

## Canopus completes buyout Centerbridge backed deal has closed

Canopus’s senior management team has completed the private equity backed buyout of the business, following regulatory approval.

A private equity consortium, led by Centerbridge Partners with Gallatin Point Capital LLC, has replaced the previous Japanese owner Somo, and is understood to have paid US\$770mn for Canopus. Chairman Michael Watson and chief underwriting officer Mike Duffy have also taken a stake.

A number of factors are understood to have precipitated the MBO including Somo’s recognition of the lack of strategic consistency which would have arisen from operating Canopus and Somo International as standalone businesses, following Somo’s acquisition of Endurance

Specialty Holdings Ltd. in March 2017.

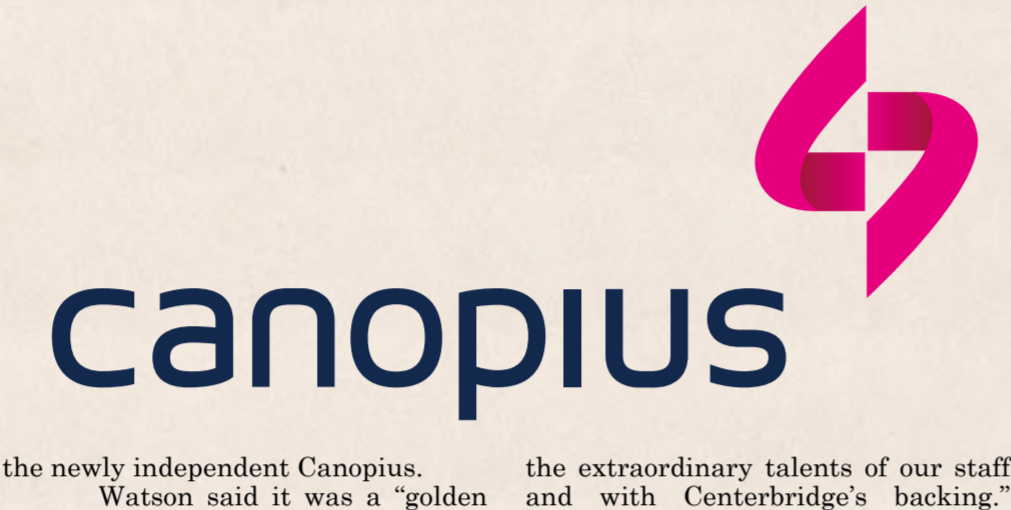
The closure of this much-anticipated deal will bring clarity for

opportunity for the management team to create a world class specialty re/insurance franchise, drawing on

Watson also said he hoped the strong business relationship with Somo, which predates the 2014 acquisition of Canopus, would continue “long into the future.”

Duffy commented that Canopus would focus on classes where it could add value for clients and brokers. “We will seek profitable diversification through the recruitment of new teams and entry into new classes,” he added, concluding: “leading talent will thrive here in an environment where performance and accountability is rewarded and an independent mind-set is valued.”

Canopus has also launched a new logo and brand to coincide with the closure of the deal and is understood to be running related activities over the coming days.



the newly independent Canopus.

Watson said it was a “golden

the extraordinary talents of our staff and with Centerbridge’s backing.”

## Did you know?

If you don’t know where the Canopus name comes from, you are not alone. Few people realise that Nathaniel Canopus was a Cretan scholar at Balliol College, Oxford. During his time in Oxford from 1637 to 1648, he is reputed to have brewed the first cup of coffee in England. “There came in my time to the College one Nathaniel Canopus, out of Greece... he was the first I ever saw drink coffee,” wrote John Evelyn, the diarist and contemporary of Samuel Pepys, in 1637.

Nathaniel Canopus later moved on to Smyrna (modern day Izmir), but his influence in England was strong: coffee became so popular that a large number of coffee houses sprang up, including one owned by Edward Lloyd, the first home of today’s Lloyd’s market.



Coffee has enjoyed a huge renaissance recently in the UK - around 3,500 cups are sold every week in the Coffee House that still sits at the heart of the Lloyd’s market.

These days, according to The British Coffee Association, coffee is the most popular drink in the world – after water – with around two billion cups consumed every day. The International Coffee Organisation tells us that the Finns come highest on coffee consumption per capita, getting through 12kg per person per year. They are closely followed by Norway, Iceland and Demark, with the US trailing in at number 26 and the UK at number 45.

