RoyalStar Targeting Caribbean Acquisition

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By Neil Hartnell, Tribune Business Editor

RoyalStar Assurance and its Trinidadian partner are targeting a Caribbean acquisition that is expected to close before year-end 2019 as part of a regional expansion strategy.

Sir Franklyn Wilson, the Bahamian property and casualty insurer's chairman, told Tribune Business it was seeking to exploit its partnership with Guardian Group - a part-owner of RoyalStar - to diversify and seize Caribbean growth opportunities that will "make a difference to the bottom line".

Revealing that their acquisition target should "be reflected in the 2019 accounts", Sir Franklyn added that RoyalStar was determined to escape the "eggs in one basket philosophy" due to the hurricane-prone nature of The Bahamas and wider region.

He added that the insurer's strategy was "consistent" with that of Sunshine Holdings, majority owner of RoyalStar's 53.05 percent controlling shareholder, and which is "increasingly seeing itself as a blue chip company from The Bahamas" eyeing Caribbean possibilities of its own.

Speaking after RoyalStar's 2018 profits increased by 13.51 percent year-over-year, Sir Franklyn identified one such opportunity as Gateway Financial, the distressed mortgage acquisition and restructuring firm, which is already in Turks & Caicos and seeking to expand into another Caribbean jurisdiction he declined to name.

Arguing that the RoyalStar/Sunshine Holdings regional outlook "just makes sense", he said the group was seeking to leverage its existing relationships and partnerships to give its regional growth plans a head-start.

"Within RoyalStar a significant partner is Guardian Group from Trinidad, the biggest property insurer in the region," Sir Franklyn told Tribune Business. "It's quite natural that we can do some of this by partnering with Guardian Group.

"That's a strategic advantage we have. We don't have to go in there and reinvent the wheel. The Guardian Group and ourselves are co-operating on a possible acquisition that will be reflected in the 2019 accounts. There's an agreement the lawyers are drafting."

Sir Franklyn declined to identify RoyalStar's acquisition target and, when asked about potential impact on the Bahamian insurer's net income and financial performance, said: "It's enough."

"We have a criteria for whether we will make an investment or not," he added, "and that criteria is it has to be big enough to make a difference to the bottom line. If it does not make a big difference to the bottom line, why do it? This is one that meets that criteria."

RoyalStar has built up significant assets with which to finance acquisitions, with its balance sheet holding some $48.772m in cash and other investments at year-end 2018. And it has already implemented the diversification aspect of its Caribbean expansion strategy by reducing its reliance on The Bahamas for the bulk of its underwriting portfolio.

The property and casualty underwriter's Bahamas gross insurance premiums fell from 80 percent of the total in 2017 to 67 percent last year, while the Cayman Islands' share of RoyalStar's total book rose from 11 percent to 16 percent year-over-year. The Turks & Caicos and British Virgin Islands (BVI) round out the territories in which RoyalStar underwrites risk.

"RoyalStar is expanding its geographic coverage in the Caribbean," Sir Franklyn confirmed. "We are diversifying and expanding regionally. In the case of RoyalStar itself, it's good business strategy, we think, to diversify risk in a hurricane-prone region. It's based on the 'eggs in one basket' philosophy and the implications of that. It just makes strategic sense.

"It's consistent with the larger corporate strategy at Sunshine Holdings, which is increasingly seeing itself as a blue chip company from The Bahamas as opposed to a blue chip Bahamian company. When I say from The Bahamas, it makes clear we have ambitions to more business inside and outside the country."

Sir Franklyn said one expansion opportunity currently being pursued involved Gateway Financial, the distressed mortgage acquirer, whose owners include Sunshine Finance, RoyalStar, International Finance Corporation (IFC) and the Mexican firm, Ascendancy.

He added that Gateway had "pioneered the distressed home model in The Bahamas, and enjoyed success already in other jurisdictions in the region" such as Turks & Caicos. "We see the opportunity to grow that even more," Sir Franklyn said. "We're negotiating another one in another jurisdiction, but that is pending regulatory approvals.

"We're pleased that major, major institutions see Gateway as having done a credible enough job, and the fact IFC and Ascendancy are partners gives us a tremendous amount of credibility with the major banks."

"It's made a hell of a difference," he added of Gateway's impact in The Bahamas. "If you notice the IMF, not long ago in every report they wrote the subject of distressed mortgages was a matter of comment. They're not doing that with as much focus now, and a large part of that is due to Gateway Financial."

Asked about Sunshine Holdings' own regional growth plans, Sir Franklyn responded: "We've got to do them before we say we'll do them. I can assure you that what is happening is that Sunshine Holdings has obviously caught the attention of people who do business throughout the region.

"As more and more of them learn about us, they're coming to see us and are interested in doing things. Recently we hosted the chairman of a big bank for a working lunch, and we are pleased that one of the better known banks initiated conversations with us.

“We’re exploring a lot of stuff. The fact is that Sunshine Holdings as a company has attracted the attention of the capital markets throughout the region. The fact that we’re approaching 50 years from such humble beginnings is opening up opportunities for us. We’re listening and looking.”

Sir Franklyn’s comments came as RoyalStar Holdings, the insurer’s parent company, unveiled a 13.51 percent year-over-year profits increase for 2018 - from $4.607m to $5.23m. Net written premium rose by $654,000 compared to year-before levels.

Writing in the group’s annual report, he said: “During 2018, RoyalStar Assurance increased its property aggregates in various islands where the pricing margins were favourable compared to 2017. Remaining disciplined in its underwriting approach, RoyalStar accepted business from new opportunities in the British Virgin Islands (BVI), which contributed to the overall profitability of the group.”

Sir Franklyn added that the predicted reinsurance market “hardening”, and increase in premium rates charged to Bahamian insurers and others, in the aftermath of some $140bn in losses incurred during the 2017 hurricane season did not occur as forecast.

“The continued availability of worldwide reinsurance capacity resulted in minimal increases in property catastrophe prices at renewal. There was, however, some significant upward movement in original property pricing, which was limited to the Caribbean region, especially on islands that were devastated by the 2017 events,” he said.

Picking up on the reinsurance theme, Anton Saunders, RoyalStar’s managing director, said fears of a “change in the market cycle” were overblown. “Reinsurers maintained their capacity levels, resulting in no noticeable changes in the market fundamentals,” he said.

“Consequently, pressure on the existing business models of reinsurers and insurers will continue, due to years of inadequate pricing and low investment yields. Insurers that did not change their risk appetite and renewed their portfolio of business in the Caribbean had marginal success in increasing rates, mainly in the territories which were damaged by the 2017 hurricanes.”

Mr Saunders said RoyalStar’s 2018 results had beaten internal forecasts, with underwriting profits standing at $3.204m and investment income at $2.0267m. Return on equity was “an acceptable” 12.04 percent compared to the prior year’s 11.29 percent.

“The results for 2018 continue to validate that our core business model of disciplined underwriting, fair claims settlement, focused customer service and quality reinsurance protection is still an effective business strategy for the group,” Mr Saunders wrote. “We will continue to embrace profitable opportunities as they are presented, especially those which further diversify the profit stream of the group.”