LEGACY

Legacy insurance: asset, not liability

KEY POINTS:

- Legacy seen as a strategic opportunity
- M&A boosts options pipeline
- Enstar accelerates transaction speeds

The perception of legacy insurance needs to shift to be recognised not as liability, but as a strategic asset.

That is according to Dan Sanford, managing director, M&A, at Enstar Group. Speaking to *Monte Carlo Today*, he shared that: "We need to change the narrative on legacy, not thinking about it as a dirty word, but as an opportunity to enhance results and return on equity through transaction.

"My personal vision for the run-off sector is for us to become a firm part of the insurance cycle. We feel companies should always be thinking about the legacy option on volatility protection and capital relief."

Historically, legacy dealt with problem areas: parts of businesses that people have discontinued, looking to offload full-scale operations and lines of business, or the run-off market. Sanford sees evolution to a more sophisticated offering: "Now we see legacy more broadly as a capital management tool. We still offer traditional transactions to free up capital to support growth for these businesses going forward, but we are also seeing more diversified portfolios looking to dispose of full years of account, as well as preparation for IPO and for sale."

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This outlook comes at an important time in the industry, with M&A activity on the horizon. Sanford noted the trend, referencing a few recent deals. He said: "I think there will be a pick-up following the Aspen transaction. Clearly, the regulations in Japan mean there's likely to be an uptick from large Japanese reinsurers looking to buy."

M&A activity opens pipeline opportunities for legacy, offering preparation for companies for sale or for IPOs, as new owners do not want to pick up problems from the past. Sanford pointed out that: "It's quite neat to package up a transaction with legacy cover. We've done deals with AIG, when RenRe acquired Validus, and with ProSight when it went public. M&A activity is good news for us, as it offers prospects."

Sanford recognised that legacy insurance has nuances that need to be addressed to serve the market better: "Our transactions take a long time to be put together. We are working on how we can accelerate to get closer to how the live market operates. That's an important step that we need to take as a market, as well as making everyone aware of our capabilities."

To address this, Enstar is "taking steps to transact quicker, to engage earlier and build strong relationships with counterparties so that we understand their business better. We developed the Forward Exit Option product to give investors certainty that they can exit at an agreed time frame going forward." ●

REINSURANCE

Reinsurance clock ticks, but Swiss Re says it's not a time bomb

Dodging metaphorical bullets in today's property and casualty (P&C) reinsurance market is a tricky business, but top executives from Swiss Re believe discipline, collaboration and foresight can keep the industry from getting hit.

The reinsurance market is no monolith; it's a complex mosaic of conditions where the rules change depending on the business line, according to Swiss Re's chief underwriting officer, Gianfranco Lot.

Some areas are seeing appetite shrink due to unexpected shocks, while others are becoming more competitive thanks to higher interest rates, Lot noted. For instance, while there's a surge in competition in the property catastrophe market, the liability sector faces a different kind of pressure: demand is outstripping supply.

Lot pointed a finger at the US, where "legal system abuse" is an escalating issue, one that he believes requires either tort reform or new insurance products to bring certainty back to this long-tailed business.

The underlying presence of risk hasn't changed, but it "continues to morph and evolve" and underwriters must adapt their decisions to reflect today's markets rather than relying on historical assumptions, Lot argued. This means embracing "an honest, unbiased view of risk, and ensuring that loss ratio projections are grounded in the present", he contended.

This sentiment was echoed by Urs Baertschi, CEO of P&C reinsurance at Swiss Re, who said that strong partnerships between insurers and reinsurers are "the bedrock of societal stability". He stressed that these relationships are at their strongest when they are built on trust and "supported by constructive dialogue".

The industry's role has also evolved beyond just protection to one of "awareness, preparation and prevention, working together with corporates and the public sector", Baertschi said. He cited the compelling statistic that "every $1 spent on hazard mitigation saves $6 in future disaster recovery costs".

To achieve this, the industry must do its own homework, Baertschi insisted. This includes a more robust sharing of data about the assets the industry protects to allow for accurate risk pricing and the development of forward-looking scenarios. He also sees great potential in new solutions like parametric insurance, which is "gaining popularity as a cost-effective tool to accelerate financial relief and manage risk". ●