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INTRODUCTION

This handbook has been developed by IRLA, the Insurance & Reinsurance Legacy Association, as an introductory guide to the aims of the Association, the purpose and reasons for (re)insurance business transfers and the mechanisms and services that support them. The handbook also provides a precis of business operations, company finances, legal first principles and other matters of topical interest in the early 2020's. It should be considered both a practical resource and a point of reference for those interested in the operation of the legacy market.

Each chapter is intended to give a precis of the matter at hand with suitable references for further research. The author and company of each of our contributions is stated and all have expressed a willingness, as members of IRLA, to take enquiries regarding their specialism, in support of our ambition to educate our members and strengthen our bonds as a market.

The handbook will be updated periodically to ensure that the material remains up to date and that all our members have the opportunity to contribute their particular expertise within it.

Disclaimer: Whilst every effort has been made to ensure that the information in this handbook is correct, neither the authors nor IRLA can accept any responsibility for any errors or omissions or for any consequences arising therefrom.

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PREFACE:
WORKING IN THE LONDON MARKET

Monday, 5 September 1988. My first day at work. Sun Alliance in Horsham. It was all quite exciting, my mother had bought me a smart new suit with a waistcoat, I had a thin grey tie and a new briefcase. I was going to be working in the claims department. Of course I knew all about claims as at the tender age of 18 I had already managed to smash up my car to the financial delight of my insurer. This was going to be such an easy job, right? I was instructed to work in the Liability Claims Department. I couldn't even spell 'Liability' and I certainly didn't have a clue what it meant. Perhaps it wasn't going to be quite as easy as I had first thought...

My boss showed me around the office. There was a huge table with about a dozen chairs around it 'When the post arrives it is all dumped here' he said. 'We get a dozen housewives to open the post and sort it into the various departmental sections every afternoon...'. 'But' I interrupted 'today there is a postal strike, how can the department operate?' He smiled 'No problem' he said, then he paused for a moment...wait for it... 'we have a fax machine.' Wow. I knew I had come to the right place, cutting edge technology indeed, I had never used one of these machines before, would they let me send an important business related fax to someone perhaps? What I didn't notice was that the work force was all white, predominantly male; the managers were all white males who enjoyed smoking in their offices and long lunches, they had white female secretaries to make them tea in the afternoon and supply the managers with biscuits. What was there to notice? This was a regular office and this was 1988.
And anyway we had a fax machine.

I decided on my first day to get qualified and I am so pleased that I did. Insurers regulated themselves in 1988, not anymore; will the current regulator insist that senior managers and board members are qualified in insurance one day? Probably. So, I am pleased that I passed my ACII and FCII when I did and I encourage you to do the same.

Back in the 1980's the term 'run-off' was used when discussing insurers that had stopped trading, usually because they had gone bust. Today we have solvency regulation administered by a world leading regulator with teeth, insurers can be shut down before disaster strikes and we have embraced the concept of 'solvent run-off'. And run-off no longer means shutting down the claims attaching to a bust insurer, today solvent (re) insurers seem to be forever selling books of business to a growing number of organisations keen to buy these liabilities. Many contributors to this book work for such organisations!

London is the centre of the insurance world, arguably because the Lloyd's market is physically located in Lime Street and this attracts the brokers...and this attracts insurers, reinsurers, MGAs and others to the City. Has Lloyd's and the London Market changed much in my career? Yes, technology has had a part to play here. For a start we have been handling and managing claims electronically since the turn of the century and so the claims brokers that once walked Fenchurch Street and Leadenhall Street are now office based, pumping claims data and

correspondence around interested underwriters, electronically. It was perhaps fortuitous that the market started to embrace electronic placement just before the Covid-19 outbreak and so even with placing brokers and underwriters stuck at home in 2021, risks were still placed in the live environment.

Leslie-Ann [Giovnilli] tells a true and shocking story of being the third lady to work in Lloyd's in the late 1970's in a building with no ladies toilets and having to have a man come with her to broke (she couldn't get a substitutes ticket). It is almost impossible to think of this today in our politically correct, diverse and inclusive society and it saddens me greatly to still see extreme white male domination in the London market. The workforce quite simply does not represent the society in which we live today: each one of us have a responsibility to change this.

I would like to thank Leslie-Ann and all that work at IRLA for the passion and hard work in putting this book together. Thank you also to each and every author for imparting significant amounts of your highly valuable intellectual property, the chapters which you are about to read are infested with knowledge gained from - literally - hundreds of years of experience. From the types of business transfers to balance sheets, regulation, risk management, the law, product lines and recent topical events, this book is bursting with knowledge from some of the most eminent in our market.

We shall be regularly updating this publication so please let us know what you think, are there areas that you would like to see covered and perhaps you might like to contribute to the next edition? Call us, text us, e-mail but please don't' fax the office...

