Global Insurance Run-off Survey

March 2024

Launch

In conjunction with:

THE VOICE OF LEGACY

Representing · Educating · Connecting

pwc.com/globalinsurancerunoffsurvey

Contents

Foreword	**1**
Key findings	**2**
A view from IRLA	**3**
Market size	**4**
Legacy hot topics	
Technology in the legacy market	8
Capital relief calculator	9
IFRS 17 is here – what does it mean for the run-off industry?	10
Environmental, Social, and Governance	12
Pillar II – Global minimum tax and how it affects the run-off sector	14
European solvency ratios	15
Deals landscape	**16**
Regulation and the evolving risk landscape	**22**
Global spotlights	
USA	24
Bermuda	25
Australia	26
Germany	27
Italy	27
A view from AIRROC	**28**
Market perspective	**29**
Contacts	**32**
Glossary of terms	**33**
Methodology	**34**

Welcome to the fifteenth edition of PwC's Global Insurance Run-Off Survey. As UK insurance and Lloyd's and London market leaders respectively, it has been interesting to watch the development of the legacy market over the course of the last decade.

When the first edition of this Survey was published, the term run-off evoked images of distress for insurance companies, often related to the tidal wave of asbestos claims that once threatened the London and Lloyd's of London markets. The idea of the legacy market developing into a core element of the insurance lifecycle, providing an outlet for insurers to safely dispose of non-core business lines and generate capital relief seemed a long way off. However, the pace of change in the run-off sector has been rapid. As our Survey has catalogued over the years, driven by waves of activity such as Solvency II, Brexit, and Lloyd's Decile 10 review, and with the catalysts of private equity supplying significant capital, and major brokers generating significant deal flow, the market is now a very different place. This is underlined by how many of our top tier insurance clients we see engaging with the legacy deals market, to optimise their capital and operations to realise strategic objectives.

The acquirer community has also become an important group of clients for PwC's insurance practice, with the network supplying a breadth of services to these players and their investors. These range from our traditional audit work, core diligence support in reserving and claims, to increasingly and excitingly, value creation initiatives. These encompass everything from capital and tax structuring to the use of artificial intelligence products and technology innovation, as acquirers look to create the most efficient operating platforms to maximise investor returns.

The Centre for the Study of Financial Innovation in association with PwC recently published Insurance Banana Skins 2023. This highlighted key risks and challenges facing re/insurers including cyber-crime, regulation, climate change and technology. As the live and legacy markets continue to converge, these risks will undoubtedly create opportunities for the legacy market. As Figure 1 indicates, our Survey respondents have a wide selection of views on the current status of the non-life run-off market, ranging from buoyant to being in a state of flux. Our view is that while the market has experienced some growing pains, it has consistently evolved, and the future remains exciting as it increasingly works in partnership with the live market.

Thank you to everyone who participated in the Survey. We hope you enjoy the contributions from PwC colleagues around the globe, and the quotes provided by many of the market's key players.

Figure 1: In one word, describe the current status of the non-life run-off market

Alex Bertolotti
Partner
UK Insurance Leader
PwC UK

Andy Moore
Partner
Lloyd's and London Market Leader
PwC UK

Key findings

For the first time, our Survey estimates that global non-life run-off reserves exceed US$1 trillion. While deal numbers reduced in 2023, gross liabilities transacted mirrored that of 2022, emphasising a move towards larger deals. Respondents to our Survey expect the pipeline of global deals to remain strong as we look to 2024 and beyond.

Global deal activity

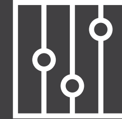
Most respondents expect global deals activity to remain at a similar level or increase over the next two years. 65% of respondents forecasted the North American market to experience greater levels of deal activity after a quieter 2023 – up 5% since our last Survey.

Appetite for liabilities

General Liability, Motor and Financial & Professional Liability are the top three most attractive lines of business according to our Survey respondents. The latter two placed outside the top three in our 2022 Survey, indicating the growing appetite for younger exposures and more diverse portfolios in the run-off market.

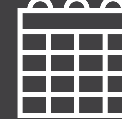
Technological opportunities

Our respondents identified claims processing and settlement as the most promising area for technology enhancement, followed by management information reporting and deal diligence. The legacy market has been slow to embrace technology, but the signs are positive that this is changing as acquirers increasingly invest to keep pace with their live market clients.



Value creation levers

Survey respondents selected proactive claims management as the top value creation lever in managing non-life run-off business, emphasising the importance of continued investment in technology. PwC UK's newly developed Capital Relief Calculator is a tool which can help with insurance capital agility and efficiency, aligned to the second and third ranked responses of investment management and capital structuring.



Run-off motivations

We asked our respondents to consider drivers for non-life run-off transactions, reflecting back five years, in the present and five years ahead. The legacy market has evolved from its focus on finality and removing underperforming business, to the current trend of facilitating capital relief solutions. Our respondents predict capital relief will continue to be a catalyst in five years, along with strategic restructuring where, for example, legacy may potentially complement future activity in the live M&A market.

Alison Kaplan
Senior Manager
PwC UK

Yanek Patel
Senior Associate
PwC UK

A view from IRLA

Just a few months ago, IRLA had the privilege of hosting an event to mark its 25-year anniversary, where we recognised members who were there in our founding days. Many reflected on the longevity of the legacy sector from those fledgling days, but also, and more importantly, of the strength and diversity of the sector now.

What is clear is that the nature and evolution of the sector is one of innovation, adapting to opportunity and competition, becoming more relevant and connected to the live re/insurance market now, more than it ever has.

There is a clear utility which the legacy sector provides to the live market, which is underpinned by the capital and professionalism supporting our sector. The Association sees this too, as we observe, encourage, and support our community in its natural and required evolution.

As I read the Global Insurance Run-Off Survey results, I'm reminded of this as a central theme with the continual and sustained flow of legacy transactions coming from the live market and, more recently, the increase in the use of reinsurance as a way of transferring risk to the legacy market.

In a year of political and economic change throughout the world, Survey respondents reiterate a sense that there is significant interest among sellers and investors in our sector. We should be in no doubt that the active legacy sector is valued globally.

Given the recent launch of the IRLA Bermuda branch and increased activity in the IRLA Asia branch, I am drawn to the significant expected transaction levels for North America and the Rest of World. This aligns with what we are seeing by way of membership desire and take-up, and with the evidence our colleagues share with us about increasing activity in these regions.

We have also seen greater use and integration of investment management, both to manage risk and provide returns. We see, and the Survey supports, an increasing application of technology to enhance pricing, diligence, and efficient management of portfolios.

The legacy sector is not immune to market and economic forces, as well as the inherent risks from re/insurance. The trend towards more recent underwriting years being taken on by the legacy sector has contributed to greater volatility and inflation risks being seen.

This is part of being relevant to the global market, which has become increasingly interested in offloading 'fresher' lines of business. Whilst some legacy acquirers have exited the market, there still is a plentiful supply of active participants and all areas of the legacy sector continue to attract interest from investors.

IRLA and its members are certainly alive to its challenges, taking care to accurately assess risks and structure transactions to get the right risk/reward balance. Supplying relevant solutions and responding to the needs of the market keeps legacy an increasingly important option for boards.

The team at PwC UK have supplied useful insight into the legacy sector through this Survey as we begin 2024, and on behalf of IRLA and our community we thank them for this.

"The legacy market continued to see high levels of activity in 2023, despite ongoing uncertainties in the broader global economy. As the market has matured, legacy has become a crucial pillar of the broader re/insurance value chain. Enstar has been at the forefront of this progression. We are specialist underwriters, delivering innovative solutions that act as a vital lever for re/insurers' long-term risk and capital management strategies."

Orla Gregory – President, Enstar Group

Kevin Gill
Chairman
IRLA

Market size

Global insurance run-off market

We estimate that global non-life run-off reserves are US$1,014billion, a 6% (US$53billion) increase since our last Survey. This is the first year our estimate exceeds US$1trillion. This Survey's estimate is based on data as at YE2022, and the last Survey's estimate was based on data as at YE2021.

Hard market conditions have prevailed for a few years now, across an array of geographies and lines of business. The largest premium rate increases applied to Financial & Professional liability business when the market started to turn in 2019, and more recently to Property business, particularly in reinsurance and in the US.

We expect business that has recently gone into run-off to be more profitable than business written during the softer years of 2014-2018. This may result in greater potential reserve releases, and an accompanying incentive for insurers to accelerate those releases through legacy solutions. Such solutions may also be relatively more attractive to those looking to transfer risk, compared to more expensive and less available reinsurance options. Moreover, insurers could expect to generate a greater return on capital employed under hard conditions, and so could benefit from releasing capital supporting back books to do so.

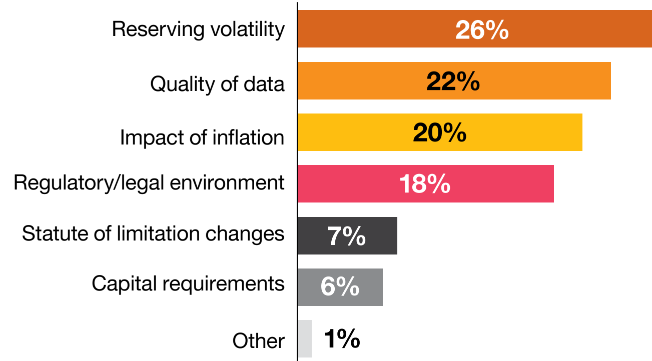
Global non-life run-off reserves are estimated to be more than

US$1trillion

Our expectation of more profitably written business going into run-off implies that total run-off claims will be a lower proportion of total run-off premiums (i.e., a lower loss ratio) compared to our earlier estimate. However, our estimate of the total run-off reserves in absolute terms continues to increase, driven by the inflation that the market has experienced.

While the size of the market continues to present a significant opportunity for legacy acquirers, Figure 2 provides a reminder of the key risks associated with assuming a non-life run-off portfolio. Reserve volatility, and inflation feature prominently, and underline the critical need for legacy acquirers to maintain underwriting and pricing discipline, supported by robust diligence when completing deals.

Figure 2: Respondents' views of what are the biggest risks for a consolidator to consider when assuming a non-life run-off portfolio



Nick Watford
Partner
PwC UK

Hannah Vaughan
Partner
PwC UK

Figure 3: The geographical breakdown of our estimate of global non-life run-off reserves

