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Gallagher Re

Legacy Roundtable and Survey 2023

Opportunities await

The future is bright for the legacy market but competitive pricing and market dynamics still remain the biggest challenge

Same same, but different

I have moderated our annual legacy roundtable for several years now, and there is a comforting familiarity which comes with it.

SOME 62% OF OUR SURVEY RESPONDENTS BELIEVED THE MARKET WILL SEE GREATER DEAL VOLUMES IN THE NEXT 12 MONTHS COMPARED TO THE LAST.

Because in many ways, it is pretty much always the same.

The occasion – the annual IRLA gathering – is the same. The venue – the Brighton Grand – is the same.

And one thing you can always guarantee is that the conversation at this roundtable is always excellent, and always good spirited (even if there are some healthy disagreements).

However, what has changed continuously since I started hosting this esteemed gathering of legacy market professionals is the market itself.

And the pace of change is accelerating – for the better.

The mood is buoyant in the legacy market. In our annual survey of the legacy market (which you can also read in this supplement), more than half said they thought the outlook for the next 12 months was better than the last, while another third said they thought it would stay the same.

The trend of capital optimisation as a driver of deals is still going strong, particularly in a specialty (re) insurance market where pricing is still favourable.

Some 62% of our survey respondents believed the market will see greater deal volumes in the next 12 months compared to the last.

We had a healthy representation of cedants at the table this year, and the message is that they want long-term partnerships which foster creativity in legacy deal structures – which in turn could bring further liabilities to market.

There are new cedants, too – as demonstrated in the recent showing of corporate liability deals.

All of this is not to say that the last 12 months has seen wall-to-wall sunshine for the legacy market.

We have seen evidence of deals going badly wrong, and competitive pricing dynamics driving unfavourable results at legacy acquirers.

Once again, in our survey competitive pricing and market dynamics came out as the biggest perceived challenge to the legacy market over the next 12 months, followed closely by social and economic inflation.

We have also seen the withdrawal of one major acquirer from P&C legacy deals, which claimed that the brokered P&C legacy market does not offer as an attractive risk-reward profile as other capital deployment opportunities.

There is some anecdotal evidence that these negative headlines have triggered a wake-up call to the market and there are green shoots of discipline emerging. There were calls on our roundtable for this to continue – because discipline will allow the good times to keep rolling.

Our legacy roundtable featured a broad discussion which ranged from deal flow predictions to pricing dynamics, from inflow of capital to inflow of talent.

Read on for our survey results and a run down of our conversation in Brighton, and thank you to Gallagher Re for the opportunity.

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Legacy Roundtable 2023

Catrin Shi
How would you describe the state of the market?

Andy Creed
It's very active in terms of deal flow – there's plenty in the pipeline. We've got corporate liability deals being transacted, as well as deals across the US and Lloyd's. There are a number of factors driving that including the hardening of the capital markets and evidently more demand, with continued influx of capital to this sector. Furthermore, we now have a very engaged broker market in this space with a number of facilitators boosting their commitment to the legacy market.

THERE ARE THREE KEY DRIVERS THAT HAVE HISTORICALLY DRIVEN CLIENT APPETITE; CAPITAL OPTIMISATION, VOLATILITY PROTECTION AND EXPENSE REDUCTION.

JAMES DICKERSON

David Atkins
The market is still overcrowded. We've been through a period of soft market conditions and there have been a few instances of poor underwriting which is starting to drive change, such as remediation around underwriting and pricing.

Darren Truman
There is a strong deal flow and there are currently a multitude of factors driving this. The speed by which a reinsurance transaction can be put together and the release of that capital is likely quicker than seeking to raise new capital.

From a net exposure point of view, the availability of reinsurance for live writers depending on class is expensive, it is difficult to obtain, with higher retentions, higher costs, and lower limits, meaning higher net volatility and higher capital requirements. So, if you want to continue to write more business in good underwriting conditions, you'll need to have the capital to support that.

James Dickerson
We have experienced a record start to the year in terms of executed deals. In addition, we are also seeing an increased volume of enquiries from clients considering the use of retrospective reinsurance solutions. There are three key drivers that have historically driven client appetite; capital optimisation, volatility protection and expense reduction, and these have remained largely consistent over time. However, there is certainly a higher proportion of enquiries now specifically targeting capital optimisation, and, to an extent, seeking to use these solutions as an alternative capital instrument. It will be interesting to see how the rated and unrated reinsurers adapt and to what extent this development impacts the competitive and pricing dynamic in the market.

Ed Martin
There has been an increase in sophistication, partly as a reaction to the soft market. The market is getting less opportunistic. Brokers are doing a much longer lead in, looking at books of business, ensuring they are acceptable. Similarly, markets are scrutinising them and being more selective about what they will write. It's not a question of taking what's on offer and running the risk of problems later on.

Andy Ward
The first quarter of 2023 we recorded 11 publicly announced deals – $6b of liability transacted – that's nearly 80% of everything that was done in the whole of 2022. It's undeniable that deal sizes are getting bigger. As the market develops and we see more of deals of this scale, sellers need to understand that a great deal of effort is needed to get these deals over the line. Having sellers understand the planning it takes to do a deal from start to finish is very important and will maximise the benefits of these deals.

THE FIRST QUARTER OF 2023 WE RECORDED 11 PUBLICLY ANNOUNCED DEALS THAT'S NEARLY 80% OF EVERYTHING THAT WAS DONE IN THE WHOLE OF 2022

ANDY WARD

Darren Truman
Looking at mechanisms such as loss portfolio transfers (LPTs), while they are subject to regulators' time to approve, physically doing the deals can be done reasonably quickly compared to other mechanisms. Reinsurance-to-close (RITC) transactions, as an example, are locked into the Lloyd's timetable.

David Atkins
LPTs are quick but you generally don't get claims control which is a change from traditional legacy models.

James Mounty
I think structured deals have been around a long time. But the difference is that the legacy consolidator markets are moving into the space which has been traditionally held by rated reinsurers. It's the willingness for the specialists to consider those transactions and the offering of capital optimisation solutions, which is the interesting evolution for the legacy sector of the last year.

Kevin Gill
The market is more flexible now over claims control. But it will affect pricing depending on whether the market is just providing financial capacity or whether it's taking greater control.

Hannah Farrer Fisher
The evolving approaches to claims handling and building partnerships will help insurance companies continue to think about how to use this market effectively. Maintaining claims handling where there is a front book presence allows companies to utilise LPTs as capital solutions to support growth, rather than discrete M&A style transactions.

Adam Horridge
I agree, the use of reinsurance has likely been increasingly used for its speed vs legal transfers, and the increasing involvement of brokers in this space has been a driver too. I also think cedants more and more see the benefit of structural flexibility to align interests. This is linked to the claims handling point - when structural features are built into the contract, say a minimum retention or a profit / loss sharing feature, then the incentives are aligned between the cedant and reinsurer, they're on the same team. This puts less pressure on the need for strict claims control. It's a balance between the carrot and stick approach.

Hannah Farrer Fisher
Having different relationships on claims handling means we can build a partnership model rather than a one-off M&A style transaction. We're thinking about having good partnerships with reinsurers, rather than doing one-off deals, which may have been the case previously. That's been helpful for us in opening up to different portfolios.

Martyn Rodden
The willingness of legacy acquirers to be flexible and innovative in their approach is evident and extremely helpful to cedants. Last year, and in prior years when we have transacted legacy portfolio deals, we were seeking a very specific level of appetite and partnership. Like everyone in the London market we're going through a significant period of change, both in terms of data and technology as well as external factors such as the global economic landscape.

As we all look ahead to market modernisation, we're also contending with the need to increase the flow of new and younger talent into the sector, without losing experienced people in our business – particularly the underwriters and claims handlers who create real value for our clients. The state of the market can't just be viewed through the lens of capital and deal flow there are management and strategic issues cedants consider which, in my view, will continue to create healthy demand for legacy transactions.

Catrin Shi
In our survey, 62% of our respondents said they expect to see greater deal volumes over the next 12 months compared to the last. So, as a result of greater deal flow, what happens to the pricing dynamics?

Martyn Rodden
There's been a lot of focus on the big deals that have been done this year. But that isn't going to be the driver of a stable market over time. Large deals attract media and industry interest and increase the understanding of the advantages the legacy market can offer. From my perspective, the market will be successful in the longer term by having a broader range of transactions of multiple sizes, that play to different niches that support different cedants and carriers, that can be transacted on equitable terms for all parties. Greater deal flow doesn't necessarily on its own impact pricing dynamics, it's the interaction between this and new capital / entrants i.e. supply and demand that will ultimately drive pricing.

