

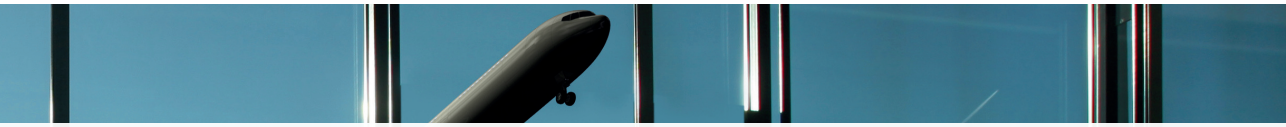


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As technology changes, and as the risks that worry business owners evolve, the captive industry evolves with them

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North of the border and beyond:

Pinnacle's international build-out

As Pinnacle Actuarial Resources opens a Canadian subsidiary and expands its presence in Bermuda, Robert Walling, principal and consulting actuary at the firm, sits down with Elliot Hayes to discuss Alberta's rise, Bermudian innovation and why the firm intends to skate where the puck is going

In quick succession, Pinnacle has launched its first international subsidiary in Canada and announced the acquisition of a Bermudian consulting firm together with the renewal rights to a Canadian practice. Was this always a single coordinated strategy, or did the Ordinance and Grape Bay opportunity accelerate a plan that had been moving at a different pace?

Robert Walling: They were always closely related, though I would not call them a single strategy. The growth in our number of Canadian clients had made

it pretty clear that we needed a company genuinely focused on working with Canadian clients. The opportunity to buy Ordinance was separate and distinct, but the fact that it included a book of Canadian business we could acquire was well timed against our desire to build out a storefront in Canada.

In terms of our firm, we are simply ready for this kind of expansion. The fact that these two opportunities presented themselves in such close proximity is symptomatic of the underlying maturity of the firm and where we are in our life cycle.



Once you do enough of that business, there is inevitably a need to be local, because local likes to work with local

Pinnacle is now increasing its presence across the US, Canada and Bermuda, with clients whose programmes often touch more than one of those jurisdictions. How does the firm coordinate the work internally so that a client with cross-border exposure gets the benefit of all three markets' expertise rather than three separate conversations?

Walling: We are still going to operate as a one-firm firm. The people with specialised skills in Canadian risk or in Bermudian risk remain part of the greater whole, so you will still see a unified front.

There will not be any silos or profit centres between the Canadian, Bermudian and US business. When you engage with any of the Pinnacle companies, you still have access to the entire firepower of the firm and its intellectual capabilities, which I think is one of our real strengths.

Ordinance gives Pinnacle a Hamilton-based operation in one of the world's most established captive domiciles, while Grape Bay brings a book of Canadian clients into the new Toronto subsidiary. How do those two pieces fit together strategically, and is it fair to read this as Pinnacle building an integrated North Atlantic captive practice rather than two separate national plays?

Walling: It is absolutely an integrated strategy. We have a significant and growing Canadian practice, and we already had a book of Bermudian business that was larger than Ordinance.

This is really about building out a corporate structure that allows us to provide even better service to our Canadian and Bermudian customers, and it is symptomatic of a longer-term strategy for Pinnacle.

In recent years, and particularly since Covid-19, Pinnacle has expanded our geographic footprint. We have gone from having a concentration

of actuaries located in Illinois, Georgia and California to having actuarial professionals in Texas, Tennessee, South Carolina, North Carolina, Michigan, Florida and other US states.

On a much smaller scale, we have been implementing this strategy pretty effectively in the US, where Texans like to work with Texans and Floridians like to work with Floridians. To the extent that we have people working remotely from those areas, it has been very much to our benefit. The Canadian and Bermudian operations follow the same form.

Toronto was chosen as the base for Pinnacle Actuarial Resources of Canada, while British Columbia has historically been the centre of gravity for the Canadian captive market. With Grape Bay's client book now folding into the Toronto subsidiary, how does the firm see its Canadian presence developing across provinces?

Walling: Wide open, candidly. We incorporated in Toronto, but there is nothing about that incorporation precluding us from having operations in Vancouver, Calgary, Montreal or other cities. We are still opportunistically looking at additional ways to expand our presence in Canada, so I do not think there is anything to read into incorporating in Ontario in terms of our future ambitions and our intention to address the needs of all the Canadian provinces.

Looking at the captive segment in Canada specifically, where are formations actually happening right now in terms of sectors, organisation size and provincial domicile? And how does that pipeline compare to what Pinnacle is seeing in the Bermuda market following the Ordinance acquisition?

Walling: Canada is really interesting. Alberta has sprung onto the scene and feels like it is going from strength to strength. We have been very impressed

with the regulatory regime and the willingness to modify the captive laws there, but also with the service providers: we are seeing an exceptional core group of captive managers, auditors and captive lawyers.

That core seems very much committed to driving Alberta forward as a domicile, and candidly the growth feels like the pattern we saw in some of the most successful US state domiciles. There are a lot of real positives in what we are seeing there.

As far as Bermuda goes, I think they are leaning into some genuinely clever innovation. We are seeing significant use of their cell programmes, but also a rejuvenation in some of the larger structures.

