented so that risk awareness is not merely confined to the concern of “risk managers”, but rather is the responsibility of every decision maker within the firm.

Making it happen
The foundation for the strategy must be a range of capabilities for measurement, aggregation monitoring and steering/management. While the combination of these capabilities represents a step change for many firms, the implication need not be additional organizational or procedural layers that undermine a firm’s ability to take risk. On the contrary, our experience suggests that the discipline of risk management instills intellectual and operational rigor to a risk-taking business.

Leadership – the critical ingredient
Consider the challenges facing Bermuda-based companies: charting a successful strategic path and executing with excellence in a rapidly transforming industry, entering new global markets, attracting and retaining talent when demand outstrips supply, growing sophisticated capability to manage risk, balancing the optimal trade-off between reinvesting capital and meeting shareholder dividend expectations. The list is diverse and the issues complex. Each puts high demands on the leadership team, and calls for very specific leadership competencies.

Given the shifts in the external environment discussed in this paper – the emerging threats and opportunities – we suggest that it will be important for Bermuda-based companies to re-examine their assumptions about what type of leaders will be best able to drive and sustain growth, and the organizational architecture that will make leaders most effective.
**Strategy-driven leadership profiles**

There are countless generic models that describe the table stakes of leadership – what it takes to be a successful executive in any corporation. In building the competency profiles they use to hire, train and reward leaders, many organizations content themselves with adopting a model that looks more or less right, or that is currently most in vogue. The more successful companies understand how critical it is for the board and executive team to be in continual dialogue on the question: “What kind of leaders do we need to deliver our business strategy, given today's environment and competitive dynamics?” For insurance companies in Bermuda today, the question might be framed as, “What leadership competencies are required to drive a strategy of global growth in emerging markets in an increasingly complex business?”

Companies who invest in really thinking about leadership competencies understand, for example, that the leader who has successfully driven cost out of the organization and improved processes may not be the best person to drive a strategy of innovation or global growth. They know that the technical expert who has been instrumental in overhauling the product portfolio may not have what it takes to deliver a strategy of competing on service and customer intimacy. They continually adjust their recruitment and development strategies to ensure a reliable pipeline of the right leadership talent at all levels.

**In search of multi-dimensional leaders, leading from head, heart and guts**

Increasingly, global companies operating in a changing business context are recognizing that the baseline requirement is for leaders who are multi-dimensional – who know how to lead from their heads, their hearts and their guts (see Figure 12). In thinking through the specific leadership requirements for their firms, they consider all three dimensions.

Most companies find that they have the greatest supply of leaders who are strategic, analytical, and purposeful. They lead from their head, trusting the numbers and applying solid logic. “Head” or intellectual leadership competencies are critical to understanding the drivers of customer value, rethinking and continually improving the way things are done, making strategic decisions and analyzing operational processes. In a company that is growing globally, leaders use their heads to manage complexity – developing a global mindset and a big picture view of their context, then driving to a clear articulation of the company's unique position and value-add within it.
These competencies are not sufficient for leaders facing the kind of challenges now emerging in the Bermudian insurance industry. To attract, motivate and retain talented employees who can choose where they will make their career, leaders also need “heart” competencies, or emotional intelligence. They must know how to balance people’s needs with business requirements, providing intellectual challenge, emotional support and clear vision and values. They must know how bring out the best in people and develop their talents. In order to grow globally, they need to develop skills in understanding and leading a large, diverse and geographically dispersed workforce. They must learn to create an environment in which teams can work effectively across department and geographic boundaries. They need to be skilled in developing strategic relationships within and outside the organization.

They also need to have “guts” or raw courage: the courage to stand up for what they believe is right and act with unyielding integrity. They must learn to choose among multiple valid “right answers” to the same question, start and guide the hard conversations required to resolve conflict. They must be unwavering in championing and leading the changes they are necessary to sustain performance and grow the company.

**Figure 12 – Competencies for leading in a global world**

Use your head to manage complexity
- Develop a global mindset
- Drive for the broader picture
- Articulate a point of view

Demonstrate heart to manage diversity
- Value diversity
- Manage laterally
- Lead teams

Act with guts to manage uncertainty
- Lead with values
- Balance paradoxes
- Lead change
A case in point: Creating successful strategic combinations

One reason why multi-dimensional leadership will be critical to the future of the insurance industry in Bermuda is that companies that have this kind of leadership will be more likely to come out ahead in the mergers and acquisitions game. The availability of capital within the system and expanding global competition are driving industry consolidation. M&A activity is increasingly becoming a key element of insurance companies’ global growth strategies.

Study after study paints a dismal picture of the long-term success of many strategic combinations, with the more conservative sources suggesting that less than half of these deals succeed in achieving the results forecasted in the business case. In our experience, far too many mergers and acquisitions fail because their leaders focus exclusively on the financial aspects of the deal, overlooking key strategic, organizational and people issues.