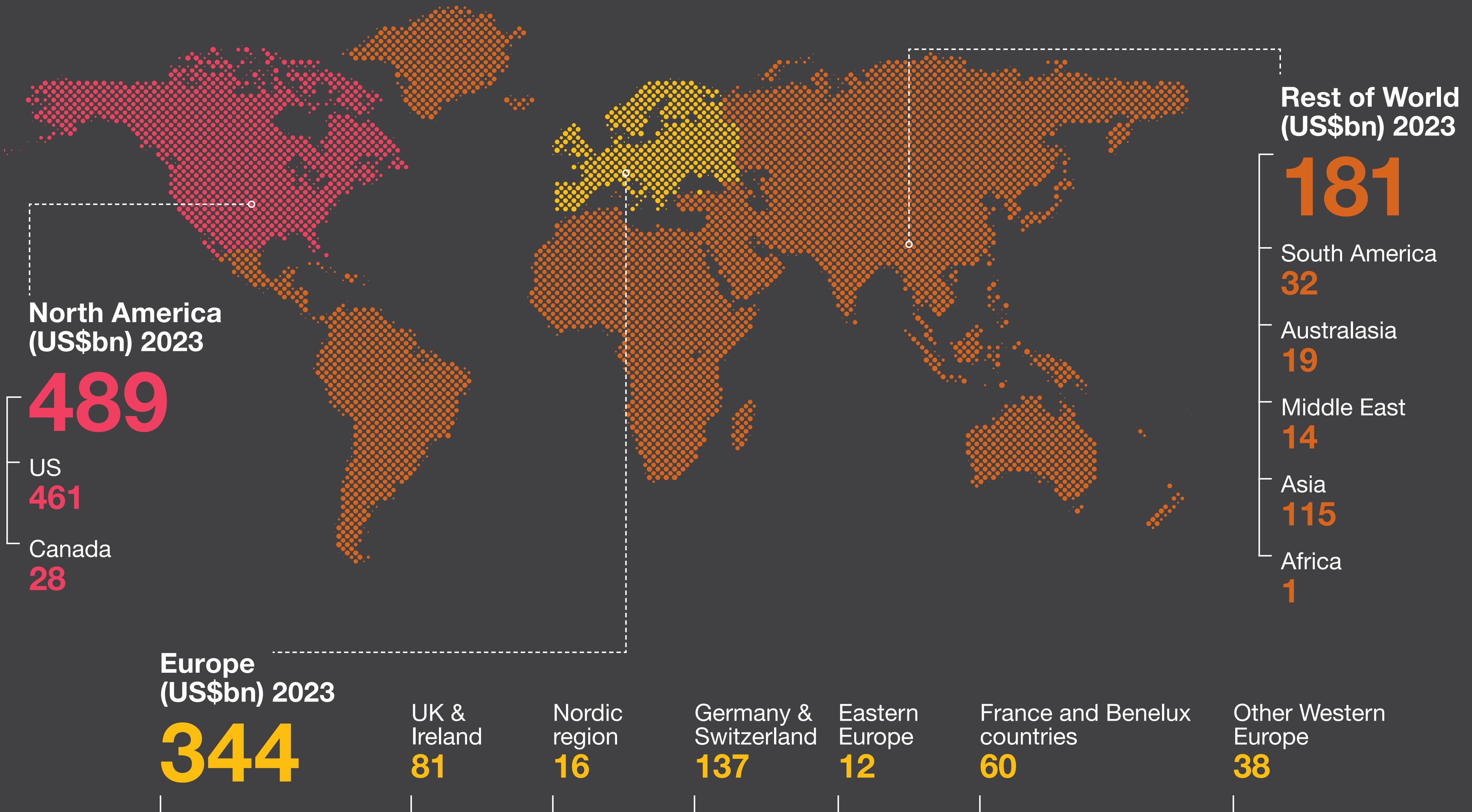
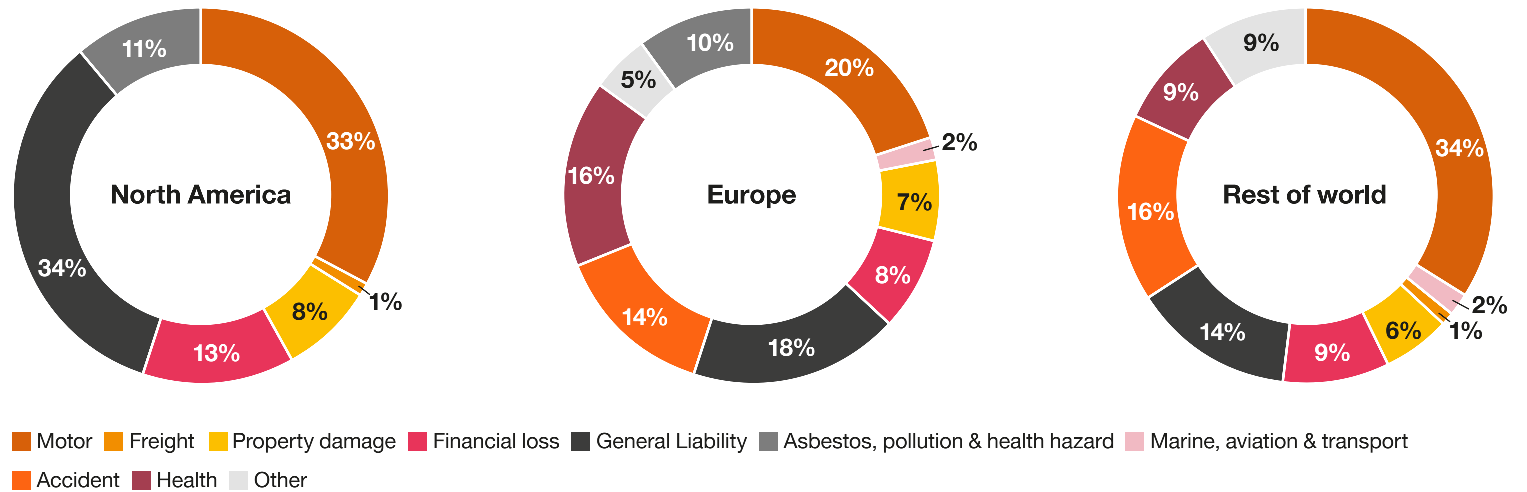


Figure 4: Reserves split by line of business for North America, Europe and the rest of the world



Note – Excludes long term care business, specifically Accident and Health

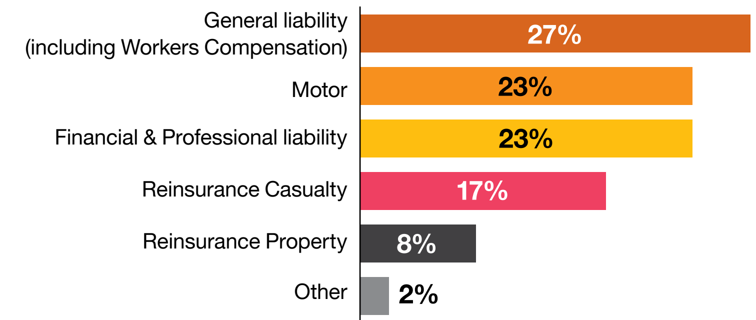
Figure 4 shows the estimated split of non-life run-off reserves by line of business for North America, Europe, and the rest of the world. The splits are similar to those in our last Survey, with motor and general liability reserves dominant given the respective volumes of business written. Also, these two lines of business are expected to attract the most interest in transactions in the run-off market in 2024 as illustrated in Figure 5.

“After a somewhat turbulent latter half of 2023, we look forward to an exciting year ahead. Cedent enquiries remain positive, with clients increasingly interested in exploring innovative solutions to enhance earnings, capital and operational efficiencies. Markets continue to react with optimism, but price hardening across certain lines and geographies, as well as increased opportunity selection bias means that optimising portfolio composition, managing price expectations, facilitating efficient due diligence processes and creating effective term structures will be critical to successfully executing deals in 2024.”

James Dickerson – Executive Director, Global Head Retrospective Solutions , Gallagher Re

Whilst general liability has historically been a popular line of business for transactions owing to the long-tailed nature of its claims, there has been a significant increase in attention to motor business over the past year. For example, a loss portfolio transfer for motor insurance liabilities was agreed in Q1 2023 between Marco Capital and Markel International. The pronounced impact of inflation on motor claims which sellers are seeking to mitigate is expected to lead to further legacy activity.

Figure 5: Percentage of which lines of business respondents think will attract the most transaction interest in 2024



Inflation

At the time of our last Survey, the heightened inflationary environment had only just started to have an impact on legacy reserves. Our reserve estimates in this Survey capture the impact of inflation since then and our view of its potential future trajectory. Each line of business is affected by inflation differently, depending on the underlying causes of loss. We have forecast various combinations of inflation indices for each line of business to reflect this. For example, motor damage claims feature the cost of parts and so may be linked to the CPI, while motor injury claims feature the loss of earnings and so may be linked to wage inflation. Property damage claims on the other hand could be expected to track construction cost inflation closely.

Figures 6, 7 and 8 show annual CPI, wage, and construction cost inflation rates for the US, UK and Eurozone. For each of these indices, inflation rates have increased since 2019. The combined global impact of supply chain disruptions and increased demand for materials can be seen in the construction cost index, which was particularly heavily impacted. As seen in Figure 6, the Eurozone had the largest increase in inflation rates between 2021 and 2022, as a consequence of the Russia Ukraine war.

The PwC UK Economics team expects economic inflation to return to average pre-2019 levels by April this year. However, there is still considerable uncertainty around claims inflation. The emergence of this sizable risk has created a demand from insurers for solutions to transfer it, such as back-book transactions of business underwritten with quite different inflation expectations. Run-off consolidators have hence been presented with new acquisition opportunities, however the inclusion of inflation risk within a transaction's risk premium is now more important than ever before. The impact of inflation was cited in this year's Survey as one of the top three risks for a consolidator to consider when assuming a run-off portfolio.

Inflation became an issue from late 2022. Pricing on legacy deals has now caught up with the inflation impact on these books, especially regarding US Casualty. It remains to be seen if pricing improvement and higher investment income will fully offset its impact."

Simon Minshall – Chief Executive Officer, Marco Capital

Figure 6: Consumer price Index

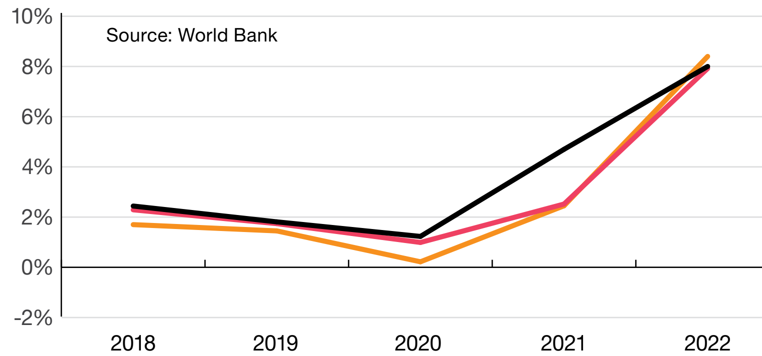


Figure 7: Wage

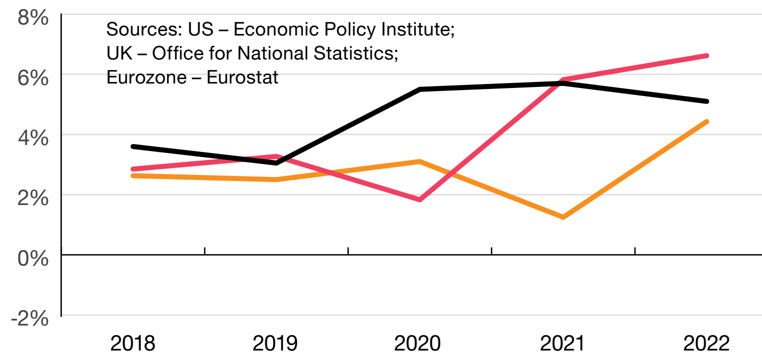
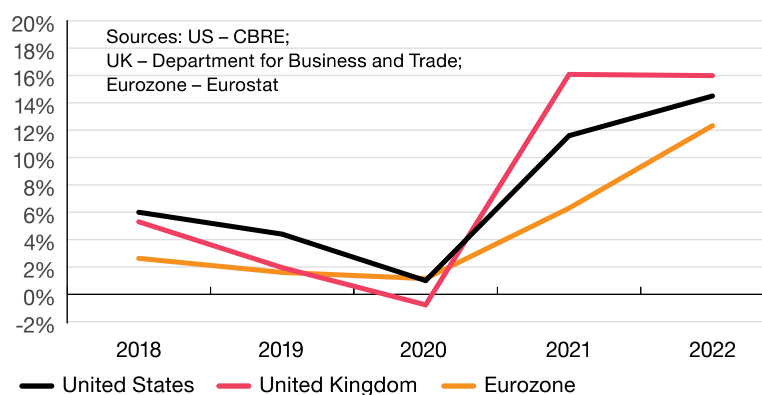
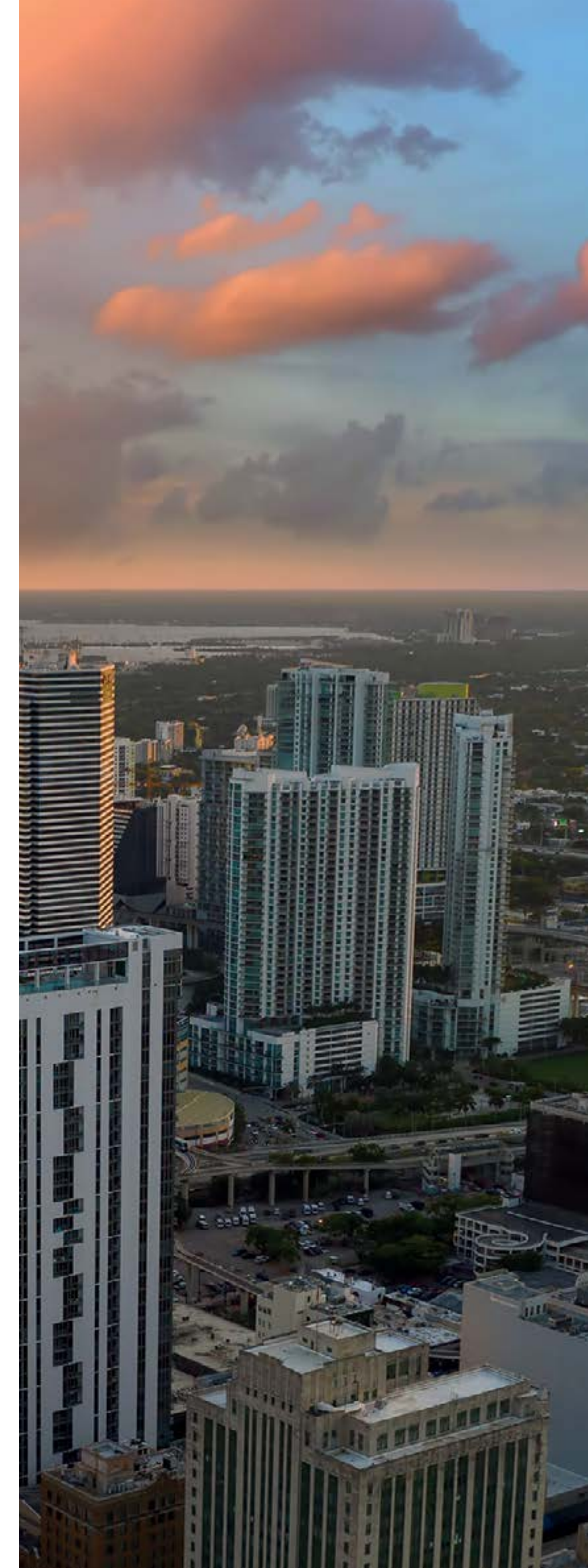


Figure 8: Construction cost





Technology in the legacy market

It is fair to say that historically the use and maturity of technology within the legacy sector was relatively basic, comprising mainly ‘core’ operational systems, e.g., claims processing and finance management, many of which originated as green screen applications in the 1970s. The live insurance market has increasingly embraced and invested in technology, progressing its use from operational systems, to supplying enhanced insight, enabling sounder decisions and an entire range of more advanced tools that support underwriting, claims and beyond.

