

## Seeds Sown and Grown

*The legacy market's role in the insurance sector is constantly evolving and if we look back to the beginning and compare it to the role we play today, the evolution is dramatic. At the outset, we were the industry's liquidators. Now it is a dynamic pillar of the (re)insurance sector helping corporations deploy their capital with maximum efficiency. The legacy market fuels flexibility, profitability, and growth.*

In addition to providing finality to discontinued lines, earnings volatility protection or acquiring troubled businesses, clients now look to the legacy market to achieve their risk management, capital and strategic objectives. Over the past few years, we have structured and executed transactions which:

- provide risk management solutions, allowing insurers to manage reserve development and volatility;
- enable (re)insurers to recycle their capital to support organic growth;
- cleanse companies' balance sheets to facilitate M&A transactions;
- improve partners' pre-IPO profiles by resolving balance sheet uncertainties; and
- release capital, supporting the return of funds to investors.

The legacy sector has become a financial services partner to some of the world's largest and most successful insurers and industrial corporations. We have done so by evolving into specialist risk underwriters that deliver innovative solutions to partners worldwide.

### Moving on

The run-off industry was born in the 1990s to manage the legacy commitments of companies that either failed or were struggling due to

an overwhelming weight of asbestos exposures and a concentration of major catastrophe losses occurring in the same period. Three decades later, we remain excellent owners and managers of asbestos liabilities in particular. But these exposures are now more mature and much better understood by the (re)insurers that carry the risk on their books.

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Asbestos-driven legacy-market transactions have decreased in number, but many other opportunities in the market have since arisen. For example, Workers' Compensation is an area that has caused carriers considerable pressure in the 2000s, due to increasing claims costs as a result of escalating medical expenses, and social inflation against statutory restrictions on premium increases. Like many in the legacy sector, Enstar has covered exposures across many lines of business, with significant portfolios in Workers' Compensation and General Liability. The industry has and will continue to develop innovative solutions and products to service the market in new ways.

### Corporate liability runoff

In an effort to contain and manage their uninsured legacy asbestos and environmental liabilities, many industrial companies have created the equivalent of 'bad banks' to house them. Legacy carriers have completed eight such deals as of the writing of this article, and we expect to see more. These transactions deploy our expertise in asbestos and environmental exposure management

directly onto corporate entities, allowing them to get finality and focus on their core business. Competitors from outside the legacy market have recently entered the field through private equity vehicles. However, new entrants are typically at a competitive disadvantage with respect to the accumulated knowledge, longevity in the field and skills necessary to manage the liabilities as effectively in this complex market. A recent Consultation Paper from the BMA set out the 'rules of engagement' for such transactions, which will provide comfort and regulation to buyers and sellers alike.

### Claims control

The legacy industry has long been associated with the sale of troubled companies or troubled lines of business where the legacy player takes control of the claims. More recently, lead (re) insurers may hesitate to cede claims control as part of certain transactions, especially when they have ongoing client relationships. While Enstar focuses on high standards regarding claims management, we have responded creatively to offer bespoke claims oversight arrangements that support carriers' strategic goals and maintain these high standards. This adaptation has supported an increased flow of portfolios into the legacy market. Our experience suggests that flexible claims partnership models that rely on strong alignment between the parties can be extremely successful – and integrating and working in true collaboration with our partners is what we strive for.

### Old and new

We also see an increase in opportunities containing less mature businesses, sometimes including the most recent accident year. As insurance liabilities reduce over time as losses are paid, cedants gain the greatest capital-relief and protection benefits when they include recent years in a transfer



illustration / Rafael Edwards

transaction. Such years are inherently riskier, as claims have not yet seasoned. Legacy carriers are experts in the analysis of this risk and can utilise reinsurance structuring to align incentives and bridge differences. Pricing discipline and risk selection is imperative for the long-term viability of the space. However, the legacy market has shown willingness to adapt and is taking new risks in response to client needs.

### Strategic M&A

The legacy market is in increasing demand as the catalyst of strategic corporate transactions, particularly to facilitate insurance M&A and IPOs. Often, an acquirer of an insurance business will find undesirable books or uncertainty in reserves for which the legacy market can provide solutions. In some cases, the legacy market can cleanse the targets' balance sheet entirely, with the acquirer just purchasing the platform and putting into action a go-forward

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business plan. The legacy market can be a great partner to acquirers and sellers alike – and Enstar has worked with both to achieve successful strategic objectives. The legacy market can also help public companies (or those preparing to go public) by providing solutions on books or concentration risks that are causing concern with public equity investors, particularly with the recent increasing focus on the impact of social inflation.

### Win-win

Legacy transactions are not a zero-sum game. When a deal is structured and priced correctly, both sides benefit, delivering additional value to the equation.

Blue-chip and large, global insurers that have become repeat users of the legacy market are the greatest possible endorsement of our service and role. Enstar remains focused on growing through building and strengthening new and existing partnerships. To sustain this positive momentum, we must continue to develop new solutions, expand our expertise, invest in new talent, embrace technology, and embed ourselves even deeper in the insurance market as strategic partners. ●



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