Adam Horridge
I agree these legacy solutions should be available to insurers of all sizes, for the benefit of the whole market. I see in the annual legacy survey an expectation for more smaller deal sizes defined as $50m - $500m of reserves. This definition of small portfolios needs to be revised down further if we are to reach all insurers, particularly in the less traditional legacy markets such as certain Asian jurisdictions.

Andy Ward
The market's more segregated now than it's ever been. There are more specialisms amongst the buyers or the portfolios that they're looking at and the few really big players who can do the big deals. Five years ago it tended to be auction processes with all of the market involved, whereas these days it feels more targeted.

Kevin Gill
There does appear to be some fragmentation of the market on deal size, but whatever the deal size there is sufficient capacity and competitiveness.

FOR AS LONG AS I CAN REMEMBER ACROSS THE US AS AN INDUSTRY, WE ARE USED TO SEEING BIG JURY AWARDS

DARREN TRUMAN

James Dickerson
There is an element of targeting as clients demand that we advise them on the best possible partnerships to meet their specific objectives. Historically it was relatively straightforward to run an exercise to approach everyone in the market and find a price point. However, it's now much more about tailoring solutions. I'm unsure if I agree with the market being segregated. However, I do believe that reinsurers are playing to their strengths and being much more selective. This means that brokers need to be continually well engaged with reinsurers, making sure that an evolving underwriting appetite is well understood to facilitate successful transactions.

Martyn Rodden
In our recent transaction we noticed a clear variety and clarity of appetite when we went to market, we see that legacy carriers want to do different types of deals. Some carriers are happy do everything themselves, then others want to partner where they don't have the appropriate capabilities, capital or appetite. It was quite clear some aspects of what we were trying to do just didn't fit with some carriers that we were speaking to. There's a place for everyone in the market and brokers have an important role in matching cedants desired outcomes with the carrier capabilities.

Hannah Farrer Fisher
Generally, as more live insurers choose to work with legacy carriers and we see greater deal size and volumes it's helping to build a more credible and sustainable market, where we can focus on the right partner for each situation.

Ed Martin
There's also greater confidence in the market. When people come to the legacy space, they feel confident they will get a good solution with a reliable counterparty. Plus markets have greater skill sets throughout their organisations. Both on the asset side and the liability side, looking for partnerships is now hopefully easier, because the people you're dealing with are more sophisticated, creating greater certainty.

Catrin Shi
What impact is social inflation having on the market and potentially on pricing?

Darren Truman
Economic inflation hasn't been with us for long, so it's not in the data. While social inflation is perhaps slightly worse than it has been historically, which is pretty usual when you enter into tough economic times, it has been around for a long time. For as long as I can remember across the US as an industry, we are used to seeing big jury awards. So, has social inflation never been seen? Is it something that is not in the data and people don't understand? Well, no - it might be slightly worse than it has been but it's not a new concept.

Andy Creed
I agree, you've got to be attuned to it and make sure you consider this carefully in your due diligence but social inflation is not a new concept. Once you have the liabilities, claims management becomes key, as you've got to have a strategy for dealing with exposed liabilities, particularly in the US. If the legacy market is not taking on claims management as part of the transaction you need to look for strong claims co-ordination and co-operation agreements so the best results can be achieved for both reinsurer and cedant.

Darren Truman
From a claims perspective, cases running through to trial is the exception, not the norm. So yes, you might have to pay a bit more than you would have done historically, but you are not sitting there getting jury awards on a daily or weekly basis. You are there to understand the risk and evaluate the claim you are looking at, and to settle considering those risks.

David Atkins
Back in the 2000s, there was a lot of focus on tort reform. The market was still dealing with the asbestos crisis and defence lawyers were working with government and making good progress on certain aspects of tort reform. Recently, I haven't seen as much focus on tort reform and I think that is one of the reasons for the level of social inflation seen over recent years.

Catrin Shi
Is social inflation driving disposals – as the live carriers are seeing the same challenges?

David Atkins
Social inflation is driving disposals to an extent. In particular, we have seen an increased number of portfolios containing US casualty (binders and open market) business come to market that are potentially exposed to social inflation.

James Dickerson
It might be driving opportunity, but there's an equal and opposite pricing dynamic to consider. On every transaction that we've worked on in the last 12-18 months, inflation has been one of the primary areas of due diligence, with reinsurers focusing heavily on reserving adequacy under current and stressed inflationary scenarios.

David Atkins
Economic inflation is an interesting debate. For expired risks, there is limited exposure to economic inflation as losses and damages are largely realised. However, if you look at how much unearned premium was written by the legacy market in 2022, it's a significant amount, and that's where the legacy market will have the most exposure to economic inflation.

Darren Truman
There is more unearned premium risk (UPR) and more unexpired risk, but that is not a direct correlation to exposure to economic inflation. There might be risks that are going to earn over a long period of time, but that does not necessarily correlate to inflation.

The inflation that we have seen is not an area that has hit the legacy market. So that is your property claims, your motor claims, right? You can't buy a replacement new car, and if you buy a secondhand car it is more expensive, you can't get the labour or the parts to repair the damage, so you have got a supply crunch. That has generated significant inflation on motor claims. That is not going to have a UPR element that a legacy player is going to pick up. That is where it is concentrated, not necessarily because you have got a UPR.

During the lockdown period, supply chains had this hyperinflationary bubble, and we are past that. On your earned risks the majority of your damages are realised, whereas they are not realised on your unearned risks as they haven't occurred yet. So, they will be exposed to whatever the inflationary environment is.

Catrin Shi

In terms of inflation, the Central Bank is raising interest rates. This is good for investment portfolios across the market. But does that give legacy acquirers a reason to be more competitive on deals? Does it just raise the return on equity (ROE) expectations of investors and pricing expectations from cedants?

James Mounty

Another thing for sellers to consider is liquidity. As interest rates have risen rapidly over the last year, many companies are sitting on unrealised investment losses. Are they going to be willing to crystalise these losses in order to cover the cost of an LPT, or do they have sufficient liquidity in the business to cover the premium requirement?

Ed Martin

It's good for investment returns. The counter question is, does it help on the liability side? If interest rates go up that's great on the asset side, but if you've still got underlying issues or volatility on the liability side, then what you don't want is cedants to say interest rates are rising, investment returns are getting better, so we want a better price but without addressing issues on the liability side.

Adam Horridge

I think we need to look at both sides of the balance sheet and the wider context when it comes to interest rates. Rate increases are benefiting investment returns, but they are also reflective of the inflationary environment, which is leading to reserve strengthening. Then depending on portfolio durations and the extent of asset-liability matching, it's not always clear who will be the winners or losers in this environment and the resulting pricing power. Regardless of what rates are doing, the focus should remain on underwriting discipline.

Andy Creed

My general perspective is if the risk-free rate increases return on capital expectations also increase. That's fundamentally the line I continue to take when I'm dealing with cedants, at least as a starting point for discussion. In terms of a willingness of legacy providers to be more competitive on deals, and notwithstanding my first comment, if rates are going to fall again in the near-term future then arguably receiving premium today and locking in 5-6% risk-free rates, could amplify returns on capital over a longer time horizon.

Chirag Shah

From a seller's point of view, we would hope this improves pricing. Buyers should also be considering timing, as for many buyers and their PE backers, capital has already been raised and is waiting to be deployed. This along with the fact there is often a timing gap between pricing and receiving the assets to lock in yields, should hopefully mean pricing is better.

Catrin Shi

Are we expecting more capital to enter the legacy market?

James Dickerson

I think that there is an interesting challenge to consider here, particularly with interest rates rising. Investor return expectations are much higher than they have been and for any new entrant there are multiple challenges to address. For instance, a lack of diversification when building a business impacts transaction IRRs and initial price competitiveness. If a new entrant can work beyond this, they still have to differentiate their expertise against well-established brands. The number of transaction opportunities coming to market each year makes it harder to scale up quickly; but it can be, and has been, done. With this in mind you might expect new capital wishing to enter the sector to gravitate toward established players. However, existing capital may not wish to dilute their equity. On this basis the acquisition of smaller businesses and consolidation opportunities may present an interesting avenue for new capital to explore.

