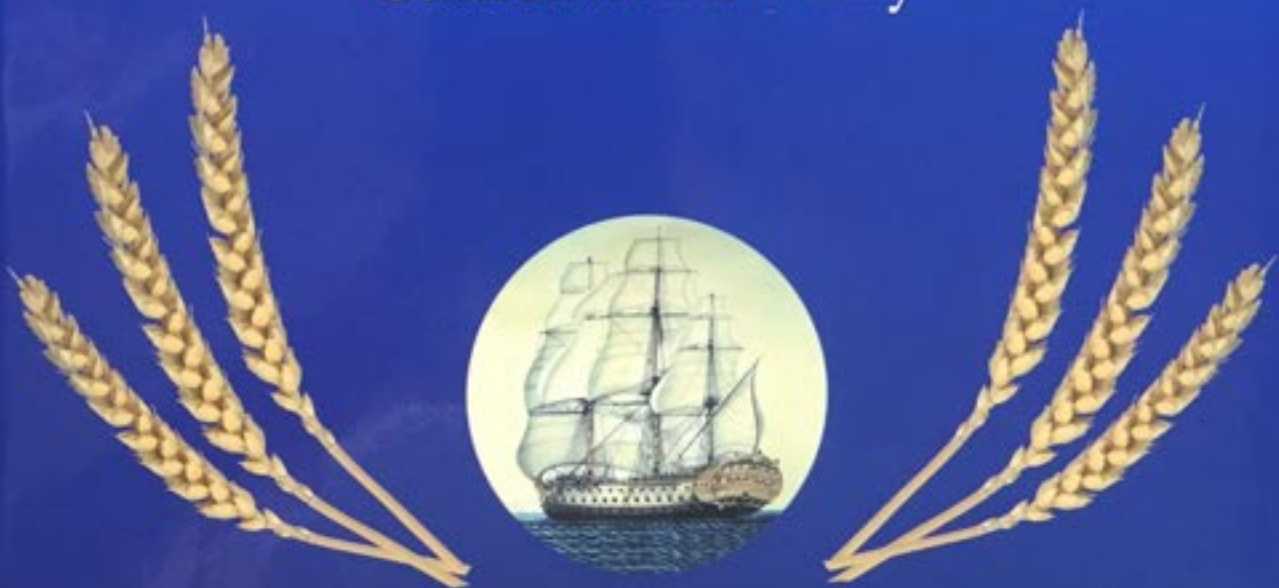




HELD CAPTIVE

*A History of
International Insurance
in Bermuda*

Catherine R. Duffy



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with a foreword by Brian R. Hall



CATHY DUFFY has the technical command of an insurance expert, the journalist's flair for encapsulation of the passing moment, the historian's reach for a long perspective, and the dramatist's delight in a cast of characters. Such endowments make her uniquely qualified to research and recount what would otherwise have been a long forgotten story. Her completion of that monumental task gives us the first authoritative and comprehensive history of the subject, in a lively, continuous narrative, with a vast array of documentary source material that will make this the standard work of reference for many years to come.

How is it that Bermuda, a tiny, isolated island, in the past dependent on little more than fishing, farming and a winter tourist season, has become one of the most important financial hubs of the world? Much of the answer lies in the very nature of island people. To survive and succeed they need vision, courage, dedication, and perseverance in the pursuit of farsighted aims. They need a sense of community that will uphold them in times of peril and encourage them at all times to work together for the common good. The provision of insurance to the world at large exemplifies these island qualities. Accordingly it has played, is playing, and no doubt will continue to play a vital part in the growth and empowerment of Bermuda.

A glance at the contents list inside this book will show how and why a history that began in one particular place, as seen from one particular perspective, evolves to become a history of our modern age, as typified by some of its salient aspects. The principal legacy of the twentieth century to us is not its catalogue of conflict and chaos but a

(continued on back flap)

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BOULTON

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Author's note: The reader may observe that in some instances there are apparent discrepancies between quoted sources of information. These do not reflect any inaccuracies on the part of the sources themselves, nor any negligence on the part of the author or editors of this book, but simply the fact that in such instances no final or definitive count has yet been found capable of confirmation. Thus, for example, with respect to the number of insurance companies registered in Bermuda from year to year, or to the extent of catastrophe damage to property and loss of life, some statistics must be taken as no more than the best estimates available in a given place at a given time. That said, the reader may be assured that every effort has been made to ascertain true counts and, where these remain persistently indefinable, to offer suggestions as to the most likely and reasonable summations.

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On all these occasions my many correspondents were courteous, patient, forthcoming, communicative and enlightening. To that degree this book is as much their work as mine. Indeed, the reader should be advised that this is not so much a 'history', in the sense of being an interpretative analysis of agreed and established courses of events that are already available in published form, as it is a compendium of 'primary source material', much of which has never been set down in print before now. 'Histories', in the more general sense, offer us the invaluable reflections of historians about the past. Necessarily these consist in the main of commentaries and as such are known to professional historians as 'secondary' source material, the word being used not to designate a lesser importance but rather a sequential relationship to 'primary' material.