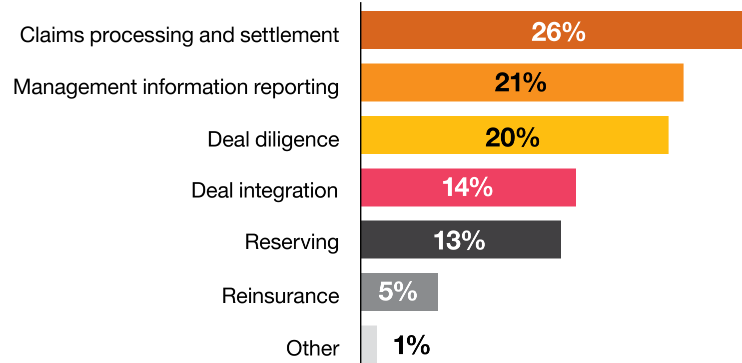
While these insurers have significantly invested in technology and data the legacy market has not kept pace, perhaps finding a strong business case difficult to justify. Consequently, each year the gap between the sectors steadily increased.

Over the last few years, we have seen this delta close, initially quite slowly and only in certain areas such as data ingestion and interrogation. We are now seeing an acceleration in the use of more modern technology platforms, whether that be for operational systems or increasingly newer technologies including cloud computing and various forms of AI. A consistent example is to support the deal lifecycle which requires the rapid analysis of substantial amounts of data, both provided by the seller and other sources that are readily available to the buyer. Not only can technology enable the analysis of more data, it also does it much faster than a more manual model supported by older technology.

The advantages are better insight, faster delivery, and providing clarity to decide whether the potential deal should not be pursued or moving forward with greater comfort. Getting to a ‘no’ quickly can save both time and cost, meaning valuable resources can be redeployed to other opportunities, which increases the number of deals that can be reviewed, and improves the quality and comfort in the deals that progress.

The positive outlook for application of innovative technology, such as AI, are clear in the legacy sector, as noted by our respondents in Figure 9. Opportunities seen for technological enhancements, particularly in claims management and processing, management information reporting, and deal diligence will enable the sector to take a leading role in its use within the insurance industry.

Figure 9: Respondents’ view of which aspects of the legacy deals market they think presents the greatest opportunity for technological enhancement



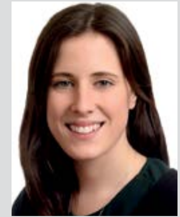
Michael Cook
Partner
PwC UK

Capital relief calculator

To help sellers understand the potential impact and advantages of a legacy transaction, we have developed a Capital Relief Calculator (CRC).

The CRC can supply a quick, resource-light, quantitative estimate of the capital benefit that could be achieved from transacting different segments of reserves. Our tool, hosted by PwC UK, takes standard capital returns and helps show which classes of business may be most capital intensive. The interactive user interface can then be used to estimate the proportion of capital that could be released if a subset of reserves is sold. While the tool is not designed to replace full-scale capital modelling, it allows for a quick initial analysis of potential strategies for legacy books.

If you would like to discover more about the CRC, please contact Hatty Sharp (contact details on page 32).



Hatty Sharp
Senior Manager
PwC UK

"Carrick continues to see interesting and attractive opportunities in a legacy market that continues to grow and evolve. Disciplined underwriting is critical to providing the returns our investors expect and commercial but technically strong claims handling will always be a key driver of value. In achieving our growth ambitions, we will look to exploit opportunities to adopt innovative technology and be smart around our operating and capital structures."

Phil Hernon – UK and Europe Managing Director, Carrick Holdings Ltd

IFRS 17 is here – what does it mean for the run-off industry?

After many years in the making, IFRS 17 is now live and has had wide-ranging implications on the whole insurance industry. But what about the run-off sector – is this a storm in a teacup or could it lead to changes in the market for run-off transactions?

What is IFRS 17?

IFRS 17 is the new financial reporting standard for insurance contract accounting, which came into effect on 1 January 2023. It applies to companies reporting under IFRS and is intended to drive consistency across the insurance market and comparability with non-insurance entities. Replacing IFRS 4, the transition to IFRS 17 has fundamentally changed accounting for all impacted insurance entities – across financial statements, key performance indicators, financial reporting processes and operations.

Under IFRS 17, the main accounting measurement model for insurance liabilities is the General Measurement Model. Insurance contract liabilities are measured on a discounted best estimate cash flow basis, plus the addition of an amount to reflect the entity's compensation for bearing risk (risk adjustment) and an amount reflecting the profit embedded within the unexpired part of the business. A simplified Premium Allocation Approach is permissible for short duration contracts; measurement is operationally simpler, aligns more closely with the current IFRS and has less onerous disclosures. It is therefore extremely attractive to most general insurers.

How does IFRS 17 impact the run-off market?

For companies buying run-off portfolios through mechanisms such as ADC, LPT or other equivalent transfers of liabilities, the conversion to IFRS 17 is often proving more complex than expected.

IFRS 17 defines the insured event for deciding coverage under insurance, for events that have already occurred, e.g. ADC, as the date the underlying claims are ultimately settled – often many years in the future. It is therefore unlikely that the "short duration" simplification will be permissible.

Under IFRS 17, there are specific requirements to measure the contracts bought in a business combination or LPT, which impact the valuation of such contracts at acquisition and thereafter. For example, the fair value of contracts at the transaction date is used as a proxy for premiums received or paid at the date of initial recognition. The IFRS 3 requirements for recognition of a bargain purchase gain or goodwill, however, are unaffected by IFRS 17.

IFRS 17 has introduced challenges and changes for run-off acquirers including:

- **Profit emergence –** Ultimate profit from a transaction stays unchanged but the timing of profit recognition will typically be deferred. This could affect investor perception, dividend payout patterns and potentially, deal pricing depending on the pricing bases used. Articulation of the "value story" to the investor community will be more important than ever.
- **Transition –** The impact on net equity from the transition to IFRS 17 and the associated tax implications will depend on the technical positions adopted, and whether transition relief that exists under certain circumstances is available.
- **Technical complexity –** Considerable time, effort and cost are needed to agree and then implement technical policies.
- **Operational implications –** IFRS 17 has had a significant operational bearing across all impacted entities. Substantial cost and effort are needed to obtain additional data, build more complex measurement models, create, and govern new financial reports accounts and disclosures, and embed IFRS 17 into business-as-usual reporting processes.

Graham Oswald
Partner
PwC UK

Charlotte Toumi
Senior Manager
PwC UK

Will IFRS 17 drive changes to the run-off industry landscape?

Although one would not typically expect a new accounting standard to unduly influence the market for run-off deals, the financial implications and added complexities associated with transition to and reporting under IFRS 17 at least call for consideration when thinking about the future of the market for run-off portfolios and liabilities. Potential areas include:

- **Transaction structure –** Different deal terms or structures (e.g., reinsurance, transfer, or entity purchase) may become relatively more or less attractive to buyers and sellers under IFRS 17. For example, more onerous reporting requirements for cedents transferring liabilities through ADCs may impact the relative attractiveness of business combinations or other mechanisms which expedite legal finality.
- **Pricing –** The prevailing accounting standard is unlikely to be a key driver of deal pricing unless this becomes a biting constraint due to dividend distribution.
- **Group structure –** The impact of operating in different jurisdictions and under different accounting standards across a complex group will need to be clearly understood as companies strive for an optimal intra group structure. Prevailing accounting standards will continue to be a key factor in this thinking.

It is still to be seen whether the emerging market landscape will be directly or indirectly influenced by IFRS 17. The innovative and resilient nature of the run-off industry will need to continue to navigate a path through these challenges.

Insurers continue to be interested in the disposal of traditional run-off portfolios but are also now considering the legacy market an attractive option for enabling the freeing up of capital and providing greater certainty around historic reserving risk more generally. However, higher levels of inflation and the uncertainty that brings combined with the introduction of IFRS 17 and the discounting of P&C reserves has increased the challenges for insurers seeking a solution.”

Simon Barnes – Chief Executive Officer, Zurich Legacy Solutions

Environmental, Social, and Governance

Over US$1trillion[1] of the world's total insurance premium volume has been covered by public commitments to fully decarbonise underwriting portfolios by 2050. The legacy market has a significant opportunity to facilitate a well-governed transition out of hard-to-abate sectors as the live market looks to decarbonise.

ESG is rising to prominence as companies face increased expectations from investors, regulators, employees, and customers. Two of the primary impacts on the legacy market are:

1. As regulated insurers, legacy players will have to comply with associated governance, regulatory and reporting standards; and
2. Legacy insurers have an opportunity to partner with the live market to address the changing requirements and landscape.

This is supported by our Survey responses shown in Figure 10, where 81% of participants forecast a role for legacy in the ESG landscape.

Regulatory and reporting standards

Regulation on ESG related reporting is rapidly developing across the globe, compelling companies to share information on how they monitor a wide range of ESG issues and their impact on our planet. For example recent EU regulation, the Corporate Sustainability Reporting Directive, requires companies to report on how their business is affected by sustainability risks and opportunities, as well as how their own activities impact society and the environment. The standards call for intensive review of over 1,000 data points, across ten key ESG topics, including pollution, resource use and biodiversity, and spanning the entire value chain.

Whilst a portion of sustainability disclosures proposed in emerging regulation relate to current underwriting, there will still be elements which the legacy market, as regulated insurers, will need to follow. Moreover, given the detailed disclosure requirements and growing demand for transparency, all market participants will face increasing pressure from investors and customers to show similar information.

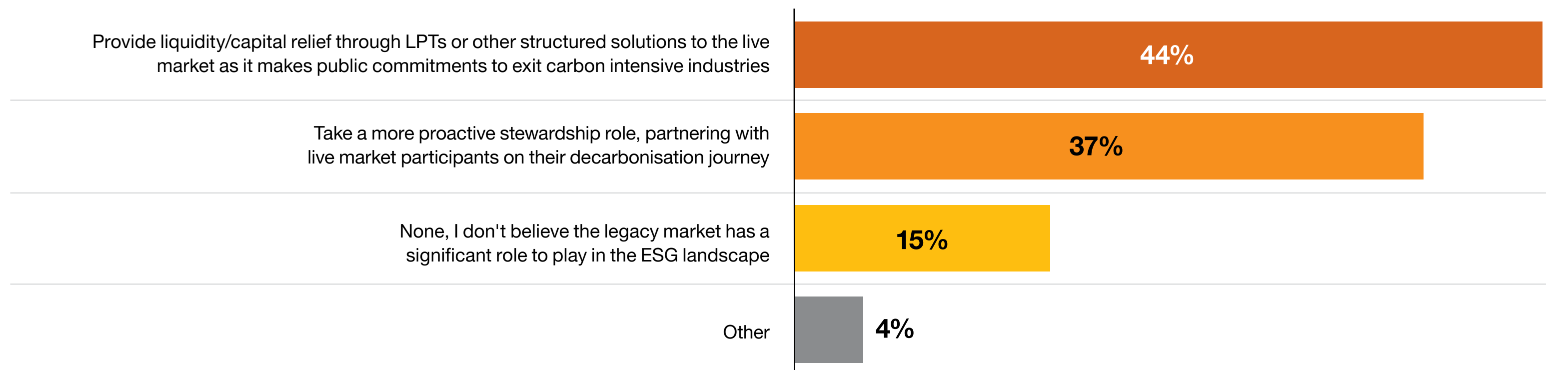
Gregory Overton
Director
PwC UK

Sumaali Chheda
Senior Manager
PwC UK

[1] Source: Statista – direct premiums written globally in 2022, and January 2023 NZIA Target Setting Protocol. Assumed to cover life and non-life insurance.