David Atkins

I think there will be a slowdown in the amount of new capital coming into the legacy market. If you go back to 2017-2018 the legacy market was harder, underwriting results were good and there was a series of capital inflows, and an expectation by investors of an average hold of five to eight years. Since then, we've seen three or four legacy carriers experience bad results, and the expectation of the investment hold period is now eight to 12 years. Also, in the current high yield environment there are other places investors can earn good returns. Therefore I don't expect capital inflows to grow at the same rate seen in previous years.

Andy Creed

We've actually seen capital withdrawal in the market space in recent months and there does appear to be a rebalancing taking place. I'd expect this instability to reach a more stable footing over the coming months and not to present any systemic concerns for the market.

Ed Martin

It's all about discipline. With the influx of new capital there is a risk of people pricing aggressively to generate scale, which is not what the industry needs. Confidence in the industry is increasing but if there are failures, then that confidence will be severely undermined, which is in nobody's interest.

Ed Martin

Not all start-ups are necessarily equal. We've talked about some of the original founders coming back to market, and it'll be interesting to see exactly how they come back. If they're using the same business model from 10 plus years ago, that may be a challenge. But if they're embracing new technologies such as AI and looking at the data in a different way then perhaps they can find a niche to avoid the need for scale.

Chirag Shah

I would welcome new entrants as more competition should lead to better pricing. However, compared to its peers, it is harder for them to demonstrate and prove their financial and operational resilience. Protecting and maintaining the Zurich brand is very important to us, therefore having a proven track record is key. New entrants face a challenge in the early years, but as we have seen, new buyers can break through.

Catrin Shi

In terms of syndicated deals, deal sizes are getting bigger, and there are a lot of people competing at the mid-market space. Are these viable deal structures both from the cedant and broking and underwriting side?

James Dickerson

There are some complexities around structure, not least in respect of claims control if you consider proportional placements with shares like a traditional slip. However, there are certainly ways in which markets could operate on a non-proportional basis more easily. For instance, the transaction itself is may be with one counterparty, but that counterparty might attach cover within the transaction perimeter to enhance its own capital dynamic. The question then becomes how appealing this complexity is to the cedants.

IS THE CARRIER FINANCIALLY HEALTHY, AND WILL IT CONTINUE TO BE SO IN THE FUTURE? IS IT OPERATIONALLY ABLE TO DELIVER ON THE SERVICE CLIENTS NEED AND EXPECT.

MARTYN RODDEN

Martyn Rodden

Firstly, this depends on the returns available in different asset classes and industry sectors. Investors will continue to provide capital where they see a fair return for the risk they are taking. From a cedant's perspective capital is a fundamental concern as we are transferring books of reserves across multiple classes of significant size. So while healthy capital support is vital, the operational capability of a given carrier is equally important. So, you've still got to look at the fundamentals of the transaction, and consider the longer term impact on your clients and your brand reputation. Is the carrier financially healthy, and will it continue to be so in the future? Is it operationally able to deliver on the service clients need and expect?

Ed Martin

There might be syndication on the capacity side, rather than having five different legacy providers, you might just have several different types of capacity.

Chirag Shah

I can theoretically see how a legacy deal would be syndicated, if it were very large or looked a lot more like a traditional reinsurance cover. But from a seller's point of view, for a traditional legacy deal, syndication just increases the execution risk. There are enough buyers in the market who can offer and want to offer a solution without syndication, so it is hard to see why Zurich would take the additional risk.

Adam Horridge
I think pure capacity is rarely an issue for the market to handle, plus additional claims and operational oversight from reinsurers and acquirers, vs the live market, add complexity for syndication. This would apply less to the acquisition-type legacy transaction. However, where there are different risk appetites from acquirers on certain lines of business, or higher layer ADCs with structural alignment of interest, there could be a case for syndication if the cedant is concerned about concentration risk.

Catrin Shi
In terms of corporate liability deals is there appetite as part of these big corporations?

James Dickerson
Yes, there is appetite. We see deals getting done, and large deals at that. However, as a (re) insurance specialist we need to consider how we tap into this? We have an incredible broker network at Gallagher, but the corporate world is a very big place, so it comes down to how we utilise our contacts and resource most effectively to bring quality opportunities and workable structures to market.

Andy Ward
That's where we've seen the alternative capital coming in, for example, the hedge funds which are quite attracted to corporate liability deals and the potential to maximise investment returns. The big decision on Johnson & Johnson in the US has potentially put people off the bankruptcy route over there and perhaps means we will see more of these corporate deals. But in the deals that we've been involved in that space, it's very hard, almost impossible for the insurance model to work because of the capital requirements and so they really need to be done via a separate SPV structure.

Kevin Gill
Structuring is also important to the vendor to make sure it achieves their financial needs in particular the accounting and tax impacts.

Catrin Shi
Is the legacy market doing enough to bring in new talent?

Emma Fowler
We need to identify what we mean by new talent. From a reactive perspective, it's straightforward to run a search and bring someone into the market from outside, and the CEOs we work with are keen to bring in new thinking and technical experience in this way. So long as you wrap the right coaching and mentoring around new talent, they all tend to stay, do well, and bring value - as well as diversity of thought - to the organisation.

Proactively though, if we're going to think about new talent populating the fast-changing legacy companies in future, have we identified what that looks like? Have CEOs drafted their organisational designs, or talent map for five years' time? If so, do they know what talent will populate those roles, and are they going to build it or buy it? Have they put in place plans to do that? That's where I see a gap.

Connie Tregidga

We need to make sure we know our people, what motivates them and where they want to move to next in their career. Along with bringing in new talent, retaining talent is key, both within the company and within our industry.

WE NEED TO MAKE SURE WE KNOW OUR PEOPLE, WHAT MOTIVATES THEM AND WHERE THEY WANT TO MOVE TO NEXT IN THEIR CAREER.

CONNIE TREGIDGA

Darren Truman

Historically, a lot of legacy players have taken on staff as part of a transaction. The age range of those who typically transfer are 40 upwards. In the legacy space we haven't got that right at all. We now have internships and graduate schemes, and we are seeking to bring in younger talent.

For the younger generation insurance is not as attractive compared to the banking industry, for instance, and if they do enter the industry they do not always stay.

Ed Martin

It can be divided into two: the underwriting side seems more attractive than the claims side. My claims colleagues say there's a lack of claims talent coming through. Conversely, on the underwriting side, and certainly in the live market, there seem to be a lot of younger people coming through.

David Atkins

I agree it is harder to attract new claims talent, in particular for carriers writing reinsurance without claims control. For new entrants to the industry and graduates we are a small sector compared to the live market.

Chirag Shah

I believe there is new talent entering the legacy market, but retaining people is the greater challenge. We as leaders need to do more to "sell" legacy as well as coach and nurture the junior members. Further, teams like claims, that often struggle with retaining younger people, often have sub-team leaders who haven't been trained in coaching themselves. Therefore, a greater focus on people development from top to bottom, like Zurich has in place, would be to everyone's benefit.

Andy Creed

We have very compelling stories to tell but we need to be better at getting that message across. Legacy is a great career because it's different every day and provides the opportunity to have exposure to multiple areas of the insurance market. By way of one example, we have numerous claims adjusters who joined us handling motor claims but over their careers with us have had the opportunity to work on a wide range of line of business, because we've retrained them as our business has evolved and changed. They've gone through the lifecycle of the business that we've taken on, and that type of variability of work and opportunity presents a fantastic story for this market.

Emma Fowler
I think we as a market are missing a trick promoting what legacy organisations do. If I'm filling a leadership role, it's easy to attract people from other industries when we tell them about the pace of transformation, the accountability of building a business and the interesting nature of the work with my clients.

If we can adapt the branding and marketing that surrounds the legacy market, and there's an opportunity for the market to tell its story, we have a unique proposition to sell. We can help young people understand how they build a career path in legacy, where you learn how to run a business as well as do your job.

Adam Horridge
We all know it here and in our own firms, that the legacy market is an exciting area of the market to work in and that story needs to be spread further, particularly with the live market, whether that is when working on a deal with a live insurer, or through market events. Joint market association events are great for this, last year in Singapore, IRLA Asia held a joint event with the Singapore Insurance Institute on the legacy market, and it was fantastic to see the level of interest from people who were hearing about these kinds of deals for the first time.

Kevin Gill
IRLA is very mindful of supporting new talent in the market and will continue to support the market in developing talent and making the market an attractive place to work.

Catrin Shi
We had a conversation earlier about how legacy is where corporate finance meets insurance – there is so much around structuring a deal, negotiating – it's quite attractive for new talent.