The book now in the reader's hands is made up in large part of just such primary source material. Although not simply a compilation of documents and transcripts of interviews, it is an archive in which the author's comments and analysis have been kept to a minimum. So much has here been recorded that was never available before and that will not be available again, that we have thought best to let the sources speak for themselves, while they have this opportunity. There will be time enough for a later generation of historians to shift perspectives, to debate motives, to explore relationships, and to make judgements. It will be for them to write about the history. Our participants have lived it.

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Every effort has been made to trace and acknowledge all sources but if, as may happen in undertakings of this size, any source has been untraceable or overlooked then I apologise in advance and ask that it be brought to my attention.

A special word of gratitude is due to friend and photographer Scott Stallard. Not only did Scott make available rare archival photographs, from the Scott Stallard Bermudiana Collection, and also his aerial view of Hamilton for the cover, it was Scott who kindly introduced me to the production team that produced all his own books of Bermuda. They tell me that I am by no means the only author to have benefited from Scott's open generosity of spirit.

Roger Boulton edited my text and was our publishing consultant and production manager from the beginning of the project until its completion in the form of finished books. He showed an immediate interest in my subject and then brought to bear upon it his own fifty years of experience in academic publishing at the Oxford University Press and as a publisher in his own right. He was consistently loyal in his respect for my authorship and declares himself convinced that the final result is an original, important, and pioneer contribution to a field of knowledge that had until now been almost unknown except to those working within it. Fortunato Agliodoro and Janie Skeete both designed the graphic layout of the book and carried through the massive task of converting computer text to print ready files. Book Art Inc. is to be congratulated on maintaining exceptional standards of quality. Together this team has produced over a dozen Bermuda titles in the past few years.

Finally I offer the most heartfelt thanks to my husband, Nick, and to my son, Raven, and to my new born daughter Sedona-Sky. Without their unflinching support overall, which manifested itself in such an infinity of ways as can be of no interest to any reader other than the four of us, the book would never have been possible. Nick brought to it his unerring good sense and sound, constructive suggestions. Raven gave the trustful patience of a child. Sedona-Sky kept her mother mindful that life has an eternity of dimension beyond words or the printed page. I thank you all.

CATHY DUFFY, CPCU
St George, Bermuda

Foreword

The idea of recounting the evolution of insurance in Bermuda has been talked about for years. It is more important than ever to write that history now, because many of the people who were principal players in it are retired, while others have already passed on and are no longer with us.

It is a story well worth telling. A small, isolated, insurance community, with a local agent for Lloyd's, transformed itself, over a comparatively brief span of time, to become a thoroughly credible leader in the field of conventional and specialty insurance, with a capacity that can stand alongside few others in the world, including communities that were established over the course of several centuries. An island of only 21 square miles, with a population of only 60,000 people, has developed an infrastructure that attracts the captains of industry to its shores.

Those who settled in old Bermuda had to make everything out of next to nothing. In their isolation they became perforce a tiny, tightly knit community of cousins. Each had to look out for the other. Lacking so much, they had to make the most of what they had. They had no continent to subdue. The only wide-open spaces were on the sea. Lacking in natural resources, with no minerals to mine, no rolling pastures, no loamy lands to plough, no wealth of empire to ship back home, the people had to find their resources within themselves. Perhaps all that has made them more adept with what did come to hand.

Our earliest forebears were the offspring of shipwreck. Hazard, hardship and deprivation were their daily bread. Successor generations learned how to make shortages into sufficiency and adversities into opportunities. Perhaps these conditions shaped some kind of folk memory, that inclined us to be more perceptive of the hazards endured by others and led us to offer them some protection against such calamities as might beset them. To suppose as much is not mere fancy. Just as individuals make choices and commitments based upon their own experience, so does a community. As between individuals, so between societies one may see an opportunity that another will ignore. It could well be that all the past history of Bermuda has helped to shape the vision of its modern financial leadership.

Such were the foundations on which we were to build. The tools, the bricks, the mortar, these were to be provided in the form of ideas and efforts contributed by many people, locals and visitors alike, working together in harmony, who devoted themselves to making Bermuda a key component that would be integral to the business strategies of the world's largest corporations.

The visions of many business leaders are portrayed and expounded here, to display for all the energy that was to position this tiny community so as to attract the finest and the best. We had our setbacks, but we learned from them. We had our detractors and we paid attention to them. We demonstrated our integrity and our professional competence. We showed our detractors to be mistaken. We worked through markets soft and hard, fine honing our capabilities to accommodate both. We had our share of scandals and wheeler-dealers, took our halting baby steps into new ventures, suffered the blows of malicious and invasive media coverage. But we listened and we learned. We responded quickly when a situation needed containment. We never obfuscated an issue nor did we seek concealment. We acted openly and honestly. None could impugn our good faith.