## Rediscovering the Canopus spirit and purpose

The Canopus Herald puts some key questions to Michael Watson, chairman, and Mike Duffy, group chief underwriting officer



**Michael Watson**  
Chairman



**Mike Duffy**  
Group chief underwriting officer

**Q Why buy back the business now?**

**A Michael Watson:** Shortly after they announced the Endurance acquisition, Somo listened to our concerns about a combination with Somo International and concluded that a “hasty and irrational” integration of Canopus would damage the corporate value of our business. Somo then asked us if we thought an MBO was possible and whether we’d like to pursue it.....

**Mike Duffy:** We jumped at the chance: we would again be in full control of our destiny. We are independently minded people, and would have been less independent under a new arrangement as part of Somo International.

**Q Is there ever a perfect time for an MBO?**

**A Michael Watson:** The challenge is to buy well,

to sell well, and to operate successfully on the way through, no matter what the timing. We have bought well, I am confident we will operate successfully, and, as a consequence, that there will be no shortage of potential buyers of Canopus in due course. Who knows when we might sell?

**Mike Duffy:** We have to be confident, and act when the opportunity presents itself.

**Q Do you have a growth strategy? Organic? M&A?**

**A Michael Watson:** We absolutely plan to grow. We are the largest privately owned independent business in Lloyd’s, measured by premium, but for us it is all about being the best, not the biggest.

**Mike Duffy:** We have for some time been pursuing a three-pronged strategy which broadly responds to the challenges our industry faces. First, we have been focussing all our efforts on the things we think we are really good at. We exited areas where we were sub-par or sub-scale, those classes where we really didn’t offer significant value. Second, rather than expanding in the areas we are not really good at by acquiring teams and infrastructure, we established a new division about six months ago that supports world-class individual

underwriters at other firms via consortia or reinsurance. Arguably that will make us a lower cost provider.

Third, we are developing in Asia Pacific and in the USA, where we have staff and the wherewithal to do more. The era when the London market was the world’s only go-to place is over and it is important to be realistic about that. Asia particularly will send much less business to London in the future, so we need to be on the ground there in strength. The USA is the largest market on the planet, so having broader access makes sense.

**Michael Watson:** If the strategy is successful, and so far it has been, we won’t need M&A to grow profitably for our investors. That said, if we identify an M&A opportunity that is ideal for us, we would investigate, and I am confident Centerbridge would support us. But our success is not predicated on acquisition.

**Q How is Centerbridge to work with?**

**A Michael Watson:** Centerbridge has an intense interest in what we do and how we do it, which is understandable and welcome. They are engaged in helping us to develop the business, and asking how they can add value.

**Mike Duffy:** They are smart and inquisitive, and challenging on all levels, which makes us think harder about what we do, which is wholly positive. After the largest single cat year in history there’s been not the slightest hint of panic. Instead, they have been asking about the challenges.

**Q What are your post-deal priorities?**

**A Michael Watson:** Rediscovering the spirit and purpose of Canopus. For a year we didn’t know whether we would be able to pursue a separate course outside Somo or be integrated into the group. We experienced an enormous amount of change, some planned, some unavoidable. We will emerge with a complete sense of our own destiny, which will be exciting for everyone.

**Mike Duffy:** We can now talk to anyone about working with Canopus, and the people we hire will help to redefine the culture of ‘Canopus 3.0’. I see a genuine excitement and desire to talk to us. Convincing our broker partners to continue to work with us was a priority, and continues to be so, but at 1.1 we lost not a single piece of business. Instead, we gained some. We’ve had 100% support

## Puzzled? You will be...



Go back to the future and test your skills on our online version of the classic slide tile puzzle. Will you be the fastest? Share your times and let us know! @CanopusGroup

## In a world of advanced models, the underwriter still reigns supreme



**Marek Shafer**  
Chief digital officer at Canopus

At Canopus we invest heavily in advancing our understanding of the natural world. Our catastrophe models are tuned by incorporating emerging scientific research alongside our own claims experience. Our technical cat pricing approach allows us to allocate capital down to each deal, and our optimisation tools guide us toward capital efficient portfolios. We take pride in our understanding of cat risk - it differentiates us.