Even outside the Ordinance acquisition, Pinnacle has seen very steady growth there over the last five to 10 years. Looking at trends and momentum, I am very pleased with the direction Bermuda is moving.

Bermuda and Canada are two very different captive environments, with Bermuda an established global reinsurance hub and Canada a market with a distinctive provincial structure and real growth momentum. How does an actuarial firm flex its approach to feasibility studies, pricing and loss reserving as it moves between those two settings, and what does each market bring out in the work?

Walling: A lot of the work, especially in Alberta right now, is very much early days for a captive domicile. It is single parents and associations. As they continue to modify the captive laws, I think you will see cells and groups become a significant part of what they are doing.

They are trying hard to be a domicile of choice for other provinces in Canada, and that will be a real game changer for them. They already have a substantial advantage over the offshore domiciles that cater to Canadian businesses.

Actuarial Expansion

If they can make a couple more tweaks to their captive law, you could see them become a real North American powerhouse of a domicile.

Bermuda already is a powerhouse. From our perspective, you have the advantages of both a world-class reinsurance marketplace and a world-class captive marketplace. Part of the flex is showcasing our capabilities to reinsurers in Bermuda, alongside the fact that we are one of the best actuarial firms in the world for captives. They are interestingly distinct markets.

What we are focusing on in Bermuda is the breadth of our expertise, from innovative renewable energy programmes, credit enhancement captives and environmental, social and governance (ESG)-focused captives to basic blocking and tackling cell captives for traditional insurance companies, and everything in between.

That is a real part of this strategy: we can simply do more things with our more than 50 credentialed actuaries than a much smaller actuarial firm can, and that breadth and depth of expertise is the key to our approach in Bermuda.

Bringing new client books into an established firm is as much about continuity and relationships as it is about technical capability. What does Pinnacle have in place to make sure Ordinance and Grape Bay clients experience the transition as an expansion of what they had rather than a change of provider?

Walling: The first thing is that Julie Perron, who owned Ordinance and still owns Grape Bay, is going to remain on staff with us as an independent contractor. That continuity is priority one for us. Julie will continue to be actively involved with these clients and help us make sure that staffing continuity and work product continuity transfer effortlessly.

The other benefit, quite candidly, is that those clients now get access to our size, our ability to leverage actuarial analysts, and our benchmarks and research resources. While there is continuity with Julie and everything she has been able to do for these clients, there is a lot of value added coming from the Pinnacle people and the Pinnacle resources that will be available to them. That has been a big part of trying to make sure this book transitions as seamlessly as possible. Pinnacle has successfully onboarded customers from smaller practices in the past.

You have spent more than three decades in this industry and watched the captive market move from a niche risk-financing tool to a mainstream part of how sophisticated organisations manage risk. As Pinnacle plants flags in Canada and Bermuda, what is the version of the captive industry you are building the firm to serve, and how is that different from the one you were serving even five or 10 years ago?

Walling: It is interesting to me. Every time I think the captive industry has reached a plateau in traditional insurance, that we cannot possibly put any more medical professional liability or workers' compensation into a captive, we come up with different ways to solve that problem and to keep growing the space. Then you see traditional coverages like property risk or parametric insurance coming on by leaps and bounds as hurricanes and wildfires push the envelope.

The forward momentum is there whether it comes from bringing new insureds in on traditional products or developing new products for new industries. Evolving insurance needs and new technologies are pushing the industry down roads we could not have envisioned five to 10 years ago, and I think that benefits both Bermuda and Alberta. It is a continuation of a theme: the captive industry was always going to stay ahead of the traditional

market and push the envelope on innovative ways to cover risks that threaten business. As technology changes, and as the risks that worry business owners evolve, the captive industry evolves with them. That is why you are seeing domiciles like Alberta emerge, and some genuinely interesting new domiciles in Europe.

From the perspective of a firm like Pinnacle, we need to keep growing, innovating and developing. There is a famous quote: when they asked Wayne Gretzky why he was so good at hockey, he said he skates to where the puck is going, not to where it is. That is incredibly important here. The job for Pinnacle is to skate to where the captive industry, the reinsurance market or the Canadian market is going, and to make sure we have done what we need to do to serve the Bermudian and Canadian markets not only as they look today, but as they will look five years from now.

Beyond Canada and Bermuda, are there other markets or structural developments in the captive landscape that you see shaping Pinnacle's next phase of international growth?

Walling: We do a lot of work in the Cayman Islands, and are already active in the rest of the Caribbean and in Latin America. What you find is that once you do enough of that business, there is inevitably a need to be local, because local likes to work with local. If I am looking at my crystal ball and seeing us add Maltese captives, or the Isle of Man, or Guernsey, and it now looks like the UK is considering rolling out a captive law, then we will continue to look into opportunistic expansion.

In terms of how we execute our strategic plan, we are always going to follow the clients and the new business activity. Part of the reason we set up Pinnacle of Canada is that we were getting a lot of new business in Canada, so it was inevitable that we would follow. Where we have a core group of clients in North America, Latin America, or Europe, we are going to follow that. ■



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