Martyn Rodden
Insurance is a vitally important part of the financial services industry creating opportunity and value for the economy. For some reason we have a tendency to do ourselves an injustice in the UK as we don't sell the industry particularly well. The London and UK insurance market offer wonderful career opportunities, they are vibrant and highly entrepreneurial. We need to continue to highlight the sector and its opportunities, as we compete with other more fashionable sectors such as banking and technology. We're catching up – and have so many great opportunities for talent. We're becoming more diverse and better at attracting, retaining and developing people.

Emma Fowler
The opportunity to take part in a graduate development scheme where you learn different skills in different functions over an extended period of time not only prepares you to be a leader in the company you work in, but also gives you transferable skills to explore a new venture such as running your own business. I've coached someone who is doing just that, using the opportunity of working in insurance to learn how to run a business themselves in future.

> **THE BIGGEST CHALLENGE AND OPPORTUNITY FOR LEGACY FIRMS IN FUTURE IS HOW THEY USE DATA AND ANALYTICS.**
>
> **EMMA FOWLER**

Darren Truman
If you are working in a live underwriters' claims team, you might look at legacy and think what happens if we don't do a deal for a year or two. But what is the difference in a live organisation? When someone in the C-suite says we are not writing that line anymore it is not working, in reality the risks are still there. In the legacy market, you are going to get so much more exposure to other lines of business.

Emma Fowler
So is the legacy market doing enough to bring in new talent? I'd say the answer is not yet. You can break the process down into three parts: attracting people –telling the story to a wider audience so they come in first place; then training them – and not just training in one technical discipline, it's training them how to run a business that's compelling. Thirdly, it's about retention – having a clear succession plan in your company, moving talent around so they understand every aspect of the business in order to be able to be considered for executive level positions. It's having meaningful conversations with your people about what they want to do with their long term career.

Catrin Shi
What are some of the biggest challenges facing the market in the next 12-24 months?

James Dickerson
I think that it will come down to navigating the current volume of opportunities successfully. Showing that the market can grow stably, whilst demonstrating sophistication to develop in line with increasingly complex cedant requirements.

Connie Tregidga
Triaging opportunities efficiently and focusing on the right opportunities is a challenge. In such a buoyant market, we want to make best use of our clients' and brokers time, and our own time, to make quick decision on where we want to trade.

David Atkins
We're trying to find an equilibrium where we provide valuable capital and finality solutions to the live market in a sustainable and equitable way. In the last 18 months the legacy market has seen certain poor underwriting results and if you look at returns on equity over the last couple of years, they've not been as high as historically.

That's all driving change and improvements. I think patience is the most important thing. It might take six months or 18 but we're moving in the right direction.

Kevin Gill
Maintaining price discipline and building out efficient and effective operating models as the acquirers grow their global scale.

Emma Fowler
The biggest challenge and opportunity for legacy firms in future is how they use data and analytics. From a people perspective over the next few years, we predict an analytics arms race. In this context, how I find enough people who have the capability to come and create something which is a differentiator, and then how I then stop them moving around the market on a merry go round – but instead stay with the provider that I've hunted them for - will be the greatest challenge.

Martyn Rodden
There are three components to any given legacy deal; firstly making a decision to work with a broker or run the transaction internally to determine what your placement strategy is; Secondly, the marketing, diligence and negotiation and then finally, the critical transition period. Working back from the front I'd like to see the transition time shorter, it would be simpler for everyone but that requires cedants to be well prepared and legacy carriers being able to quickly and efficiently support the transfer.

The other part that needs a bit of focus is preparation in advance of doing the deal. As a seller, you've got to be able to say you're ready to do this, it's the right time in the cycle, you've got the capability and bandwidth, as legacy transactions are notoriously complex and have the potential to be distracting if the operational risks are not understood and well managed.
As the demand for deals increases the market will need to be able to cope with the transition demands through technological, system and data advances. In the Lloyd's context, we also need as a market to work with the Corporation to agree expectations around RITC timings as historically they have tended to overlap and clash with year-end, which makes it challenging for all parties.

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Annual Legacy Survey 2023

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THERE ARE MYRIAD CHALLENGES ON THE HORIZON, NOT LEAST CONTINUED PRICING COMPETITION AND A PERSISTENT INFLATIONARY ENVIRONMENT.

We are pleased to present the results of our annual legacy survey in association with Gallagher Re.

Once again, the results show the sentiment of the industry is buoyant, with plenty of opportunity. But this is cautious optimism – there are myriad challenges on the horizon, not least continued pricing competition and a persistent inflationary environment.

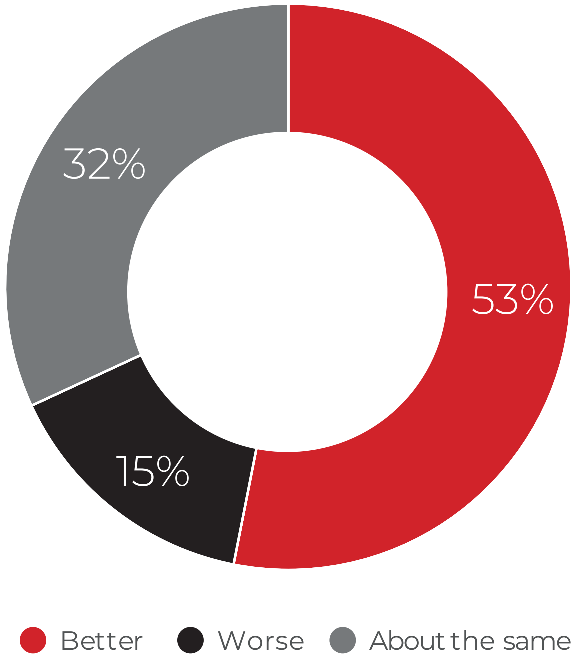
The respondents who completed our survey, comprised of: Legacy acquirer/retrospective reinsurers (35%), brokers/intermediaries (23%), primary (re)insurers (22%), service providers (11%), legal advisors (3%) and the remainder falling into other categories.

Once again, our thanks go to IRLA for helping us distribute this survey among its members and Congress attendees.

We hope you find the following an insightful read.

Catrin Shi
Editor-in-Chief,
Insurance Insider

1. The outlook for the legacy / retrospective reinsurance market in 2023 (when compared to the last 12-18 months) **will be...**



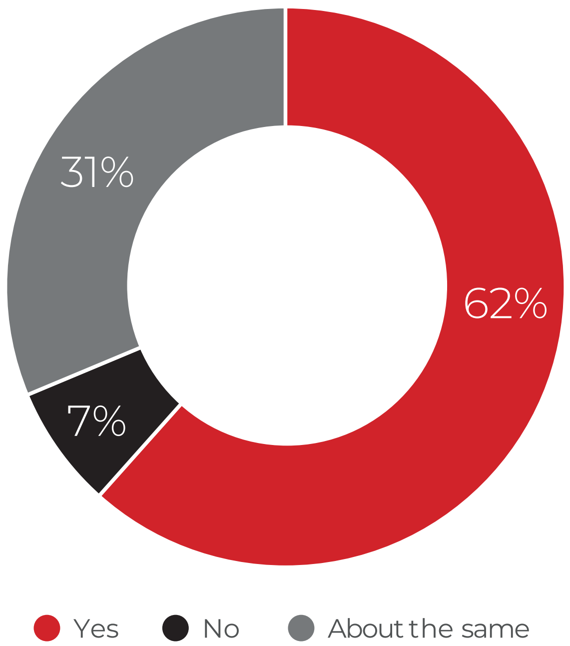
More than half of respondents believe the outlook will be better in the next 12-18 months than they were the last.

Comments:
"Hardened rates for the live market in general could lead to more opportunities presenting in the legacy space, as a knock-on effect occurs of exiting lower ROE lines to make room for higher-yielding lines. Higher investment yields also lend to more profits across our deals in general moving forward."

"Covid slowed the market in 2020 and 2021 and it's struggled to pick up. The difficulties experienced by some acquirers post acquisition has not helped."

"Whilst there have been some exits/issues in certain bits of the sector, the overall thesis for non-life run-off consolidation is sound and fits well into the wider (re) insurance ecosystem. As long as you have the right team and right capital behind you there is a ton of opportunity right now - more do than ever before in this sub sector."

2. Will the market see greater deal volumes in the next 12 months compared to the last?



The market is also expecting more deals to come to market – with almost two-thirds of respondents holding this view, and just under a third expecting volumes to stay consistent.