Likewise, our underwriters are a precious asset, bringing knowledge and experience to the table, and their personalities in aggregate represent the Canopian DNA.

So far, so Lloyd’s.

Now, what sets Canopus apart is the way we strive to ensure these two - often at odds - functions work together to look beyond the models for the true nature of risk. As a result, we share a common outlook: we both balk at a market willing to turn on a dime due to an ill-considered model release; we both view cat model-induced herd behaviour with deep suspicion.

Of course, we recognise the essential role that robust cat modelling plays in capital management, and the importance of the rigorous treatment of data. But the indisputable fact is that models are only as good as the science and loss experience that they are built on: we need only look back to 2017 for confirmation. We strongly believe that our assessment of individual deals should not be delegated to a bunch of scientists in Boston, or Newark: the decision should sit firmly in the domain of our underwriters and analysts, who take time to grasp the nuance of every risk and the needs of our clients, and act accordingly.

Every day should start with...

...a quality coffee

### INSIDE

#### 2018: Year of the Dog

Will Clark, head of trade credit, takes a look at what the Year of the Dog might bring the market.

#### Hungry for more

Andy Gladwin, global head of marine treaty, talks about risk appetite and capacity in the reinsurance sector.

#### Bringing fresh blood to the market

Jessica Huie, MBE, talks to us about Connect Mentors and why she is passionate about the value of mentoring and the opportunities it can offer.


#### Canopus prize crossword

Challenge yourself with the Canopus cryptic prize crossword.

We bring expertise across the marine and P&I reinsurance classes and are able to offer meaningful capacity in a consistent manner. By defining our own risk appetite we will continue to provide long term solutions for our clients' needs.

# And now..... the geo-political weather forecast

A look at 2018’s highs and lows, with the odd occluded front.....



**March – Italian general election**  
Oh, Mamma Mia! Will spring be sprung by the notoriously fickle Italian electorate?

The elections represent the next big political risk for the Eurozone. Sunshine possibly, but only in Italy.



**May – UK local elections**  
Like ferrets in a bag, the traditional anti-government scrap and expression that are local elections will bring seats on metropolitan, borough and district councils up for grabs. A blustery and stormy few days.



**June – European Central Bank meeting**  
Many predict this will see the ECB announce it is ending its asset purchase programme. Will this bring a lingering depression in the corporate and government bonds market?



**July – Austria assumes EU presidency**  
The only western European state with a far-right presence in government, Austria will hold the EU presidency for six months. On the piste or an alpine yodel..?



**Autumn – Brexit negotiations come to an end**  
Really? Can this ever happen? All negotiations for Brexit have to be ratified by autumn, so that the March 29th, 2019 leave date (as it stands) can be met. It's a couple of nights only in Bognor for David Davies and Theresa May this summer. All holidays are cancelled.



**November- US mid-term elections**  
The Democrats need only 25 seats to take back the Senate. The Trump administration's reform agenda will hit several amber lights if he loses hold over both parts of Congress. Hair nets, rain macs and umbrellas the order of the day on Capitol Hill, as the storms brew....

## Netball match report: Canopius vs Boulders: 9-9



The Canopius netball team fought a tough campaign through the 2017 season. Our reporter was at a recent game with the Boulders.

As bitter cold winds hit the courts of London, the team shook off the frost and got into formation, with E. Rolland (GK), D. Green (GD),

M. Wood (WD), J. Walker (C), L. Renton (W), R. Joynes (GA) and G. Connell (GS).

L. Renton made a focused comeback and proved to be a key player for the opening half, while J. Walker kept the team focused and on a steady pace. With this pair on form and some great shots