Note – Figures based on peak NZIA membership of 30 re/insurers. Several re/insurers have since left NZIA over antitrust concerns and there are now 11 remaining members (as of January 2024). Despite leaving NZIA, many former members have reaffirmed their public commitments to decarbonise underwriting portfolios by 2050.

Figure 10: Responses to "what role should the legacy market play in the ESG space?"



Is the legacy market prepared to meet the direct and indirect expectations driven by ESG regulation?

Insurers are setting interim decarbonisation targets as early as 2030, primarily across commercial and personal motor lines of business. As the live market exits from underwriting in hard-to-abate sectors (e.g., manufacturing, transportation, chemicals and fertilisers), they may increasingly look to transfer the associated legacy portfolios. The legacy market has a history of stewarding unwanted liabilities such as asbestos and pollution. It is well positioned to supply liquidity and capital relief to the live market through standard legacy arrangements. Pricing for these books will be intriguing as they may not be "stressed" in the same way as other legacy portfolios. This type of arrangement enables the legacy market to supply social value by supporting a smooth and well-governed transition out of carbon-intensive industries.

81%

of Survey respondents agree the legacy market has a role to play in the ESG landscape.

Pillar II – Global minimum tax and how it affects the run-off sector

Pillar II, the OECD's global minimum tax, applicable to both public and privately held multinational groups with consolidated revenue over €750million, is the biggest change in the global tax system in a generation. Effective in many jurisdictions from 1 January 2024 Pillar II aims to prevent multinational groups from shifting profits to low-tax or no-tax jurisdictions by imposing a minimum 15% tax rate on the profits of large groups. It may substantially increase the effective tax rate for affected groups.

Bermuda and the Cayman Islands are two of the leading offshore jurisdictions for the run-off sector, either directly or through reinsurance arrangements. Bermuda is introducing a corporate tax system from 1 January 2025 that will apply to any group large enough to be caught by Pillar II. In contrast, the Cayman Islands have decided, at least currently, not to implement a corporate income tax system at all. The difference between these two approaches may have significant consequences for those in the run-off sector who have legacy carriers or reinsurance operations in these territories.

The Pillar II minimum tax rules can differ in their application depending on where a group is ultimately headquartered, or where a particular low/no tax entity sits in the overall group structure. Some groups in the industry have already decided to undertake a degree of restructuring and we expect to see legacy groups consider their structures carefully as Pillar II becomes embedded.

Bermuda's corporate income tax system will allow the Bermudan authorities to collect tax revenues which, without such a regime being put into place, would be collected by tax authorities in other jurisdictions. In contrast, the Cayman Islands have decided not to implement a corporate income tax system despite international pressure, seeing it as a significant challenge to their reputation for being flexible and business friendly. Certain groups may be able to keep the zero-tax regime for their Cayman operations, depending on the current structure. Others are likely to be subject to 'top-up' taxes levied by other countries, but effectively paid on the profits generated in the Cayman Islands.

However, the Cayman Islands' decision could also expose them to the risk of being considered as a non-cooperative jurisdiction by the OECD and other international bodies, which could result in sanctions, reputational damage, and reduced access to global markets and investors.

All new major tax rules require significant investment into systems and compliance and Pillar II is no exception. In fact, many groups have already spent considerable time modifying systems to cope with the complex reporting requirements. Therefore, new entrants and existing players looking to expand would need to carefully weigh the costs and benefits of where they choose to situate, and watch closely for further developments, as the landscape on Pillar II is still very much evolving.

Sarah Robinson
Director
PwC UK

European solvency ratios

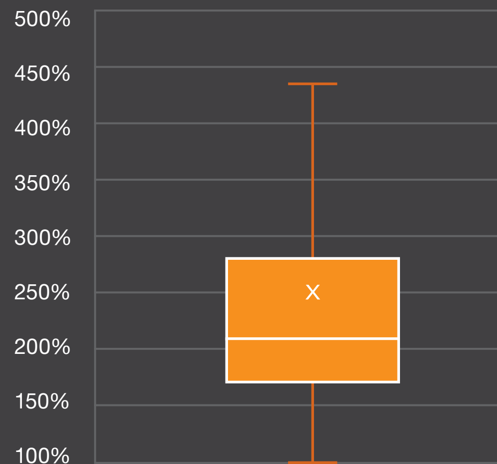
In preparing for this Survey, we analysed European solvency ratios to assess whether movements in this key metric may be an influence on future legacy activity. The first two graphs below show the Total Eligible Own Funds to meet the SCR as a proportion of the SCR for 1139 European non-life insurers at YE2021 and YE2022 (being the most recent regulatory data available). The overall strength of this market from a capital perspective by this metric appears to be the same at both points in time, with the average solvency ratio at c.250%.

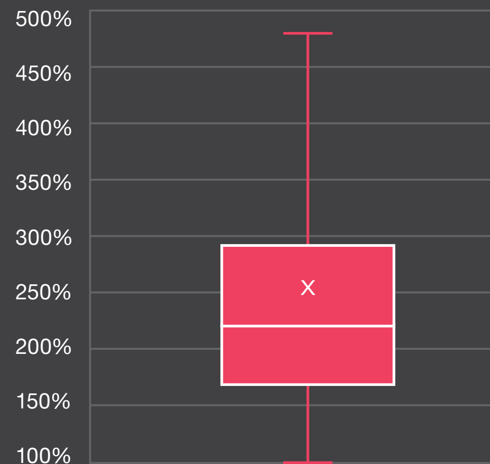
The interquartile range (which forms half the market) was c.170%-280% at YE2021, while it was c.165%-295% at YE2022. This greater spread is explained by increased interest rates in 2022, with the variety of asset-liability mixes resulting in a divergence of solvency ratio movements. Reduced asset values on fixed income drove reductions in solvency ratio, whilst increased forward-looking expected investment profit and discounting of liabilities drove increases in solvency ratio.

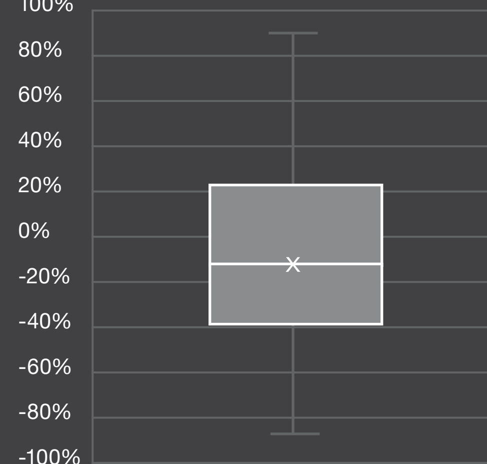
The third graph below shows that behind the overall increase in solvency ratio, there have been significant movements in solvency ratio at an individual insurer level. Approximately half the market experienced a movement of greater than 20%, with solvency ratio decreasing by more than 21% for a quarter of the market whilst increasing by more than 24% for another quarter of the market.

Run-off solutions could be more attractive to outlier firms, with transactions supplying opportunities to insurers at both ends of the capital spectrum. Those with limited capital could use the run-off market to transfer capital-intensive lines, and those with excess capital could use the same to support capital releases. With cost of capital continuing to be higher than in recent years, we expect a strong appetite for deals in the run-off market from both sellers and buyers looking to optimise capital structures and returns.

Figure 11: European non-life solvency ratios







Source: © A.M. Best Europe – Information Services Ltd. — used with permission.

Philip Jacob
Director
PwC UK

Charan Maheswaran
Senior Manager
PwC UK

Deals landscape

A market in transition?

2023 saw a total of 30 publicly announced non-life run-off deals, with an estimated US$8.1billion combined gross reserves transferred to legacy market participants.

The market experienced a record-breaking first quarter in 2023, with 11 deals including three super-sized US$1bn+ deals completed by Enstar Group, RiverStone International and Compre Group. The rest of the year was quieter with 19 further deals concluded. In comparison, 2022 saw 49 deals publicly announced which transferred the same estimated US$8.1bn of reserves to legacy market participants. This clearly indicates a trend towards larger deal sizes and is one we expect to continue as the market develops.

It is also increasingly apparent that acquirers are becoming more selective when evaluating the strategic fit of new opportunities in order to maintain mid-teen return expectations from these deals.

For the first time in perhaps a decade, the legacy market has seen a net outflow of participants, and the market today features a much more disparate set of acquirers than ever before. We see a small pool of players capable of executing the largest capital relief type transactions, a middle tier of participants that have been less active in the last twelve months as they dealt with restructurings and refinancings and a number of small players content to focus on much smaller deal sizes. We expect that the cohort of buyers will continue to change through a mixture of new entrants, consolidation plays and exits in the coming years.

Strong activity in UK and Ireland

2023 was a busier year for non-life run-off deals in the UK and Ireland with 13 deals announced, exceeding the 11 deals announced in 2022. This was driven by an active Q1 with RiverStone International announcing five Lloyd's deals, and Marco Capital also announcing two UK transactions in that period. The UK & Ireland were also the largest contributors to the estimated total liabilities transacted in 2023 with US$3.4bn (US$1.5bn in 2022). Survey respondents recognise the relative maturity of the UK & Ireland markets with c.90% expecting similar or fewer run-off deals in the next two years when compared with recent levels of activity. This is perhaps unsurprising, considering UK & Ireland deals completed in recent years have swept up a significant proportion of legacy reserves in the region, particularly at Lloyd's. Following the strong start to 2023, Lloyd's RITC activity was noticeably quieter in the remainder of the year. We think that in the foreseeable future a more predictable "Lloyd's legacy market cycle" will be evident whereby a year of very significant RITC activity is followed by a more fallow period.

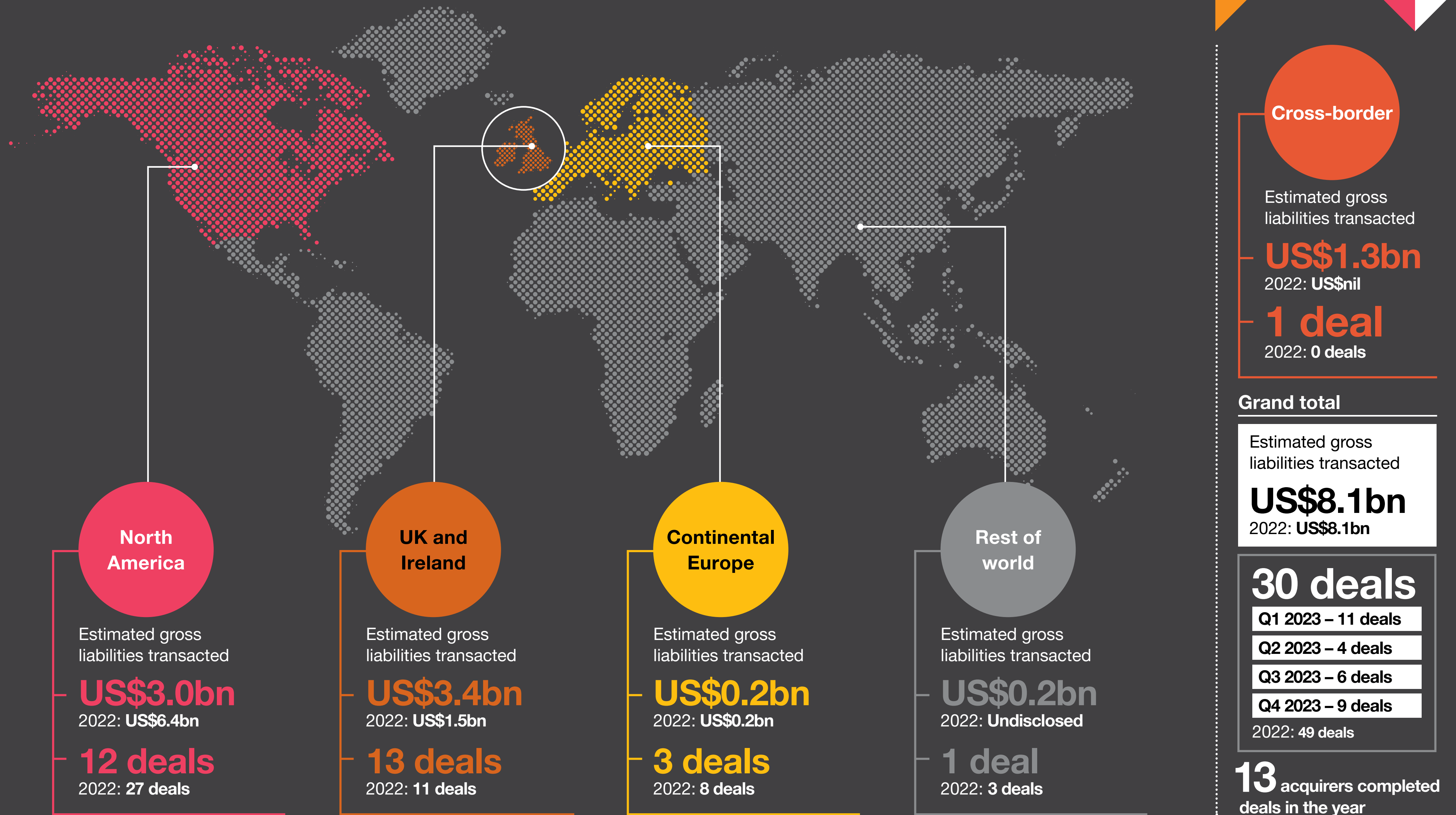
RiverStone International is positive about the continued demand for legacy solutions in the Lloyd's market, despite tapering of deal volumes in 2023, which was to be anticipated following the heightened activity of the preceding years. Significant levels of older year of account reserves remain on the balance sheets of live syndicates, and higher costs of capital, a persistent focus on operating costs and performance management, digitalisation, restrictions being placed on the use of letters of credit and a continued drive by Lloyd's to facilitate new capital entry to the market all have the capacity to drive legacy deal flow over the near and medium term. With 2023 having seen RiverStone International's Lloyd's syndicate become the largest in the market, it is clear legacy providers have a critical role to play in supporting the market to deliver strategic priorities and a commitment to operational excellence will ensure this relevance survives."

