INSURANCE & REINSURANCE
legacy association
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Live market to legacy transactions are here to stay says IRLA panel at Monte Carlo Rendezvous

The Insurance and Reinsurance Legacy Association (IRLA) marked the return of the annual insurance rendezvous last Monday with a capacity attendance for their early morning panel of advisers and acquirers talking about how the market is Delivering Legacy Solutions to Live Insurers. Hosted by IRLA Director Paul Corver, the reasons that the legacy market is buoyant with growing appetite for legacy transactions were examined. Linda Johnson of TigerRisk explained that live insurers had gained confidence and understanding in the legacy sector and were seeing that transactions were possible on a win-win basis for both buyer and seller. With more transactions having claims handling retained by the seller, the legacy market was allowing live insurers to further protect reputation risk and seeing the benefit of transacting with the legacy market, being a relatively speedy and cost-effective way to free up capital, enabling the live insurer to dedicate more of its capital to more attractive markets.

Flexible, innovative solutions

Victor Nelligan of Aon added that the legacy market had continued to become more flexible, and that the success of the legacy market continues to attract capital, notably from private equity firms and this capital fuels the capacity of the legacy market to be able to take on more run-off. The panel discussed the effects of this influx of capital on the market, and in particular whether there was a danger of the market becoming too competitive, with a race to the bottom on pricing so as to maintain deal flow. Overall, the panel concluded that competition has been positive, it creates innovative solutions, and is a sign of a healthy market. James Bracken of Fortitude Re advised that the key question facing new capital entering the market is, “what is the exit strategy?”, and noted that not many of the capital providers that have deployed capital to date have been able to cash out successfully.

Increasing Lloyd's involvement in the legacy market

The Lloyd's market has seen a noticeable rise in RITC transactions in recent years. This has also seen the advent of split RITC transactions unlocking more transaction activity. The activity levels in the Lloyd's market is likely to continue as capital shifts in and out of the market and the market continues its focus on underwriting performance.

Claims control, collaboration of markets and alignment of interests

The legacy market has also seen an increasing number of loss portfolio reinsurances where the live carrier retains claims control. Paul Corver explained that traditionally the acquirers' expertise of proactive claims management was a key part of the transaction, in fact it was a key leg of a three-leg run-off management tool alongside effective actuarial reserving and investment management. David Ni of Enstar (US) explained that such transactions created a partnership between buyer and seller where the buyer's run-off expertise could be consulted by the seller in the ongoing run-off management. He further noted that in order to get comfortable with such transactions, alignment of interest was important, and this could be achieved through retention of part of the liabilities, and a collaborative run-off approach with full oversight.

Capital solutions

The panel noted that the increasing activity in the market was also being driven by the live insurers being more active in their capital and portfolio management. This was mainly being driven by CFOs or CROs looking for opportunities to improve the performance of their capital. That said, there was a danger that capital savings may be illusory, Kevin Gill of EY Parthenon explained that the core drivers of run-off sales should not be forgotten and that the desire to divest of poorly performing portfolios, combined with the loss of expertise and focus remain key drivers for legacy sellers.

T: +44 (0) 203 362 4233
E: secretariat@irla-international.com

The legacy market is clearly continuing its convergence with the live market, becoming a supplier of reinsurance capital to the market as well as provider of complete solutions through entity acquisition or portfolio transfers. This convergence is also evident in the nature of the portfolios being placed into the legacy market. No longer is long gone discontinued business being placed into the legacy market, many transactions now include relatively recent underwriting years of business. This also demonstrates how the legacy market has also adapted in taking on not only fresher liabilities, but also a broader mix of business across retail, commercial and reinsurance lines.

Who is IRLA?

IRLA is the UK market body for insurance and reinsurance legacy management professionals. IRLA is recognised as the voice of the legacy management sector by a wide range of government and market bodies including the UK Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), the Financial Services Compensation Scheme (FSCS); the Department of Work and Pensions (DWP) as well as the Employers' Liability Tracing Office (ELTO). IRLA is also affiliated with several other market associations all the while working with these others to increase benefits to members.

For more information about IRLA's work visit www.irla-international.com or contact IRLA Secretariat on + 44 (0) 203 026 3336.