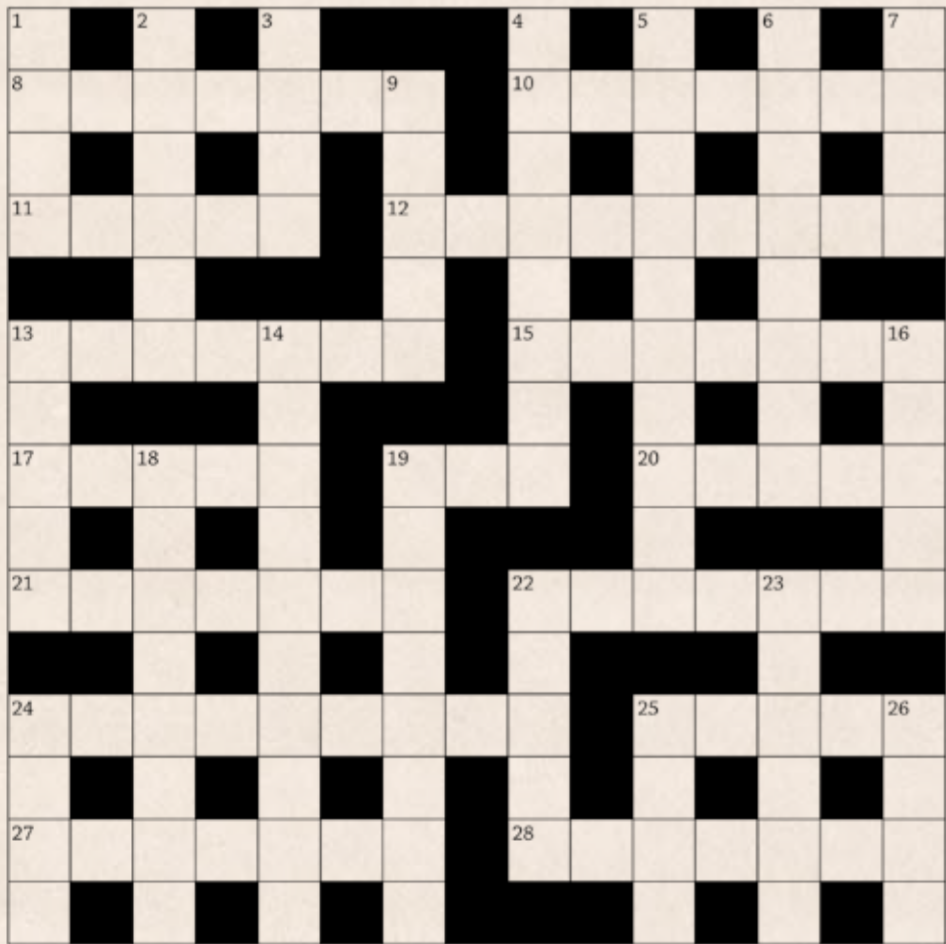
from G. Connell (GS) whose goal scoring average has been increasing every game, Canopius held strong with a triumphant 4-2 lead at half time, much to the shock of the opposition who were left open-mouthed to be unexpectedly trailing.

In the first few minutes of the second half the Boulders regathered and threw some excellent shots at the until then indefatigable defence dream team of D. Green and E. Rolland, as Canopius seemed somewhat downcast. However, with excellent marking from newcomer M. Wood, Canopius managed to maintain the lead through most of the second half. The scrum for the ball continued right into the final remaining minutes of the game, with the score level at the final whistle. The 9-9 draw was a fair result and a credit to both teams who had thrown everything they had at the game.

## Canopius cryptic prize crossword

Enter our cryptic crossword competition within two weeks:

Enter online, email a scan to [crossword@canopius.com](mailto:crossword@canopius.com) or drop it in at our Lloyd’s office G9 reception. The prize winner and answers will be announced later in March on canopius.com and via social media.



### Across

- Becoming accustomed to providing coverage, missing out section (7)
- Produce eggs ‘in the French style’ (or having eaten very behind schedule) (7)
- Get something down you in Canopius’ coffeehouse (5)
- Veterans send money back in ships’ storage areas - it’s not hard (3-6)
- Soon take a risk - I’m ahead of opponents (7)
- Loss run (7)
- Changing ‘1,000’ to ‘500’, Lloyd’s members returned conveyance (5)
- Top man (3)
- Odds? Yes - and no (5)
- Left out, one recovering ships becomes more dangerous (7)
- Taking out variable insurance document, banks in England kept in order (7)
- Those at the head of Canopius lead an impressive 14 action: new takeover supports its customers? (9)
- Recover ointment (5)
- Empty dredger had flooded (7)
- Regulated shipping company taking on good director (7)