Andrew Creed – Group Chief Financial Officer, RiverStone International

Alan Augustin
Director
PwC UK

Robbie Kerr
Senior Manager
PwC UK

Figure 12: Deal activity by region in 2022 and 2023



North America cools down

Perhaps one of the surprises in 2023 was the reduction in deal numbers and volumes in North America, both falling by approximately 50% compared to the activity seen in 2022. The strong activity in this market looked set to continue after a couple of large deals in Q1 2023 involving predominantly US liabilities were announced. However, the rest of 2023 was quieter, leading to overall estimated gross reserves transacted for 2023 of US$3.0bn spread across 12 deals compared to US$6.4bn in 2022, across 27 deals. Despite the downturn seen in 2023, North America continues to be a primary focus for non-life run-off acquirers. Indeed the majority (65%) of respondents to our Survey expect the number of run-off deals to increase in North America over the next two years, showing an elevated level of confidence in the region.

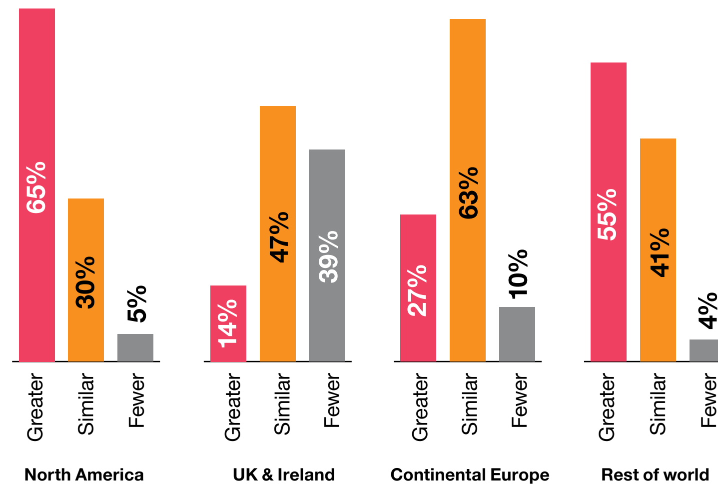
Continental Europe and the rest of the world

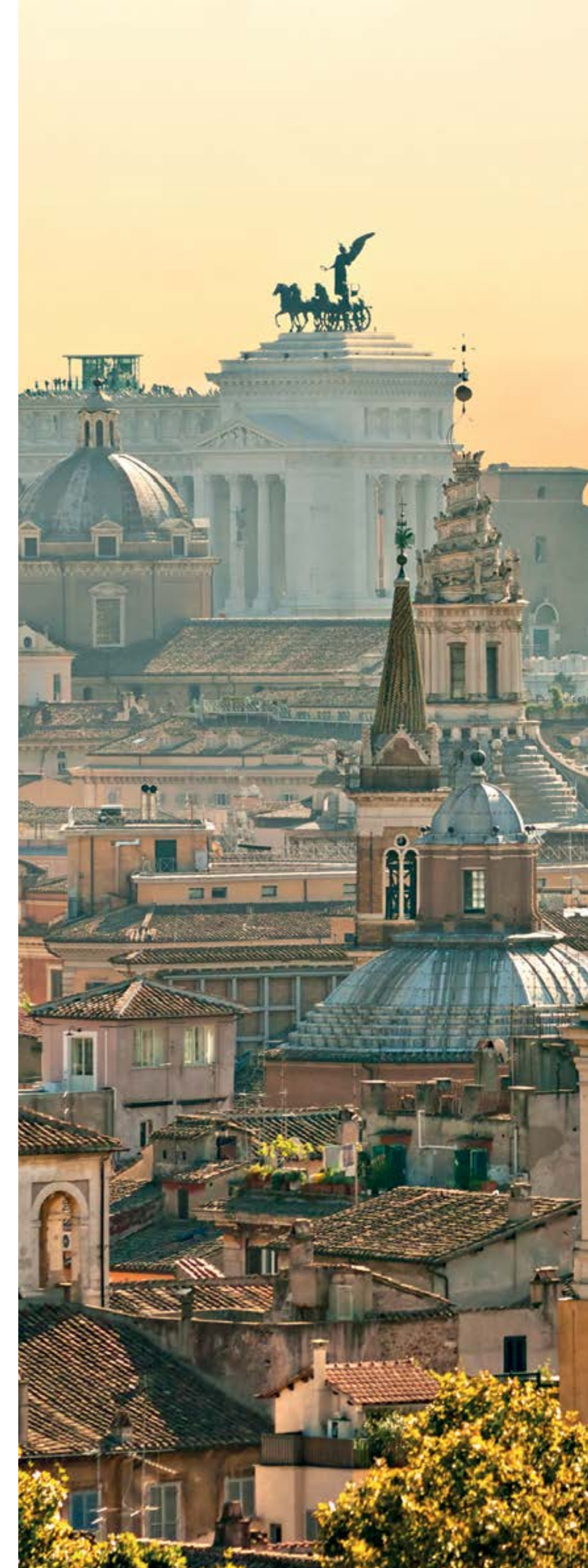
The adoption of legacy solutions on a wide scale outside of the traditional UK and North American run-off markets remains untapped. Continental Europe saw three publicly announced deals in 2023 involving US$0.2bn of gross reserves. Notwithstanding a quiet 2023 for deals in Europe, there remains tentative optimism amongst our Survey respondents that deal volumes will increase. Nearly a third of Survey respondents expect deal activity to pick up in the next two years, while nearly two-thirds expect activity to remain at similar levels.

Deal volume in the rest of the world was low in 2023 with only one recorded deal, compared with three in 2022. Over half of our Survey respondents predict greater levels of deal activity in the next two years.

Overall, we expect the traditional markets to continue to occupy the focus of legacy market players and activity in both Continental Europe and the rest of the world will be more opportunistic.

Figure 13: Respondents' views of how they think the relative number of run-off transactions will change in each territory over the next two years





It is beyond doubt DARAG's preference to assume claims control given that proactive management and the additional focus that we can provide as a legacy buyer has generated consistent value and above industry outcomes. However, we understand that certain cedants have legitimate business and operational reasons which make relinquishing claims control a deal breaker or an impossibility. We have found successful ways of ensuring alignment and adding value in such cases through general cooperation/large loss referrals, joint litigation oversight and other structural features designed at protecting both parties' interests. In the cases where we have agreed to such arrangements, there has been a sense of shared values, high quality prior and ongoing claims handling, in addition to long standing, trusted partnerships."

Tom Booth – Chief Executive Officer, DARAG Group

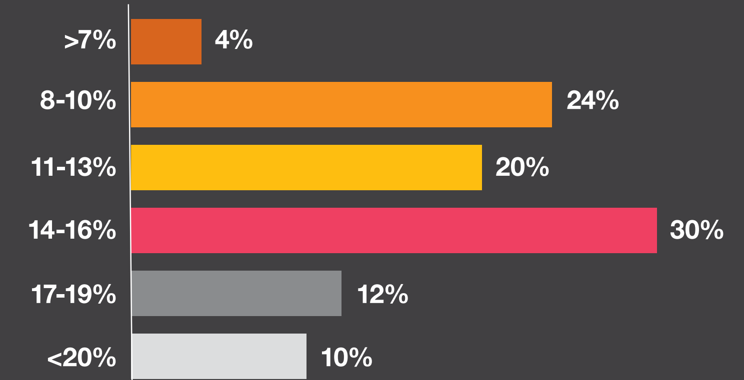
Market dynamics, returns and value creation

The deals landscape continues to involve a wide range of transaction structures with the 30 deals announced this year including Lloyd's RITCs, LPTs, ADCs, novations, and share sales. The trend for economic over legal finality solutions in the legacy world remains. The North American market in particular, only saw one IBT complete during 2023. However, during the year PwC UK supported a global private medical insurer with four simultaneous IBTs in Singapore, Hong Kong, Ireland, and in the UK, illustrating that legal finality solutions remain a viable option in securing complete exits from legacy portfolios.

We once again asked Survey respondents to consider the IRR targeted by acquirers as show in Figure 14. It was interesting to note that the average IRR from our Survey respondents was c.14%. Compared to 2022, 2023 shows a marked increase – 52% versus 36% of Survey respondents suggested an IRR of 14% or greater is being targeted. Close to a third of respondents suggested that an IRR of 14%-16% is targeted which has often been the benchmark cited for legacy deals.

For much of the past decade, in the prevailing lower interest rate environment, these returns looked attractive to investors and perhaps goes some way to explaining why private equity investment in the non-life sector has not been as prolific in the past couple of years.

Figure 14: Respondents' views on what internal rate of return percentage they think consolidators are pricing run-off deals



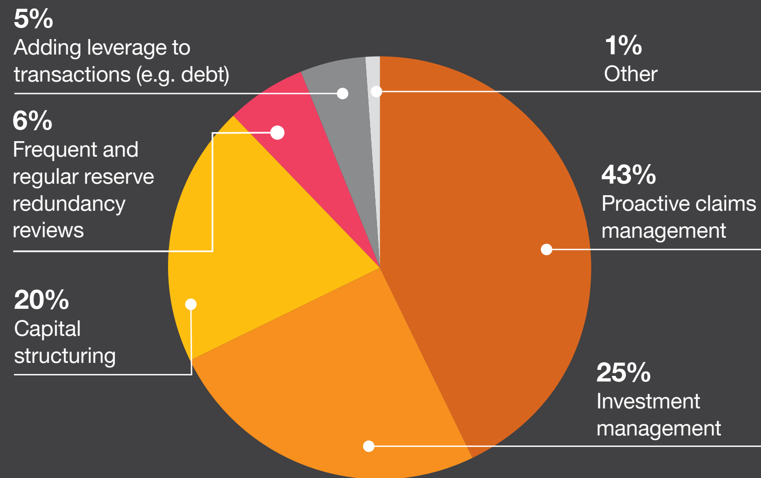
We are confident there is, and will continue to be, sufficient capital to meet anticipated deal flow. The expectation is that capital will come into the incumbent markets, as both current backers and new investors seeking an uncorrelated asset class, look to support existing management teams with a record of generating returns. We may see another new entrant, but the scale, experience, and execution advantages that existing players have mean that any new entrant needs to be patient and accept it may take time to fully establish itself."