Comments:
"As a broker of legacy deals, I have insight into our clients' interest, which feeds our pipeline. Based on interest through the 2+ months of the year from our clients, I expect this to be a banner year for my firm and the industry."

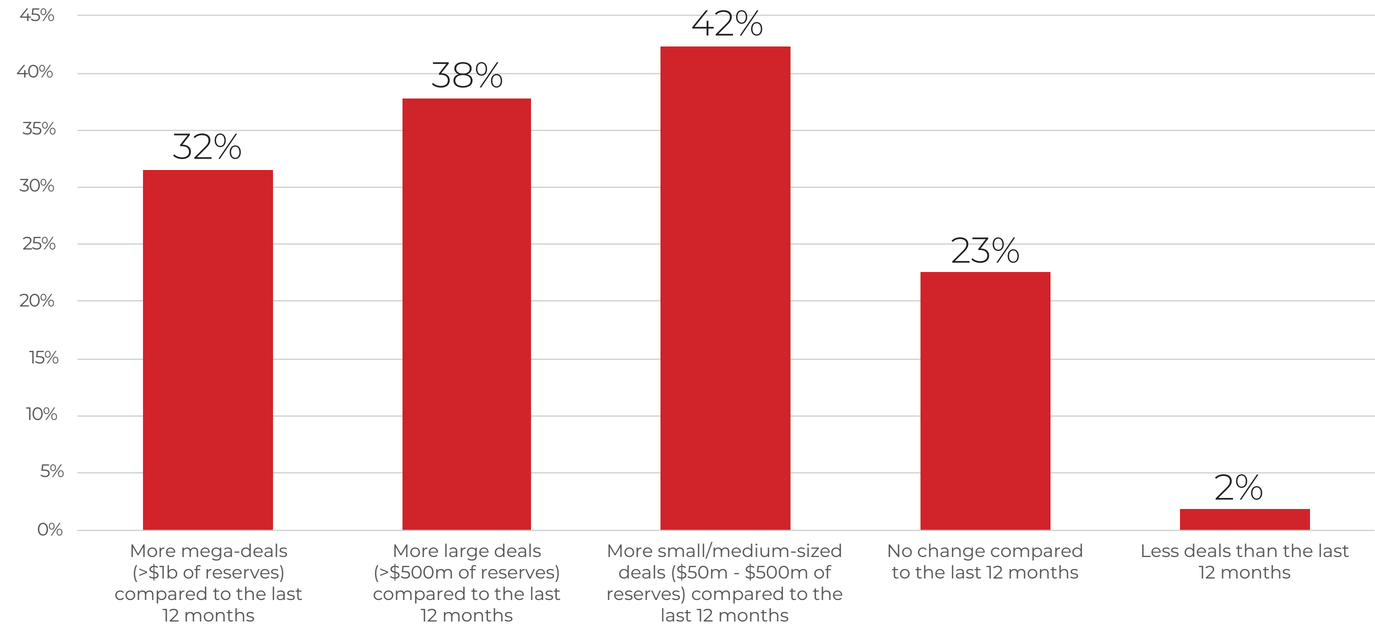
"The number of deals will probably be similar, but more deals will be larger and effectively include several "sub" deals within them."

"There continues to be an abundance of new business opportunities, both in terms of sourcing and structure. The sophistication of solutions offered by legacy acquirers has developed to match an increasing expertise in those selling."

3. What deal sizes do you expect to see in the next 12 months?

(please select all that apply)

A fairly mixed result for this question, but notable is that around a third of all entered responses fell into the $1bn-plus category – following a number of megadeals executed in the past 12-24 months.



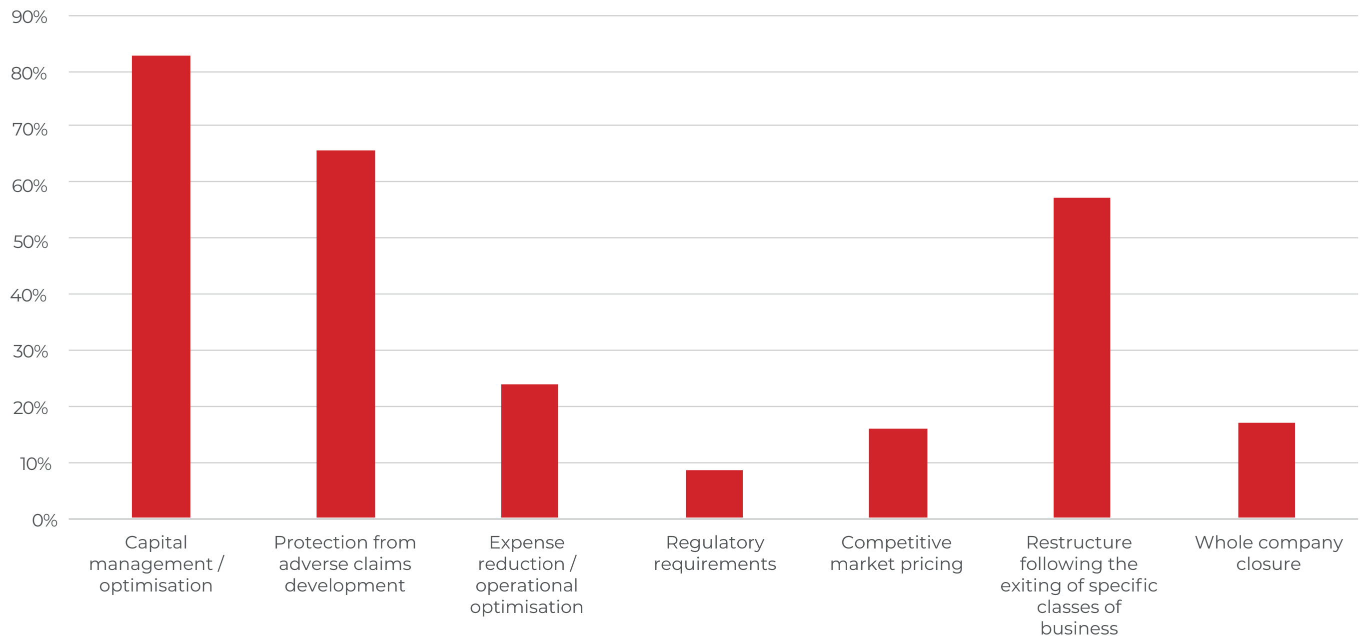
Comments:

"I would imagine there will be continued growth on legacy deals. I believe the larger deals ($1bn+) will be profitable but the smaller deals will be marginal. So overall the same driven by larger deals balanced by reducing profit on smaller deals."

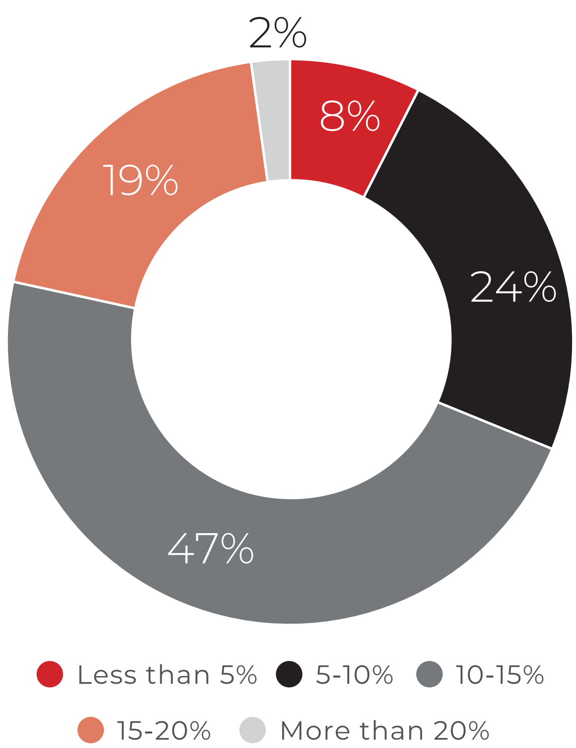
4. What three words would you use to describe conditions/sentiment in the legacy & retrospective reinsurance market right now?

5. In your experience, what has been the most common driver for legacy/retrospective reinsurance transactions by cedants over the past 12 months? (please tick all that apply)

Capital optimisation continues to be prominent driver for legacy disposals, however restructuring and protection from adverse development appears to be more common than it has in previous surveys.