### Down

- Contributing to new insurers’ successes (4)
- See 14 down
- Payment for auditor: cover of full area of operation (4)
- Premium listing: with no indication of hesitation, get claret (8)
- Ebullient, start to loudly jangle two rings on this? (6,4)
- Fee paid for shipping with great anger, holding up arrival time (8)
- Ship takes old river to reach open waters (4)
- Filthy profit (5)
- Note unchanged foundation (5)
2. It may give rise to argument about money - or not! (10,6)
- Singularly turbulent 7, at first enraged, did get calmer (5)
- One goes off the beaten track, seeing some of Bude via Torquay (8)
- Dock a couple of deposits - that’s steep (8)
- Food as eaten by school group (5)
- Half of London in company settlement (6)
- Transfer essential for precedents (4)
- Raising beer, one catches insurance document’s minor mistake (4)
- Boy might pose a threat on the 7 (4)

## The Canopius Herald speaks to Bernie de Haldevang, head of specialty at Canopius, about his division’s risk partnership philosophy



### Q How will the management buyout affect Speciality underwriting at Canopius?

A Canopius is moving towards a flat, inherently more flexible management structure, which will allow us to make faster and better underwriting decisions. Faster is easily explained: referral will be reduced or eliminated, and will be quicker when necessary. Better is more complex: we believe that greater engagement of everyone in the business leads to a broader sense of ownership. With that comes greater authority, but also increased responsibility. Canopius underwriters know that any piece of business they write will have an impact on their own pockets – they must take commercially minded decisions.

These are always set in context of course. Along with our independence, our size allows us to make decisions in the context of the whole firm, and in the bigger picture of broker and client relationships driven by a risk partnership philosophy. An underwriter may choose to write everything presented for a client whose risk philosophy matches theirs, even when a specific risk wouldn’t fit otherwise. Equally, a broker may present a particularly attractive risk, but the underwriter may refuse it based on an earlier disconnect with the client. Our enthusiasm for enlightened opportunism must be tempered by the danger of picking the wrong partners.

In all this, as a relatively small entity we are able to achieve cohesion at the underwriting committee level. Our collegiate approach allows everyone to understand the impact of their decisions on colleagues’ opportunities. It makes decision-making a holistic and totally Canopius owned process. It is about conferral, not referral.

### Q How does the underwriting process work within Specialty?

A When looking at a risk, underwriters must try to unearth as many of the ‘unknown unknowns’ as possible, converting them into known unknowns, and make decisions based on the comprehensible uncertainty that remains. To do that demands experience in the relevant sector, and the wider knowledge of how that sector fits within global economics and politics. We believe we have such people at Canopius. We have changed our personnel profile dramatically over the past two years by hiring people with frontline industry experience, specialists from banking, for example. We put them on the other side of the desk as underwriters.

When a former banker makes the transition from looking at loans as assets to looking at the same risks as contingent liabilities, he changes his focus, but still understands the client process. These industry experts’ knowledge has already paid dividends and sparked interest from clients: I believe it will continue to do so.

In this way, we can better understand our clients’ motivations and their perceptions of risk and risk management, which alongside solid communication and transparency are key to building enduring client partnerships. That understanding is the basis of an alignment of interests, which is critical to building a risk partnership philosophy. We want clients who have gone through the exercise of uncovering the unknown unknowns themselves. When there is too little alignment of interest, or too much moral hazard, we walk away.

### Q How do you view the role of the broker in the changing landscape of distribution?

A Brokers are in a very strong position. They and insurers share a useful co-dependence, and an alignment of interests. We need and want to work through them. But we need to be attractive to their clients. We concentrate on a handful of specific areas that work for us, but the only way to retain business and remain relevant is to get in front of the client, in cooperation with our brokers, so that they can appreciate what we do, especially in certain speciality lines. We are not the first syndicate to work with security consultants for example, but we are the first to have them at the box and in our meetings, meaning that we can differentiate our offer, by sharing our country knowledge and intelligence. So we rely on our brokers, but the client relationship is key too. Very simply, nothing beats face-to-face business discussion.

We become attractive to brokers when their clients think we are a good risk partner. They like to be approached in an informed way appropriate to their business. They want insurers that understand their sector, and will tell them where the problems could emerge – to help identify the unknown unknowns. That is what we do best.

Bernie de Haldevang joined Canopius in May 2016 to run the Specialty division. It comprises Credit and Political Risk, Trade Credit, Crisis Management, Accident and Health, International Medical Expenses and Casualty.



Celebrate the new Canopius with coffee on us outside Lloyd’s Tower 1 entrance and at our 9<sup>th</sup> floor reception