This book helps the reader to understand how such a significant industry developed. It is a credit to the many leaders and followers who went before us and created an infrastructure that would enable such an evolution to take place. It is a credit to the Bermudian power of vision and to Bermudian tenacity in expounding that vision. It is a salute to those companies whose faith in our dream and in our capacity for service inspired them to venture 'offshore' and establish their presence here, in some cases more than fifty years ago.

The history told here recounts how the Bermuda insurance industry has advanced across many different uplands. We developed a local insurance industry as early as 1784. We became more influential in providing a range of local property and marine coverage in the beginning of the 20th century. That business was 'laid off' in London, as was the business produced by the local agents for Lloyd's. In the 1940s Bermuda served the purpose of C.V. Starr to establish 'American International'. The foundation was laid for the arrival of 'captives' in the 60s. The association captives (conglomerates) came in the 1970s and many forms of 'third party business' were launched in the late 1970s and early 1980s. The runoff business was in full swing by the mid 1980s and a more professional approach to underwriting evolved in the late 1980s, paving the way for the many different types of market players that we know today.

Everyone learned from past mistakes and worked to create a setting of opportunities in a global environment of risk management. Financial and underwriting solutions emerged to accommodate the most sophisticated expectations of a worldwide clientele. All aspects of insurance are to be found here, and in terms of capacity Bermuda ranks as a leader throughout markets around the world.

This book is especially timely because another plateau has recently been reached. The tragic events of September 2001 caused world markets to review their exposures, to build reserves against such horrendous losses as those then experienced, and to evaluate afresh the need for new capacity, so as to meet the existing and the new limits and needs of the insured and reinsured. Within weeks of the September event some seven or eight billion dollars were committed to the formation of new or additional capacity in Bermuda. So a new era began—new life, new products, and new capacity—all on the foundations that have taken centuries to build.

The building of these foundations and of an infrastructure set upon them was critical for all that now follows. That story is told in this book. The future is always an evolving mystery, to be explored, and it is a subject of intense speculation, but the subject of this book is a no less fascinating one for, as we turn its pages, we set out in search of another mystery—the past.

I cannot conclude without recognising the total dedication of the author, Cathy Duffy, who has encompassed in her book more than 200 years of industry history. Her research has taken her to many different sources, both in Bermuda and in North America. She has interviewed over 100 people in depth, and has returned in subsequent interviews to verify facts that had been newly discovered. She has excelled in every way at presenting the facts and the story for your enjoyment, information, and education. Having myself lived through the most exciting times of this history, I am pleased that Cathy has been able to capture the spirit and the dedication of so many people who made a difference.

I also want to recognise all those who shared in the vision of creating this treatise. They are the ones in the companies that agreed to underwrite the costs involved in writing and publishing the book. But just as importantly, they are the people who gave their time and material to help Cathy craft a book that is dedicated to the early beginnings and evolution of the industry that we know today. Without them, the book would have no 'life'. The characters, innovators, visionaries, prophets, leaders, followers, regulators, bankers, accountants, actuaries, and consultants all made it happen.

All those involved and recorded in this book have added personality and a piece of themselves, their memory and experiences. Their families and their successors will be proud of their contributions to the creation of an industry that is dominant in the welfare and economy of these tiny islands, these few square miles of land we call 'Bermuda'.

BRIAN R. HALL, OBE
Hamilton, Bermuda

new degree of global interconnectedness and interdependence that until now was unimaginable in all the course of human history.

The international insurance industry can point to that as being its own true reason for existence. We need only ask ourselves what the outcome of recent catastrophes would have been like without insurance. Many such global considerations arise from the pages of this book. Here are personal hopes, struggles, reversals, dilemmas and achievements. Here are joint endeavours, adventures, disasters and triumphs. Here is the local detail and there is the far horizon. This is a book for all who care about global affairs today and about how we can improve on them tomorrow.



BRIAN HALL, O.B.E., who wrote the foreword, has been one of the most outstanding players in the Bermuda insurance industry for nearly half a century and most recently has been the prime mover behind the publication of this book. An architect of the industry, as we know it today, he was among the first of the pioneers to make themselves expert in the concept, creation and management of captive companies. Exceptionally successful in his own right, both as a founder and proprietor of companies, and as an executive and CEO, he has a well-earned reputation as spokesman and ambassador for the industry, both to government and to the highest echelons of international business. He envisions a wide perspective in time and place, as witness his initiatives in the education and training of young persons to be the future of insurance in Bermuda. He conceived of this book as a tribute to an industry that he knows and loves. It will also stand as a tribute to the qualities that he and others like him have brought to that industry, the qualities that have made it great.

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