6. Where would you currently estimate the internal rate of return (IRR) for legacy acquirers on run-off deals?



The majority of responses coalesced around the 10-15% range, despite previous anecdotal evidence that the IRR on deals was falling into single digit territory due to market competition. Notably, 8% of respondents estimated the average IRR at less than 5%.

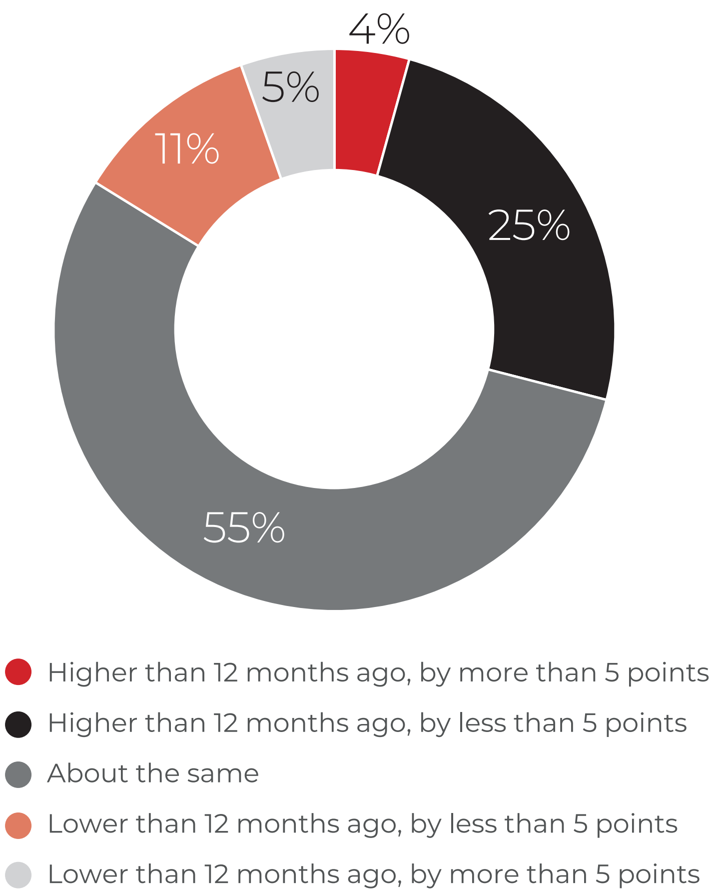
Comments:

"Legacy acquirers have increased return expectations in line with investment yields, in order to maintain their pricing discipline of the actual risk."

"10-15% is a good return to attract capital but not high enough to be prohibitively expensive for cedants."

"Smaller deals are probably priced at a higher IRR but even with competition we don't believe they price significantly below 15% on a regular basis."

7. How does this estimated rate of return compare to your expectations 12 months ago?



More than half of respondents believe the IRR has stayed consistent year on year. However, 25% believe the IRR has increased by less than 5 points year on year, while 11% believe it has fallen by less than 5 points.

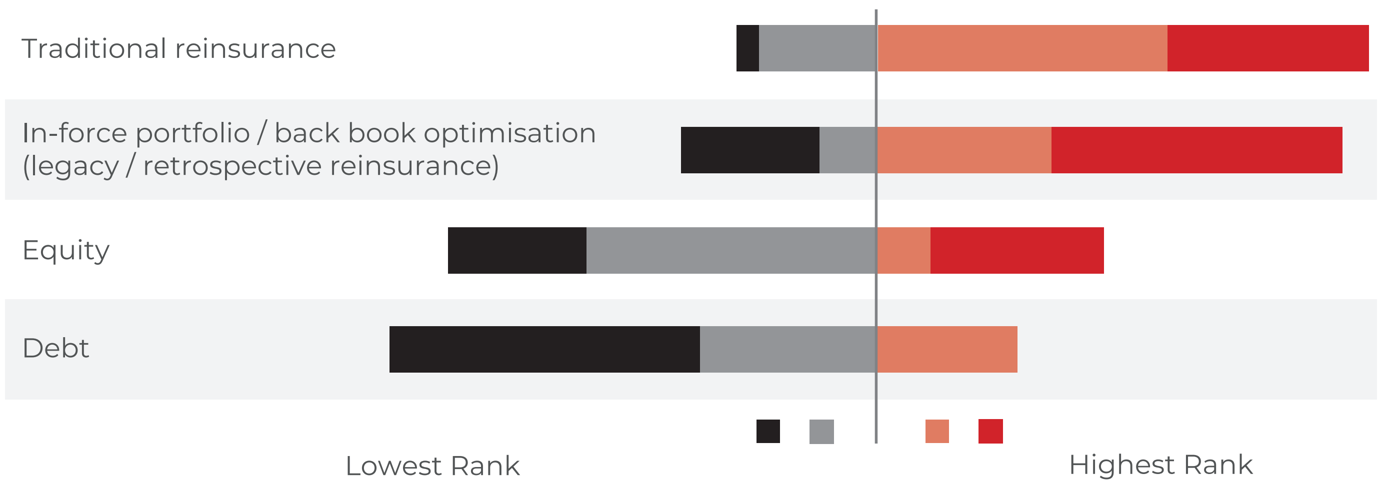
Comments:

"For small deals - here I think there are acquirers who cannot stop doing deals for economic reasons, which is pushing them into longer-term loss or poor returns. Bigger deals are different – I would say 10-15%."

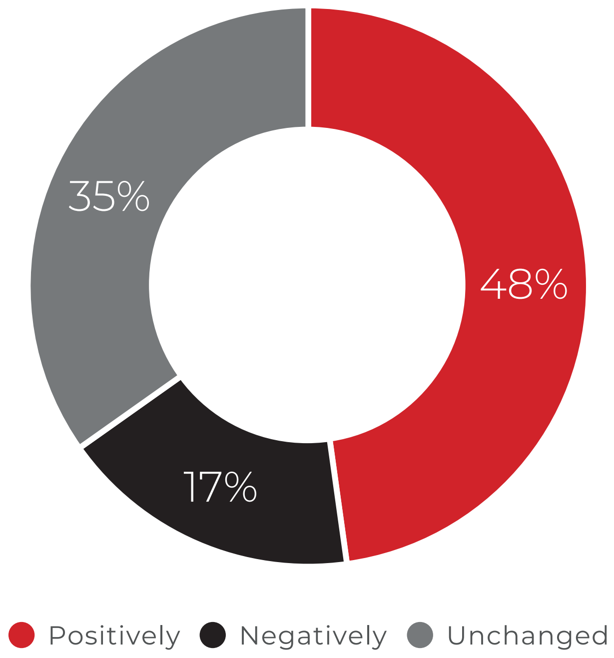
"Pressure on pricing is definitely pushing down rates of return. Fact that deals are being done infers a drop in IRRs."

8. Considering the most common financing options, please rank the following in order of your appetite to consider:

Switching perspectives, we asked respondents to rank their preference of financing options. Traditional reinsurance still came out on top, followed closely by legacy options.



9. How has your attitude toward the legacy / retrospective reinsurance market changed over the last three years?



Following on from that question, we assessed the sentiment towards the legacy market as a whole. Almost half of respondents said their view of the market had become more positive over the last three years, which suggests the run-off space is starting to shake the age-old stigma of merely being a "dumping ground" for failed books of business.

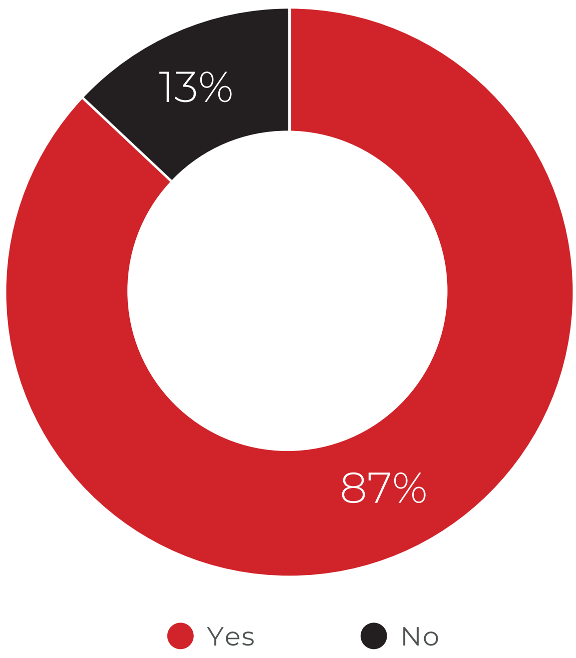
Comments:

"The environment is definitely shifting. Appetite is still strong. Pricing discipline is mostly better, driven as much by the shareholder as anything else. Uncertainty over certain players but the winners are stronger and more ambitious."