A multi-dimensional leader is able to see the big picture view of what it takes to manage a successful integration of two companies, make the strategic choices required, and keep people motivated through the often uncomfortable process. We find that the framework depicted in Figure 13 is a useful starting point for engaging leaders in thinking about the fundamental integration questions:

1. **Context and Objectives**: What is the appropriate strategy for the combined enterprises? How do they bring together their assets in ways that will enable them to win in the market?

2. **Integration Strategy**: What is the appropriate organizational architecture for the combination? What will the new organization look and feel like?

3. **Integration Process**: Where are the interdependencies among all the elements of a successful integration, and what teams/processes will we put in place to ensure these are managed in a coordinated and aligned fashion?
Designing for global growth

Whether global growth happens organically or through mergers and acquisitions, the challenge of designing a global organization that is both locally relevant and globally coherent, consistent and flexible, efficient and able to share knowledge and assets across boundaries is considerable. In our experience, five big issues are most likely to derail attempts to design a global organizational architecture which enables leaders to lead effectively (see Figure 14). Once again, dealing effectively with these issues requires leaders who are able to analyse the issues and articulate logical solutions, manage sensitive relationships and get leaders aligned, and make the tough calls when change needs to happen quickly.
Figure 14 – The five “big” issues that derail a global organizational design

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<tr>
<th>The Issue</th>
<th>Best Practices</th>
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<tr>
<td>Unclear Decision Rights</td>
<td>• The CEO and senior team are charged with defining new decision rights and operational governance for the new organization</td>
</tr>
<tr>
<td></td>
<td>• New decision rights and operational governance are implemented even before the entire design is completed</td>
</tr>
<tr>
<td>Incomplete Global Systems and Processes</td>
<td>• Critical business process systems are identified and designed early in the design process</td>
</tr>
<tr>
<td></td>
<td>• Functions redesign their systems and processes to support a global organization</td>
</tr>
<tr>
<td>Leaders Are Not Aligned</td>
<td>• Leaders from across the world participate in the design process and engagement broadens in each phase of the design process</td>
</tr>
<tr>
<td></td>
<td>• CEO assesses direct reports on willingness and ability to assume new roles and decision-making authority</td>
</tr>
<tr>
<td>Wrong Leaders for New Jobs</td>
<td>• New leaders are selected based on global capabilities</td>
</tr>
<tr>
<td></td>
<td>• Leadership development strategy is implemented concurrent with the execution of the new organization design</td>
</tr>
<tr>
<td>Implementation is Too Slow</td>
<td>• Concurrent design process accelerated the design process, and implementation at each phase builds momentum</td>
</tr>
<tr>
<td></td>
<td>• Selecting leaders during the design process moves the organization to operate faster and ensures accountability</td>
</tr>
</tbody>
</table>

In search of leadership talent

The type of leaders we have described here are in scarce supply and high demand, as more and more companies in every sector seek to grow globally and manage complex change issues. The CEOs we work with around the world are increasingly aware that the shortage of leadership talent is now a significant risk to successful business strategy execution and growth. As Bermudian firms seek to grow beyond their traditional markets, they will find the challenge of securing leaders who combine a global mindset with strategic understanding of financial markets and market-based risk transfer mechanisms particularly acute. Some of the home-grown talent may lack sufficient global knowledge, and it has becoming increasingly difficult to attract talent from abroad.

While from time to time companies need to search externally for leaders who will bring missing skills and fresh perspectives, in our experience the most successful companies are disciplined about growing leadership capability from within to fill mission-critical roles. They have a defined executive talent strategy driven by the CEO and board (see Figure 15). The CEO understands that he or she must make a personal investment in developing talent at the top. He or she is absolutely clear on what is required of all leaders to successfully deliver the business strategy, what leadership roles are critical, what the leadership bench looks like, and who the up-and-comers are in the leadership pipeline. The entire executive team is engaged in finding creative ways to develop leaders on the job, through stretch assignments, mentoring, action learning, and structured feedback.
It will be important for the Bermudian insurance industry in the coming years to find the right balance between bringing in global expertise and investing in made-in-Bermuda approaches to leadership development. Strong leadership teams supported by a global organization architecture (structure, process, work, and culture) that will allow them to work effectively will position the insurance industry well to tackle the critical challenges of growth.
Conclusion

Bermudian (re)insurers have had an impressive run, growing in a remarkably short space of time from virtual newcomers into an impressive cadre of (increasingly) global competitors. For most however, growing pains are likely to be felt as they experience the inherent complexity of being a larger and more globally diverse business and because of the twin headwinds of a more skeptical investment community and a more difficult market environment.

The stakes have never been higher. Large and small companies alike will need to take a hard look at their current business portfolio and the organization and infrastructure that supports it. Only through clear and direct alignment of the strategy with the firm’s capabilities and actions will the Bermudian success story of the past decade endure.
Oliver Wyman is the leading management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development.
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