Barry Gale – Head of Legacy, Aon plc

Boosting investor returns through maximising the value of deals is the bread and butter of the sector and Survey respondents were clear that pro-active claims management remains at the heart of value creation in the legacy world, as shown in Figure 15. 43% of respondents identified proactive claims management as the most important value creation lever for managing non-life run-off business, followed by 25% selecting investment management, and 20% capital structuring. Best in class legacy acquirers will harmonise these levers. Achieving a balance is key to delivering exceptional results, allowing pricing to be optimised to keep the deal engine ticking over. While not a great surprise to see claims management featured so prominently, this signifies a renewed focus on what has always been seen as the core competency of the sector. The trend towards financial rather than finality deals has often seen claims handling retained by the seller in recent times.

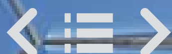
As we publish this Survey, we are well into Q1 2024, and there is no shortage of activity in the sector. While we have not yet seen a repeat of the large deals concluded in the same period as last year, we expect the year ahead to feature a wide variety of deals demonstrating the resilient and now business-as-usual nature of the legacy market.

Figure 15: Respondents' views of which value creation levers they think are the most important in managing non-life run-off business



Claims management has always been at the heart of legacy businesses. We take an analytical approach to a portfolio of claims and our claims experts devise strategies to settle at pace. The ability we now have to look in detail at claims risk development, through analytics of trend and individual risk attributes, adds a new dimension to those strategies that augment the expertise of our teams."

Simon Hawkins – Executive Managing Director, Compre Group



Corporate Liabilities

Our global run-off estimate of US$1,014bn is based on insured liabilities only. Our global corporate liability estimate is US$73bn, a US$5bn increase since our last Survey published in September 2022. This estimate is specific to traditional long-tail claims for US asbestos, pollution and similar UK and European health hazards.

Since our last Survey, the following deals have been executed in this market:

- **November 2022 –** An affiliate of Premia Holdings Ltd and Global Risk Capital LLC formed the joint venture Canvas Holdco LLC to buy three wholly owned SPX Technologies Inc. subsidiaries holding asbestos liabilities.
- **January 2023 –** R&Q Insurance Holdings Ltd and Obra Capital Inc. jointly bought a wholly owned subsidiary of MSA Safety Incorporated with product liability claims of exposures such as coal dust, asbestos, and silica.
- **December 2023 –** Zurn Elkay Water Solutions Corporation transferred four wholly owned subsidiaries holding asbestos liabilities to Zilco Holdings Inc., an affiliate of Financial Asset Recovery Analytics Inc.

However, new accounting treatment for corporate liability acquisitions made by Bermuda-regulated legacy insurers came into effect at the start of 2024. These transactions will now attract capital charges, so new arrangements, such as special purpose vehicles, may need to be made. In general, the BMA is scrutinising this area, so prospective buyers regulated by the BMA will need to robustly prove their capability to run off these liabilities successfully.

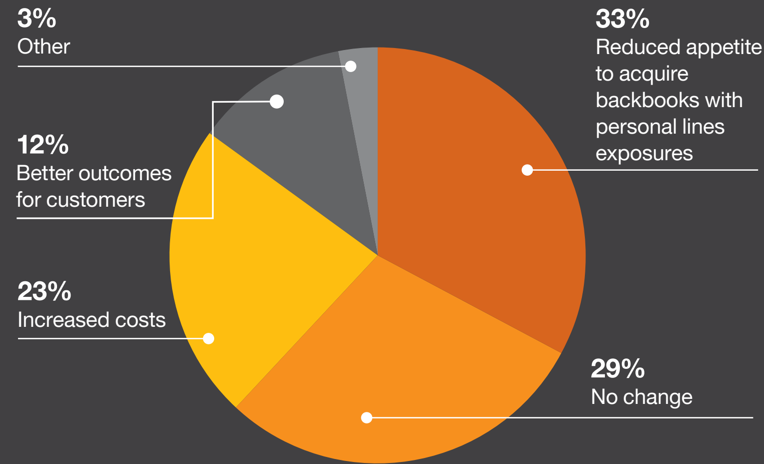
Regulation and the evolving risk landscape

Insurance firms continue to face a complicated and evolving regulatory agenda. Regulators expect firms to follow new rules and regulations in key areas such ESG, operational resilience and consumer outcomes, whilst sectoral supervisory priorities are simultaneously focussing on how firms are dealing with the fast-changing risk landscape.

On 31 July 2024, the Consumer Duty is due to become effective in the UK for closed products and services. This is particularly relevant to run-off firms, given the concentration of closed books of business in the legacy sector. It marks a significant shift in regulatory expectations and introduces a more outcomes-focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers. Figure 16 illustrates that a third of our Survey respondents forecast that its introduction may reduce the appetite of acquirers to purchase personal lines business.

Considering the multiple external uncertainties facing insurers, it is important that firms take proactive steps to assess the adequacy of their risk management and control frameworks. For example, the risk of persistent high inflation introduces uncertainty around future claim settlement costs. Therefore, regulators would expect firms to carefully consider inflation risk drivers in their reserving and capital modelling.

Figure 16: Respondents' view of what impact the FCA Consumer Duty is likely to have on the run-off market



Anirvan Choudhury
Senior Manager
PwC UK

Firms should be prepared to justify their inflation assumptions and be able to demonstrate strong cross-functional interactions in developing an in-house consensus as to how claims inflation is expected to feed into their technical provisions. In addition, from a financial resilience point of view, regulators expect run-off firms to consider their compliance with the Prudent Person Principle for the risks associated with their reinsurance exposures. Therefore, firms need to consider the resilience of their reinsurance providers over the entire duration of exposure, as well as potential impact from a recapture event, where large concentrations to a small number of counterparties exist.

During 2024, changes to the Solvency II rules will be adopted in the EU and UK. Consequently, as run-off firms enter cross-border transactions and expand their geographical footprint they will need to adhere to divergent regulatory and compliance requirements. Firms will need to assess the skill set and ability of their risk and compliance personnel to meet varying regulatory rules and requirements.

Regulators across the globe are focussing on DE&I, particularly in the context of insurers' culture and governance, and there are growing societal expectations for financial services firms to do more to build inclusive cultures with improved diversity. Recent regulatory consultations on this topic cut across DE&I strategies; setting targets; diversity data disclosure; and and governance. Firms' boards will have a significant role to play in overseeing the effective implementation of the regulatory proposals and will be expected to recognise and address any issues that may hinder good DE&I outcomes.

Beyond meeting current regulatory expectations around operational resilience, as legacy players explore how deployment of artificial intelligence and machine learning can increase operational efficiency, firms need to assess the impact of the regulatory framework on their use of these recent technologies. Both run-off firms and their third-party service providers will be affected and will need to adapt to the rapidly evolving regulatory expectations across jurisdictions.

Recovery and resolution plans are quickly moving up regulators' agendas. Internationally Active Insurance Groups must already prepare these plans as per the International Association of Insurance Supervisors' Common Framework. In Europe new rules are being adopted to create a harmonised regime for resolving insurers. Moreover, the PRA recently issued a consultation setting out new expectations for insurers to develop solvent exit plans.

Legacy deals remained crucial for the property/casualty industry amid a hardening insurance market. Factors like insurers divesting non-core business, capital relief solutions to free up capital for new business and regulatory pressures fuelled growth and should lead to more and larger deals within the run-off sector in 2024. Despite economic turbulence, the run-off industry has proven resilient, offering solutions even in challenging times, with a focus on optimising capital structures also proving attractive to new investors."

David Alberts – Partner, Mayer Brown

Global spotlights

USA

While 2023 saw the North American legacy market cool down it remained reasonably active evidenced by the completion of 12 deals with estimated gross liabilities of US$3.0bn. This stutter seems likely to be temporary, as our Survey respondents predict increasing North American activity. Market updates indicate that US carrier trends from 2022 in respect of Reserving Actions, Loss Ratio Trends and Capital Adequacy continue in a comparable manner. From early earning reports for FY2023, in some instances, these are being seen to be exacerbated.

Reserving Actions (Accident Year and By Line Rebalance)

- Adverse development for the industry in aggregate was recorded for the accident years 2016 to 2019 with companies strengthening their reserves in Casualty/Liability and Auto lines. In some instances, funding for these shortfalls came from releases from 2020-2022 years. Across accident years, the lines of business movements are also consistent, with favourable development in Workers Compensation offsetting strengthening in General and Motor.
- Early reporting for 2023 indicates this trend continued, as the frequency and severity is dramatically affecting these softer market years prior to 2020. This trend continued in 2023 due to high claim frequency and severity before 2020.

Loss Ratio Trends

Loss ratios in 2022 were at their highest level over the last ten years. This reflected adverse trends in WC and PA lines, outpacing improvements in other liability classes. Early signs for 2023 are:

- WC trends continue to reflect a soft pricing environment coupled with early signs of inflecting loss costs trends, resulting in pressure on loss ratios continuing during 2023.
- PA rate increases have not been able to fully stay abreast of soaring loss cost trends, a reflection of an inflationary economic environment. Some notable carriers (temporarily) left states which were slower to approve needed rate increases.
  2023 however, did see positive signs for carriers in those states with approvals of significantly higher than historical rate increases.
- Liability rate increases remain strong, allowing for tailwinds needed to offset uncertainty on loss trends in liability classes, with underwriting and pricing trends reflecting the results from 2016-2019 and the uncertainty to which those may become a harbinger of continued stress into more green years, 2020 & later.
- In 2023, to a considerable extent, the US avoided major Catastrophe losses but suffered a larger number of minor Catastrophes. This will come as a detriment to more regional and primary carriers and give their reinsurers a bit of reprieve in 2023 results.

Capital Adequacy

Aggregate capital adequacy declined from 2021 to 2022, as measured by Risk Based Capital ratios. This is also likely to be reflected in 2023 results. Drivers of capital adequacy in 2022 were lower levels of overall favourable development, increasing by accident year loss ratios, and lengthening of payout patterns leading to higher percentage of ultimate loss remaining unpaid (in reserves). The US carrier trends look set to continue from 2022 into 2023. Consequently, demand for capital relief solutions may increase, seeming to support our respondent's optimism and expectations of ongoing strong legacy activity in the region for the foreseeable future.

The current economic conditions in the North American legacy market have created a perfect storm for the industry – a convergence of opportunity and innovation. Driven by new strategic solutions, a more advantageous yield environment and challenging capital raise conditions, legacy reinsurers are poised for a remarkably successful 2024. Those legacy reinsurers that appropriately select risk, forge lasting counterparty partnerships, and create solutions that are mutually beneficial, will reap the greatest rewards."

Eric Haller – Chief Executive Officer, Fleming Insurance Holdings

Keith Palmer
Partner
PwC USA

Bermuda

Bermuda's continued significant role in the legacy market is in no small part credited to the philosophy and approach of the Bermuda Monetary Authority which:

- looks to analyse proposed deals promptly (whether they be large complex deals or bespoke structured deals);
- continues to be a regulator that can be actively engaged with; and
- has kept pace with changing deal motivations and structures.

Recently, with larger deals, there has been increased appreciation from both cedents and legacy acquirers of the benefit of having the same regulator on both sides of a deal. It is expected that, as deal size and complexity grow and as the live and legacy markets become more closely aligned. Typically live insurers, will incorporate both their business and underwriting platform in Bermuda. Consequently, the risks underwritten will be in the same jurisdiction as acquirers who buy these portfolios, consolidate their risk, and expand accordingly.

2023 has seen a lack of tangible new capacity entering the Bermuda legacy market. This pause comes against a backdrop of, not only competition for capital, but also changing deal structures and deal motivations (including the increase in capital relief and more bespoke deals). This environment is leading Bermuda legacy players to consider the following strategic questions:

- How does our business model and value proposition need to evolve?
- Where are the opportunities to generate predictable deal flow?
- Are we focused on the right lines of business, or do we need to broaden our scope?
- Are we sufficiently agile to develop bespoke solutions for specific client challenges?

An influencing factor here may be the BMA guidance that took effect on 1 January 2024 in relation to the supervisory requirements and treatment of LLC transactions. A number of legacy acquirers have been involved in corporate asbestos liability transactions, and as we have seen earlier in the Survey this remains a potential growth area for transactions with an estimated US$73bn of corporate liabilities globally.

As part of the application process for regulatory approval of a corporate liability transaction involving an LLC structure, the BMA has set out information required including:

- documentation showing exposures from the purchased liabilities are to be limited to 15% of the existing total net insurance reserves of the acquiring business as at the most recent year-end;
- an independent/third-party solvency or financial opinion on the LLC; and
- provision of a run-off plan detailing how management intends to run down the ultimate liabilities to include stress scenarios.