"More focus on capital optimisation"

"Internally speaking, there has been no change in perception toward run-off/legacy matters/issues. People still generally tend to sweep things under the carpet."

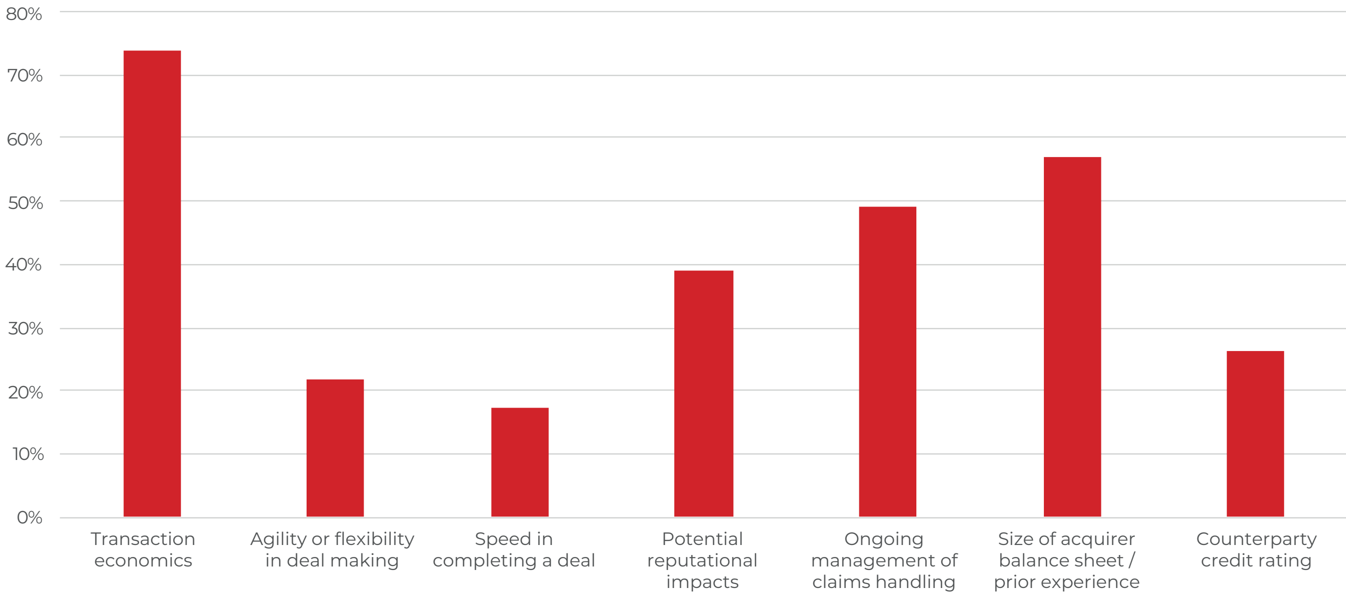
10. Have you, or would you, consider ceding business into the legacy / retrospective reinsurance market?



Perhaps unsurprisingly given previous responses, overwhelmingly, the response to this question was a resounding "yes".

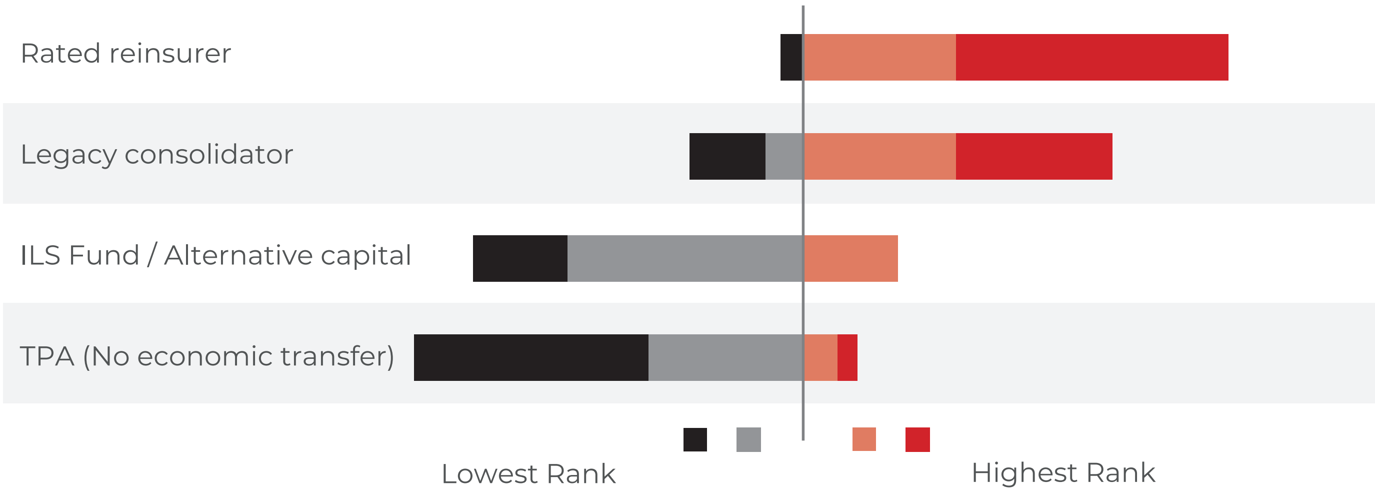
11. What would be/are your most important considerations in relation to legacy / retrospective reinsurance placements? (choose any three)

Transaction economics came out on top as the most popular answer to this question, although the size of acquirer and track record, as well as claims handling, prove to be important considerations.

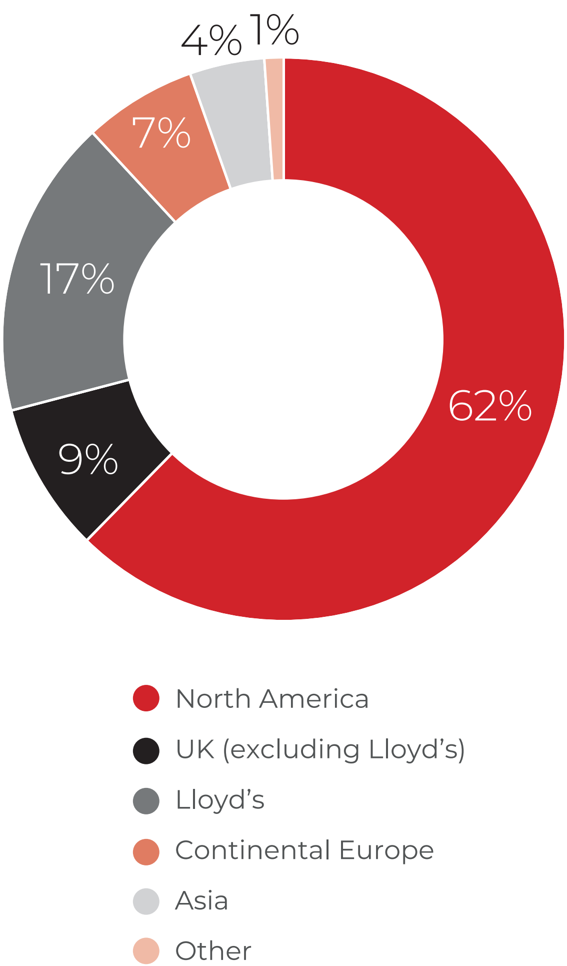


12. In order of preference how would you rank the following counterparties as custodians of your liabilities?

Rated reinsurers still come out as the preferred counterparty in this question, although legacy acquirers still come out a close second, and far more favourably compared to ILS or alternative capital.



13. Where will the market see the most deal activity in the next 12 months?



North America continues to be perceived as the biggest opportunity for run-off volumes – perhaps because of its sheer size (PwC estimates total North American liabilities at $464bn). It appears the legacy market is still unconvinced of the opportunity in Asia.

Comments:

"Still huge potential within state-provided coverages, as the legacy market cements itself as a legitimate part of the insurance world."

"Even though US and Lloyd's will keep their leading seats when it comes to highest activity, continental Europe will pick up its delay and several deals over EUR100m and up to EUR400m will come to market."

"Lloyd's deals will run dry and it will take longer to establish other regular sources of deals."