Ed Gooda FCII, SIRM
Editor – September 2021, Fenchurch Park, a member of IRLA since 2018

REASONS FOR PORTFOLIO AND COMPANY TRANSFERS

James Dickerson of Willis Re, a member of IRLA since 2017

Introduction

The legacy market has evolved considerably over the last decade, providing an increasingly sophisticated and well-capitalised environment that offers a wide range of solutions to service the complex requirements of the insurance and reinsurance industry.

Historically the sector focused heavily on discontinued business, with opportunities largely borne from corporate restructuring, distressed company remediation or insolvency.

However, solutions that were once deemed the preserve of companies in distress, now form part of many (re)insurers capital management toolkits. This has led to a significant increase in market activity from a wide range of cedants and across a broad range of geographies.

Reasons for transfer

Ultimately the rationale for any legacy disposal or company transfer, is to free the cedant from the ongoing exposure associated with the insurance or reinsurance business on their books – whether this be a specific line of business or a whole account / portfolio trade.

It is well understood that portfolio or company transfers crystallise results and support the maintenance of solvency margins. However, with (re)insurance executives measured on their ability to enhance and deliver returns for their shareholders, legacy and retrospective reinsurance transactions are now commonly seen as a viable strategic solution to release

and redeploy capital more efficiently, as well as provide volatility protection to prevent historical results negatively affecting future earnings.

At a macro level, in an ever-competitive market, underwriting and investment results have been squeezed by rate pressures (driven by an abundance of capital) and persistently low interest rates.

In addition, the global harmonization of risk-based capital frameworks such as Solvency II and AM Best's BCAR have served to increase transparency in respect of the amount of capital required to support specific types of insurance activity. The knock-on effect of increased transparency is that it provides management with clear line of sight in respect of the areas to optimise in order to drive shareholder value.

Targeting loss reserves for optimisation in a low interest rate environment is increasingly popular (and entirely rational) given that the investment return being generated by loss reserve assets may not generate a meaningful return on the capital being allocated to support the activity.

It is becoming increasingly common for insurers to reduce reserve risk and market risk allocations by executing a portfolio transfer, particularly given that, in a firming rating environment, released capital can be recycled back into the business in order to maximise profitability.

Some example motivations when considering portfolio and company transfers include:

- Enabling strategic repositioning:
    - Remediating or exit a non-core line or territory that is absorbing too much capital or management resource.
- Protecting future earnings:
    - Managing underwriting volatility resulting in the reduction of earnings drag
    - Managing regulatory capital
    - Achieving specific risk based ceded capital target for compliance or regulatory purposes.

- Managing ratings:
    - Achieving or maintain a specific financial strength rating.
    - Improving operational efficiency and capability
    - Reducing overhead / opportunity cost of non–core business management.
- Addressing regulatory change:
    - Mitigating impact of regulatory change on future profitability e.g., to address Solvency II Standard Formula limitations or Ogden Rate change
- Supporting mergers and acquisitions:
    - Improving deal economics by removing uncertainty relating to portfolio loss reserves pre-transaction or tidying up a platform post acquisition.
- Driving growth:
    - Releasing capital and free management time in order to pursue better opportunities and maximise returns.

The market

With the market pressures outlined above stimulating demand for legacy and retrospective reinsurance solutions, deal activity would be muted without an efficient buy-side market willing to acquire the liabilities at competitive terms.

The legacy sector has developed into a sophisticated, well-capitalised and innovative market that continues expand both capacity and the range of solutions available to insurers and reinsurers alike. These solutions provide competitive risk transfer pricing and well-established operational infrastructures to mitigate the potential reputational risks associated with operational and claims management transfer.

Effectively communicating and, in turn, building on this level of market stability is critical to support the development of future opportunities and appeal to companies who are considering some form disposal.

Future trends

There is no doubt that in recent years the sector has been the recipient of increased market interest, both in terms of transaction volume and capital investment. However, 2020 and the first quarter of 2021 has provided unforeseen and, in many cases, unimaginable global challenges.

Although much remains uncertain regarding the speed at which different economies will emerge from the global pandemic, there are several trends to consider that may increase the level of interest by (re)insurers in portfolio and company transfers:

- Covid-19 has proved to be a catalyst for firms to reassess their strategies.
- Companies are actively looking to take advantage of competitive rating environments to release and reallocate capital to support growth.
- Shareholders are exerting pressure on dividend, return on equity and earnings that in turn may drive the removal of cost by divesting under-performing segments.
- Companies are considering external sources of financing and transition towards more capital-light operating models.
- Social inflation is encouraging the assessment of opportunity to de-risk in certain areas.
- There is an acceleration of digitalisation that may impact the appetite to maintain physical legacy documentation and/or technologies.

When overlaying the macro and micro economic drivers, as well as global regulatory developments, the appetite of companies to explore portfolio and company transfers is highly likely to increase. On this basis the legacy market is well placed to play an ever more prominent role in the insurance market lifecycle.