In addition, an area of opportunity where there is a requirement for capital relief transactions is in the ILS market. From a third-party investor perspective, the opportunity cost of trapped capital has been significant and more so in the current reinsurance and interest rate environment. While solutions for trapped capital are needed, a potential upfront solution has the very real possibility to reverse the recent muted interest in the asset class. Trapped capital may well be the barrier needing to be overcome to reignite interest in the asset class and create investor appetite for longer tail classes. For legacy players looking for more predictable deal flow, supplying such potential solutions should also be of material interest. With its innovative history coupled with the strength of its ILS and legacy markets, Bermuda is seen as the natural place for these solutions to emerge.

"Trapped collateral for the ILS has been a major headache over the last few years and whilst we believe that the ILS funds have gradually worked through the issues emanating from 2017-2019, there remains a need for ILS funds to have agreed, fully priced and certain legacy exit options when the next round of collateral issues inevitably presents itself. Legacy, with its casualty heavy balance sheet, can provide forward looking, pre-priced, efficient exit solutions that are structured as options for the investors in these ILS funds to rapidly exit their commitments and redeploy funds at the end of the investment lifecycle."

Chris Riseborough – Executive Vice President, R&Q Insurance Holdings

Matt Britten
Partner
PwC Bermuda

Australia

Despite estimated Australasian non-life run-off reserves of c.US$19bn at year end 2022 (mainly across Public Liability, Employers' Liability, Professional Indemnity and Compulsory Third Party Motor) as yet, the size and frequency of legacy non-life insurance transactions has been limited, albeit transactions are becoming more frequent with six of the eight publicly announced Australian legacy transactions since 2011 occurring since 2018.

The Australian legacy non-life market has, to date, primarily focussed on CTP motor liability transactions. Of publicly announced deals, Enstar Group Limited has historically been the most active player, a trend that continued in 2023 with the business completing a LPT agreement with Royal Automobile Club of Queensland Ltd to reinsure 80% of the CTP liabilities for 2021 and prior years (with estimated liabilities of AU$360m).

Several key local industry themes are expected to drive legacy insurance deal activity over the coming years as insurers look to improve capital efficiency.

These include the impacts of:

- increasing natural catastrophe frequency and severity (particularly forest fires and flooding across the eastern seaboard);
- economic pressures (including inflationary pressures);
- legislation changes;
- recent legacy reserve strengthening; and
- the continuation of increasing reinsurance costs.

The Australian legacy market's potential was further outlined by the mooted transaction for Icare's (the state backed New South Wales insurance scheme) AU$6bn WC portfolio at the end of 2022 although to date no further public updates have been issued.

Whilst the Australian Prudential Regulatory Authority's capital adequacy regime can be seen to be competitively disadvantageous for legacy acquirers versus live re/insurers, it still is likely that run-off solutions will develop into an important part of the Australian insurance market as insurers continue to seek capital optimisation and run-off liabilities continue to grow.

In the current environment of insurers not earning their cost of capital combined with general economic uncertainty we see two themes arising: (1) legacy deals that increase balance sheet resilience and (2) deals that aid insurers in simplifying their corporate structure and streamlining their suite of products. Furthermore, we believe that topics such as syndicated covers, secondary trades and systemic risks (e.g., PFAS, social inflation, sexual abuse) will become increasingly relevant for the run-off market in the coming years."

Andreas Schäfli – Head of Property & Casualty Legacy, Swiss Reinsurance Company Ltd

Brendan Ayre
Director
PwC Australia

Adam White
Director
PwC Australia

Germany

There is no doubt in my mind that a significant pool of legacy reserves sit within the German market as the market size section of this Survey confirms. Despite this, non-life legacy deal activity in Germany continues to remain quiet compared to the activity seen in other established insurance markets. In the 15 years that my colleagues have been collecting transaction data we have seen 29 deals in the German market with a transferring reserve value estimated at US$1.96bn. When you look at the sellers of these portfolios, they include some of the major names in European non-life insurance. However, to date there have been relatively few repeat sales which seems to reflect caution in dealing with the legacy market and that German insurers have yet to buy into the current trend of capital relief legacy solutions.

Despite the clear advantages arising from disposal of legacy portfolios seen in other jurisdictions e.g., capital release, clearer operational focus, and the prospect of focussing on new opportunities, these drivers have still to register widely within the German market where historic challenges persist, particularly in respect of regulatory requirements, reputational concerns, data migration issues and portfolio pricing.

However, faced with a challenging economic environment and increased geo-political uncertainty, we may yet see increasing instances of portfolios that are no longer in strategic focus entering run-off, further fuelling the pool of legacy reserves which has built up in Germany over time. With an increasing share of legacy reserves on the balance sheets of live insurers, the option of an external run-off deal rather than internal handling may become more attractive for potential sellers, with sellers and acquirers gaining benefits by combining their respective strengths.

Italy

Property & Casualty portfolio run-off

In recent years, there has been limited publicly disclosed P&C run-off transaction activity in the Italian market. The Italian insurance landscape is dominated by a small number of large insurance groups that can rely on their parent company in case of capital and solvency issues. This has generally minimised a perceived need for third party run-off solutions. Additionally, traditional lines of business such as Medical Malpractice, General Liability and Construction Insurance (the most common business lines in P&C portfolio run-off transactions) are not as widespread in Italy compared to some other European countries (e.g., UK, Germany, France). Consequently, Italy's large generalist insurance players have had limited need to divest their small portfolios.

Furthermore, specialised insurers, whose core business has a concentration of portfolios with long-tail liabilities (e.g., Medical Malpractice), have implemented different strategies, including improvement of underwriting and risk assessment processes, definition of reinsurance agreements, and streamlining the claims management process, to improve and manage their capital and solvency in recent years. They have therefore not considered portfolio run-off as an alternative strategy.

However, discussions with our insurance clients are increasingly touching on the legacy agenda. We have recently seen some opportunities illustrating that run-off activity could evolve from small and medium sized insurers, where market conditions increase managements' focus on strategies to boost profitability, reduce the company's cost structure and release previously locked up capital.

Thomas Stoeckl
Partner
PwC Germany

Davide Glavina
Partner
PwC Italy

The current macroeconomic environment continues to play a part in the legacy landscape. Its effect on casualty lines has led to reserve strengthening, and we foresee a strong focus for insurers to manage these portfolios proactively to deploy tied up capital efficiently. Additionally, as we begin to see green shoots in the live insurance deals market and increased M&A activity, the legacy sector will provide an outlet to support these deals. For example, as players expand into new markets and maximise opportunities in core business lines, we are likely to see more legacy opportunities emerge. We expect further large LPT deals, innovative deal structures, and even strategic partnerships."

Judith Zeleny – Head of Origination Capital Partners Munich, Munich Re (Group)

A view from AIRROC

The legacy market's role in the insurance sector is constantly evolving.

The fifteenth edition of PwC's report only serves to support that statement and illustrates the growing importance of the solutions offered by the sector. Over the past two to three decades, the legacy sector has evolved from being the industry's liquidator, to standing as a financial services partner to some of the world's largest insurers and reinsurers, and more recently other industries that have asbestos and environmental liabilities they want to carve out. Legacy at its heart, offers flexibility and creativity to help companies efficiently deploy capital.

In terms of market trends and growth opportunities in the US, we continue to see a solid level of transactions overall in various size ranges. We are seeing more interest in corporate liabilities deals as companies seek ways to operate in the current economic environment. Strong claims management and oversight remain at the core of the sector's expertise. Private equity continues to come into the market to support the growth and capabilities of legacy acquirers.

There is a heightened corporate awareness of emerging risk and loss types, and with that comes the continual assessment of whether they should be divested or extinguished – AIRROC will continue to be a strong platform for those discussions and to find solutions. While we seem to have "weathered" the storm of the pandemic, that period changed forever the way we all do business.

For AIRROC that means continuing to find the best ways to support our members and the entire legacy community. When AIRROC was formed 20 years ago, the need was identified for an association to support the insurance industry's run-off sector in the US. IRLA had already been formed in the UK. In their first meeting, a handful of founding companies decided what was possible and what was achievable, and a structure for AIRROC was built. AIRROC is now thriving and growing beyond what was initially imagined. With the help of an active and experienced board, supportive corporate partners, member volunteers and participants, we have proven our ability to remain relevant, vibrant, and flexible in the face of our rapidly evolving industry.

If the past is any sign, AIRROC and the legacy sector will continue to adapt, creatively supplying many more years of support to the legacy market to fuel profitability, and growth.

Retrospective solutions have become increasingly popular and effective with US, UK and Bermuda based carriers. Global and regional carriers in these jurisdictions are increasingly using legacy deals to improve ROE and free up both capital and resources, to redeploy for strategic repositioning and sustainable growth. Many carriers use these solutions to also provide rating protection and rating improvements through capital and BCAR lifts. In recent years, underwriting profitability has notably curtailed in certain business classes such as PA, Homeowners and CA and P&C lines. Retrospective solutions provide the perfect opportunity to draw a line under those results whilst providing earnings protection and reducing volatility."

Steve Ryland – Global Head of Legacy, Acrisure Re

Carolyn Fahey
Executive Director
AIRROC

Market perspective

During the 17 years PwC has been producing its non-life run-off survey, the market has evolved significantly and now features a legacy ecosystem comprised of an established group of acquirers, several brokers with specialist legacy teams that are continuing to source deals for the market and advisory firms like our own that service the sector across a wide range of disciplines.

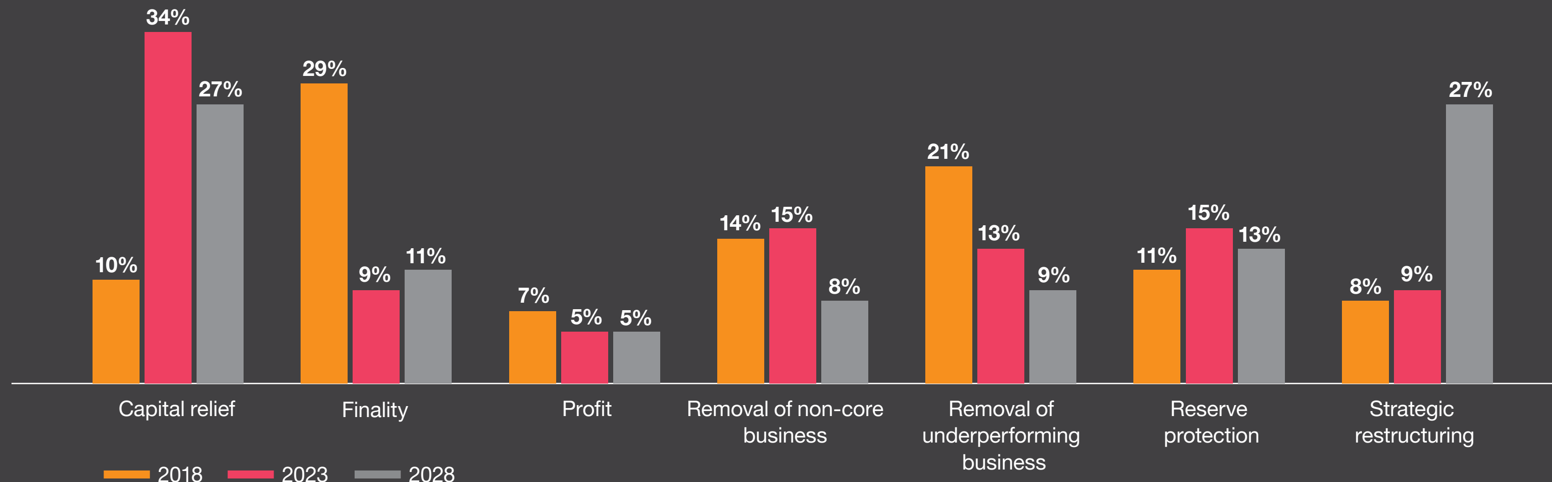
We were really interested in the question we asked our Survey respondents about the most popular drivers of legacy activity in 2018, 2023 and then looking forward to 2028. The results show the evolution of the market from principally, a means to achieve finality for distressed or underperforming liabilities, to the current focus on capital management. While the focus on capital is set to continue, we were also interested to see respondents cite that legacy activity will be prompted by strategic restructuring.

We can certainly see a scenario where the legacy market is increasingly involved in the M&A activity that is showing signs of returning to the live market, providing an outlet for carved out portfolios that don't fit an acquirer's risk appetite or strategic focus.

Our last Survey was published at a time of record-breaking deal activity in the market fuelled by a seemingly constant demand for capital relief solutions by sellers. Strategic drivers like Lloyd's Decile 10 review provided added stimulation to the UK legacy market, allowing it to keep pace with its US equivalent where demand for legacy solutions continues to be dominated by LPTs versus the legal finality offered by IBTs.

