



For those about to rock, we insure you

With big-money backing and U2 and One Direction on its client list, Donal Cronin's Arachas is a headline act

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Donal Cronin had a nice way to spice up the Arachas Corporate Brokers investment pitch to investors.

Insurance broking, the business that has been his life for more than 20 years, has a reputation for being solid yet dull. "It's seen by private equity as a steady business to get involved in," he says. "A policy comes due for renewal once a year. If you do your business correctly, you will renew the client."

This probably explains why private equity investors were willing to stump up €156.6m for broker AA Ireland in the summer of 2016.

Cronin had a little stardust to sprinkle on the mix when he went chasing a similar deal some months later. "Little old Arachas insures most of the major rock bands in the world," he explains. "We've insured concert tours by U2 and One Direction. Think of some of the big bands on tour at the minute; there's a good chance we insure them. It got everybody's attention."

It also sent them reaching for their chequebooks. Sovereign Capital, a London-based private equity backer, has taken a 54% stake in Arachas for a sum Cronin says he cannot reveal due to confidentiality clauses. Agreed last February, the transaction got regulatory sign-off in August. The investment diluted Cronin's personal stake from 30% to 23%, but he remains chief executive and the biggest shareholder after Sovereign.

Since August, Arachas has embarked on a spending spree, agreeing to buy two independent brokers — Capital Cover Group and Kidd Insurances — with another acquisition expected by the summer. The merged businesses will write €180m-worth of non-life premiums for 80,000 small and medium-sized business clients this year, giving Arachas a turnover of about €30m. This puts it in the top three brokerages in the country, according to Cronin's estimates. A growing workforce of 250 is spread over two offices in Dublin and regional centres in Cork and Waterford.

"I love the fact that brokers who've spent their lives building a business say, 'I trust this guy and I'm going to sell my business to him,'" says Cronin. "Of course, money is important but it's about the fit as well."

It has been a heady few months for a man who claims to have fallen into insurance by accident.

The timing of his initial brush with the industry could have been better. It involved taking a summer job in 1982 in the Cork office of Shield, now part of insurance giant Zurich, just as the city was in festive mode for Bonfire Night. A local tradition celebrated annually on June 23, Bonfire Night can be an insurer's nightmare because of the potential for claims if the revelry gets out of control.

Subsequent events vindicated Cronin's choice of career. Colleagues at Shield included Frances Tyrrell, who later became his wife. This union paved the way for him to strike out on his own in the industry. His father-in-law owned a Cork insurance broker, Tyrrell Coakley, which Cronin bought with two friends in 1997. "I had a longing to be an insurance broker," he says, "because I felt that cover for risks such as employers' liability, public liability and fire wasn't being sold correctly to commercial customers."

In 2004, Tyrrell Coakley joined forces with two Dublin brokers — Hodgins Percival and Slattery Jermyn — to form Arachas, the Irish word for insurance, with Cronin as chief executive. The amalgamations continued, with Arachas buying two brokers based in the south-east — Wright Group and FitzGerald



Cronin, who claims he fell into insurance by accident, believes 'there are fantastic opportunities for consolidation' in the Irish market

Insurances — in 2006 and 2007.

The years that followed were challenging. "We had a tough time during the recession," admits Cronin. "We had to reduce our numbers. Lots of our clients struggled, as we did. We came out the other side, though, grew our business strongly and bedded down the acquisitions."

He attributes this success to the way that Arachas has turned the traditional insurance broking model on its head. Instead of selling generic policies on behalf of the big insurance firms, it designs cover for specific types of businesses and then approaches the firms asking them to underwrite the risk. This bespoke approach explains how a specialist Irish broker became a player in the world of rock'n'roll. "One of our directors, Dave Jermyn, began providing insurance for touring bands more than 25 years ago with the accountant Ossie Kilkenny, who represented U2 and Bob Geldof among others at the time," Cronin says. "Dave works closely with Livewire Business Management, which manages artists including One Direction."

Cancellation is the big insurance risk when bands go on tour, which is far more lucrative for the acts than recording. "Touring is big business," Cronin says. "If an event is cancelled, the loss of profit for that night is insured."

Other insurance niches — electrical contractors, plant-hire operators, tradesmen, supermarkets, the leisure sector — might lack some of the glamour but they provide the bread-and-butter business for Arachas. Acquisitions have brought their own specialisms: Capital Cover concentrates on the construction sector; Kidd's niches include cover for creches and other childcare facilities.

"There are 250,000 SMEs in Ireland and it's probably growing by about 20,000 a

year with the way the economy is going," says Cronin. "This is where we fish. These businesses are hiring more employees and buying more equipment. Turnover is going up, profits are going up; this means more insurance is required."

Other specialisms for Arachas include Homebond, a national scheme that insures against structural defects in new-build houses; and Masterclass, an insurance package for wealthy households.

"We call it private client cover, the insurance equivalent of private banking," says Cronin. "We insure some well-known celebrities on this scheme. There's a nice VIP feel about it. It tends to be for those with houses of €1m and upwards." That's merely the rebuild cost for insurance purposes — the market value of

“ We've been given a war chest; I either use it or lose it

these properties is far more typically a multiple of €1m.

As well as providing funding for more acquisitions, the arrival of Sovereign Capital as a majority investor has provided an exit route for some of Arachas's founder shareholders. A few have retired, while others have sold their shares but remain with the company. "The beauty is that everyone was catered for," says Cronin.

The board has been slimmed down from 12 members to five; two from management, two from Sovereign and an independent chairman, Gareth Brady, who was chief executive of Hughes Insurance before selling the Northern Ireland brokerage to Liberty Mutual Insurance in 2014.

Arachas is still in the honeymoon phase of its relationship with private equity, according to Cronin. "It's been a short marriage but we've had a good start. They're good people. They're very supportive. They're very efficient at what they do. They expect forecasts to be met."

They are also fussy about homework. "When we bought [Wright Group and FitzGerald Insurances] in 2006 and 2007, they were two-page transactions. With private equity, [acquisitions] are a more arduous process between legal, financial and regulatory due diligence. It's tough but you get through it. It means you get to know the business [you are buying] inside out, which is comforting."

While private equity has a reputation for sweating existing assets, Sovereign sees Arachas as a platform for more acquisitions. "What differentiated Sovereign from other private equity interests was that it embarks on a buy-and-build programme. This caught my interest because I feel there are fantastic opportunities in the Irish market for consolidation," says Cronin. "The last real consolidation was when we did it in 2006 and 2007. Very little has happened since."

The catalyst for consolidation is that many brokers have reached the stage where they are ready to cash in their chips. "There are lots of good people running good brokerages in their late fifties or early sixties who'd be looking for exit strategies," he adds. "We've been given a war chest [by Sovereign]; I either use it or lose it. We've chased two acquisitions and

got two, and we're working on more. It's not growth for the sake of it. This is not an income grab. It's what suits the way we do our business."

Arachas is not interested in brokers that earn most of their money from personal lines insurance, such as private motor and home cover. "We want somebody who's like us, who's focused on the SME sector. We will seek out brokers we want to do business with. Obviously we're giving a fair price; we're not going to close these deals otherwise."

The combination of organic growth and acquisitions puts Arachas on a par with big multinational brokers that dominate the business such as Aon, Willis, Marsh and Jardine Lloyd Thompson. "They're probably taking a close look at us."

Acknowledging that private equity investment is seldom for the long term, he believes Arachas could survive intact as an independent broker if there were to be another change of ownership.

"If, in four or five years or whatever, Sovereign sells on the investment, I think Arachas is of a size that it is going to stay as Arachas. There could well be different backers down the road but, as far as customers, employees and management are concerned, it will be business as usual. My job as chief executive and a significant shareholder is to grow the business as strongly and efficiently as I can."

THE LIFE OF DONAL CRONIN

VITAL STATISTICS

Age: 54
Home: Glounthaune, Co Cork
Family: Married to Frances with two sons, a daughter and a dog, Jaxson
Education: North Monastery secondary school, Cork; business studies at Cork Institute of Technology
Recent book: Elon Musk: Tesla, SpaceX and the Quest for a Fantastic Future by Ashlee Vance
Favourite film: The Godfather Part II, pictured



WORKING DAY

I don't get up at 6.30am. I'm moving all the time, going between London and our offices in Ireland. I also work from home. I'm in Dublin so often I've recently marked my 1,500th stay at a hotel there. I'm typically in London every second week.

DOWNTIME

I love to cook and travel. I play a bit of golf. I like to keep fit. I ran the Cork city marathon with a couple of buddies the year I turned 50. There might be another one in me at some stage.