So where do we find ourselves today? Deal numbers have reduced, but the value of liabilities transacted has remained constant, showing the supply side of the market has confidence in presenting larger deals. However, there is evidently limited capacity for really large deals outside of Enstar Group and RiverStone International with a number of middle market players having been distracted by other priorities, and Lloyd's RITC deals seemingly in a lull for the moment.

Figure 17: Respondents' views of what the top two motivating factors for non-life run-off transactions would have been five years ago, are today, and what they might be in five years time



Andy Ward
Partner
PwC UK

Rebecca Wilkinson
Director
PwC UK

In fact, we have seen a number of deals not achieving completion during the last 18 months. We believe this is a sign of a maturing market where acquirers are ever more focused on the right deal versus just deploying capital. It is therefore difficult, in the next 12 months at least, to imagine a return to the deal volumes seen in 2021 and 2022. Smaller market players do appear to have no shortage of opportunities but bandwidth to close multiple deals remains a question mark.

Are we likely to see significant new entrants to the market in the coming years? Answers in our Survey were relatively evenly spread about the competitive landscape, with just under a third of respondents believing there is still space for new market entrants as reflected in Figure 18. It will be interesting to see if that plays out and the extent to which private equity interest in the sector returns, particularly when existing investors look to exit.

On the face of it, perhaps the market appears to be in a downturn, but we think we are just seeing the market come to a natural inflection point. There is still ample supply, but the consolidator market has matured and become more segmented. Acquirers appear more focused on their sweet spots whether that be deal sizes, structures, or lines of business. Undoubtedly, that has been influenced by a number of consolidators feeling some pain in terms of reserve deterioration on historic books. We think it is fair to say that a number of the Lloyd's deals concluded, perhaps some three to four years ago, have not all been as successful as acquirers would have forecasted and recent year US Casualty deals are still being watched closely. However, we remain convinced that the legacy market's consistent evolution during the last decade, has led to its current position as a key partner for the live market to achieve its strategic objectives.

Xitus focuses on smaller deals and is seeing a steady stream of opportunities where both insurers and corporate captive owners are keen to tidy up balance sheets and shut off operating expenses. This is an area of the market which many of the established larger legacy players no longer see as economic."

Andrew Lewis – Chairman, Xitus Ltd

Figure 18: Respondents' views of the current level of competition within the run-off market?

A strong legacy market, with a deep pool of credible counterparties, benefits sellers and buyers. So, I think there's room for new entrants to complement the existing market and support activity in this space."

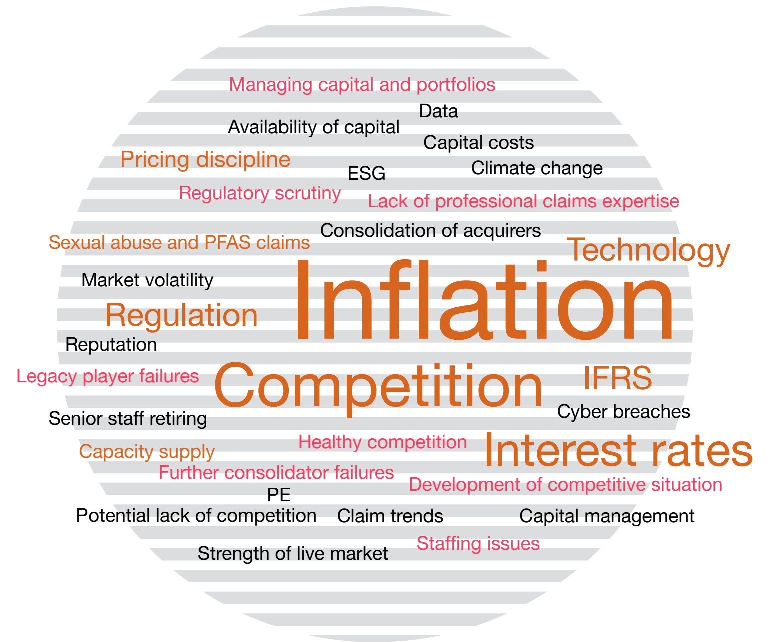
Hannah Farrer-Fisher – Chief Financial Officer, QBE Equator Re

Looking to the future, the word cloud in Figure 19 illustrates thoughts from Survey respondents on what may have the biggest impact on the non-life run-off sector in the next two years. It strikes us that despite being legacy by name, it is far from that by nature. The market continues to be influenced by a multitude of new and evolving factors which bring opportunity and challenge in equal measure. Some of the responses highlighted concerns over a further consolidator failure and presumably the potential reputational impact that it may have on the sector and whether it could colour sellers' hard-earned trust in the space. Opportunities from innovative technology applications, the live market's ESG journey, and a focus on developing talent as we begin to see the retirement of some of the sector's leaders of the last 20 years, are all likely to have a bearing on the sector.

Our personal perspective is that the market is proven and fulfils a crucial and increasingly well understood role in the insurance lifecycle. It is inevitable there may be some bumps in the road, but opportunities for the market to grow and generate solid returns for investors, while expertly managing portfolios of complex claims and providing capital enhancements to the live sector, will see it continue to thrive. By the time we do this Survey again, we confidently predict that the market will be providing innovative solutions for a host of new challenges.

Thank you to all of our Survey participants. Please do reach out to the PwC team to discuss any of the aspects of the legacy market and how we can help in supporting you in this fascinating sector.

Figure 19: Respondents' views on what will have the biggest impact on the non-life run-off sector in the next two years



Contacts

Andrew Ward
Corporate Liability Restructuring
PwC UK
E: ward.andrew@pwc.com
T: +44 7902 792216

Alan Augustin
Corporate Liability Restructuring
PwC UK
E: alan.augustin@pwc.com
T: +44 7720 425892

Rebecca Wilkinson
Corporate Liability Restructuring
PwC UK
E: rebecca.wilkinson@pwc.com
T: +44 7808 030283

Alison Kaplan
Corporate Liability Restructuring
PwC UK
E: alison.b.lieberman@pwc.com
T: +44 7889 645197

Robbie Kerr
Corporate Liability Restructuring
PwC UK
E: robert.d.kerr@pwc.com
T: +44 7841 786570

Jim Bichard
Global Insurance Leader
PwC UK
E: jim.bichard@pwc.com
T: +44 7841 562560

Alex Bertolotti
UK Insurance Leader
PwC UK
E: alex.bertolotti@pwc.com
T: +44 7525 299263

Andy Moore
Lloyd's and London Market Leader
PwC UK
E: andy.moore@pwc.com
T: +44 7702 677654

Dan Schwarzmann
Head of Market Initiatives
and Industries
PwC UK
E: dan.schwarzmann@pwc.com
T: +44 7778 211006

Edward Johns
Deals Partner
PwC UK
E: edward.johns@pwc.com
T: +44 7720 037315

Nick Watford
Risk Modelling Services
PwC UK
E: nick.r.watford@pwc.com
T: +44 7595 610487

Hannah Vaughan
Risk Modelling Services
PwC UK
E: hannah.m.vaughan@pwc.com
T: +44 7850 516301

Philip Jacob
Risk Modelling Services
PwC UK
E: philip.e.jacob@pwc.com
T: +44 7718 981867

Hatty Sharp
Risk Modelling Services
PwC UK
E: hatty.sharp@pwc.com
T: +44 7506 660283

Charan Maheswaran
Risk Modelling Services
PwC UK
E: charan.x.maheswaran@pwc.com
T: +44 7841 074638

Michael Cook
Claims Advisory Leader
PwC UK
E: michael.g.cook@pwc.com
T: +44 7711 562567

Ainsley Mayhew Seers
Advisory
PwC UK
E: ainsley.mayhew.seers@pwc.com
T: +44 7711 562493

Graham Oswald
Risk Modelling Services
PwC UK
E: graham.oswald@pwc.com
T: +44 7989 740744

Charlotte Toumi
Risk Modelling Services
PwC UK
E: charlotte.e.k.toumi@pwc.com
T: +44 7525 283194

Anirvan Choudhury
Risk
PwC UK
E: anirvan.choudhury@pwc.com
T: +44 7483 423721

Gregory Overton
Risk Modelling Services
PwC UK
E: gregory.l.overton@pwc.com
T: +44 7710 289872

Sumaali Chheda
Risk Modelling Services
PwC UK
E: sumaali.chheda@pwc.com
T: +44 7483 326610

Sarah Robinson
Financial Services Tax
PwC UK
E: sarah.robinson@pwc.com
T: +44 7715 034006

Joseph Gordon
Head of Deals Advisory
PwC Bermuda
E: joseph.gordon@pwc.com
T: +1441 5176267

Matt Britten
Assurance
PwC Bermuda
E: matthew.britten@pwc.com
T: +1 441 299 7265

Keith Palmer
Risk Modelling Services
PwC US
E: keith.w.palmer@pwc.com
T: +1 301 237 5706

Brendan Ayre
Transaction Services
PwC Australia
E: brendan.ayre@au.pwc.com
T: +61 2 8266 1383

Adam White
Financial Due Diligence
PwC Australia
E: adam.a.white@au.pwc.com
T: +61 4 5223 6517

Thomas Stoeckl
Financial Services
PwC Germany
E: thomas.stoeckl@pwc.com
T: +49 40 63788061

Davide Glavina
Insurance Strategy and M&A Leader
PwC Italy
E: davide.glavina@pwc.com
T: +39 345 581 6233

The Corporate Liability Restructuring team has access to more than 200 specialists focusing on providing restructuring and operational consulting services to companies in the re/insurance industry with run-off business. Issues being faced by operations around the world where the team is able to provide advice, support and assistance include:

- Releasing capital from run-off
- Bringing finality to run-off and extinguishing liabilities for underwriters and brokers
- Restructuring through sale or IBT
- Project managing complex transactions and securing key stakeholder buy-in
- Rationalising operations to achieve efficiency
- Proactively managing outsourced run-off, including the development of a robust outsourcing contract
- Benchmarking the claims and reinsurance functions to assess their effectiveness
- Providing transactional support ranging from due diligence, claims reserving, debt provisioning and tax considerations.

Glossary of terms

Term	Definition
ADC	Adverse Development Cover
AI	Artificial Intelligence
AIRROC	Association of Insurance & Reinsurance Run-Off Companies
BCAR	Best's Capital Adequacy Ratio
BMA	Bermuda Monetary Authority
Brexit	The withdrawal of the United Kingdom from the European Union
CPI	Consumer price index
CRC	Capital Relief Calculator
CTP	Compulsory Third Party
DE&I	Diversity, Equity, and Inclusion
Decile 10	An initiative to address any deteriorating underwriting performance
Duty	Consumer Duty
ESG	Environmental, Social and Governance
GMM	General Measurement Model
IBT	Insurance Business Transfer
IFRS	International Financial Reporting Standard
ILS	Insurance-Linked Securities

Term	Definition
IRLA	Insurance & Reinsurance Legacy Association
IRR	Internal Rate of Return
LLC	Limited Liability Corporations
Lloyd’s	Lloyd’s of London
LPT	Loss Portfolio Transfer
M&A	Mergers & Acquisition
NZIA	Net Zero Insurance Alliance
OECD	Organisation for Economic Cooperation and Development
P&C	Property & Casualty
PA	Personal Auto
PAA	Premium Allocation Approach
PFAS	Per – and Polyfluorinated Substances
PRA	Prudential Regulation Authority
RITC	Reinsurance to Close
ROE	Return on Equity
SCR	Solvency Capital Requirement
Solvency II	The prudential regime for re/insurance undertakings in the European Union
WC	Workers Compensation

Methodology

This is the fifteenth edition of our Survey. As in previous reports, the focus is on the non-life insurance run-off market. The methodology followed is outlined below:

- Our online Survey was sent to a cross-section of individuals at re/insurers, legacy business acquirers, brokers, service providers and other stakeholders in the non-life legacy insurance market.
- Responses are anonymous and we do not collect any data on the respondents. This publication includes a summary of the results along with quotes provided to free text questions. We have also included quotes approved by industry participants and contributions from several PwC partners and staff that work in the legacy insurance market.
- Where appropriate, we have rounded results to ensure the totals add up to 100%.
- The research was conducted by PwC UK.

Estimated market size

Run-off reserves have been estimated using publicly available premium information. Assumptions have been made regarding the ultimate loss ratios and payment patterns in order to determine the level of unpaid claims. Judgement has also been used to establish the years of account assumed to be in run-off, based on the nature of the liabilities, plus manual adjustments for liabilities not in the data.

pwc.com/globalinsurancerunoffsurvey

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with over 360,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com/uk.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2024 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

RITM15021652 (02/24).