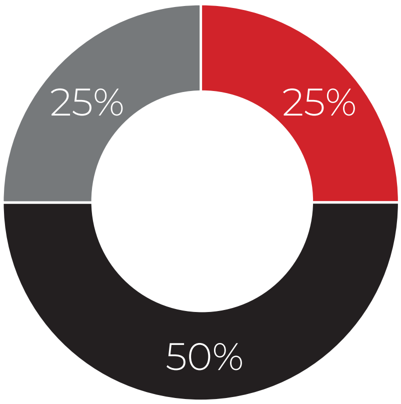
"I think Asia will see the most growth compared to the current base, but for the number of deals and deal size, US likely has the most potential."

14. What is your view of syndicated legacy deals?

Here, the responses differ by market participant. It appears that legacy acquirers are open to the idea of sharing deals, but most are not looking actively for an opportunity.

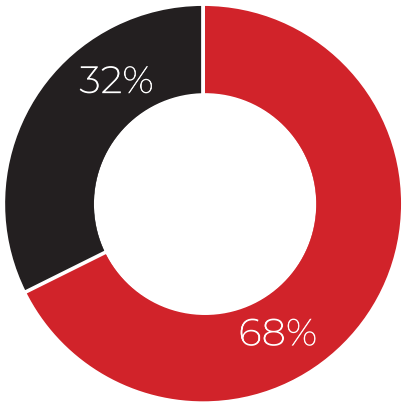
Brokers are also similarly open to the idea, while cedants are more or less split 50-50. The comments below suggest there is still a lot of scepticism around the concept.

Legacy acquirers



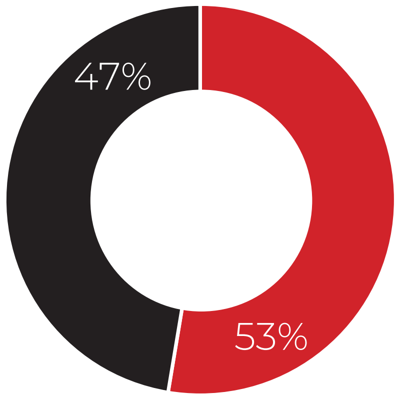
- I would consider taking part in a syndicated legacy deal, and am actively looking for an opportunity
- I would consider taking part in a syndicated legacy deal, but I am not actively looking for an opportunity
- I am not interested in taking part in a syndicated legacy deal

Brokers/intermediaries



- I am open to the concept of syndicated legacy deals for my clients
- I am unconvinced of the concept of syndicated legacy deals for my clients

Legacy cedants



- I would be open to a syndicated legacy deal to hand off my exposures
- I would not be open to a syndicated legacy deal to hand off my exposures

Comments:

"Syndicated deals are more challenging. Every counterparty involved in a transaction exponentially increases the complexity."

"There are only a few companies that can do deals > $1bn. At some point they might hit capacity, so we'll need a way to spread the risk to other, smaller legacy markets. Also, we need to be mindful not to put every deal with just Enstar. The industry needs to diversify to thrive and avoid a major systemic risk taking down the whole industry."

"Syndication is only being lobbied for by those who are too small or too new to access good deal flow."

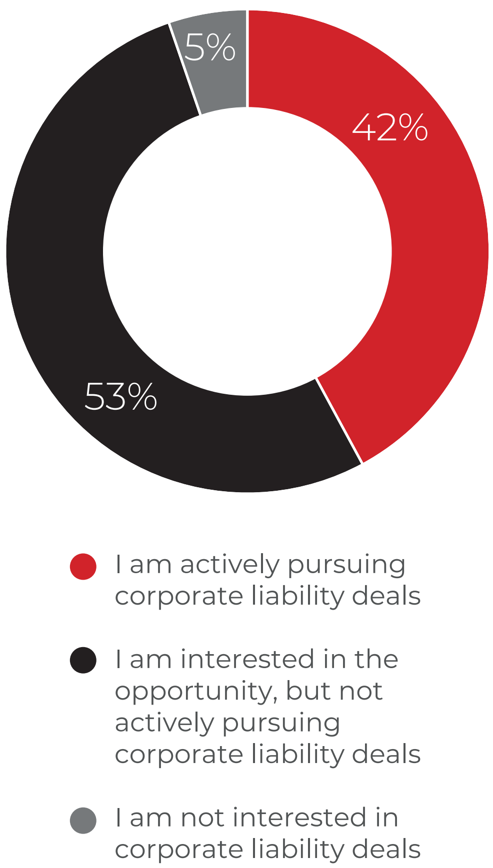
"The syndicated model can work for higher layer ADC type deals with little post-close involvement. For larger from-ground-up and legal transfers, the syndicated model doesn't work as well due to the management control required."

"While we would consider, but pretty close to a no here. Don't want to give up intellectual capital or teach another party but willing to look at their deals."

15. What is your view of corporate liability deals in the legacy market?

The consensus appears to be that both acquirers and brokers are interested in the concept of corporate liability deals, but on the whole are not actively pursuing them. Just 5% of acquirers said they were not interested in corporate liability deals.

Legacy acquirers



Brokers/intermediaries

Comments:

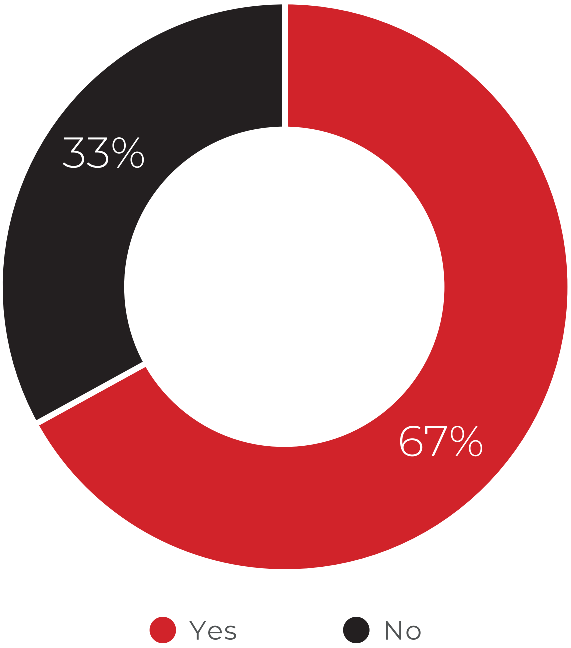
"A potentially large market but clearly open to a much wider group of buyers than traditional legacy."

"At the intermediary I work for, I have access to deals from insurance company cedants and corporate cedants as both our clients of us. There has been increasing interest from the corporate side in transferring liabilities, especially asbestos and black lung."

"Bankers are promoting these transactions. Brokers need to be involved or lose ground."

"Not worth time investment given significant pre-deal restructuring often required. Will address opportunities referred by clients/prospects but no plans to actively pursue."

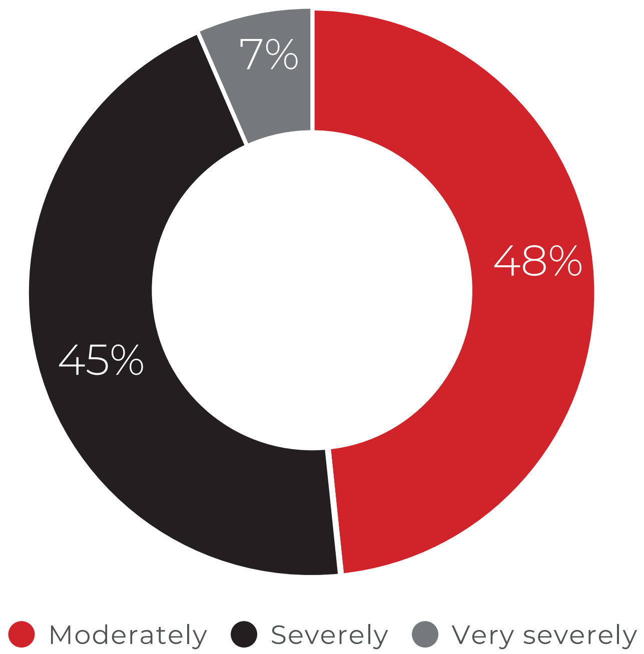
16. Do you expect consolidation within the legacy carrier community over the next 12-24 months?



Two thirds of respondents expect consolidation in the legacy market in the next year or so. In a follow up question, 80% said they viewed this as a positive development for the industry.

17. What emerging claims trends concern you the most?

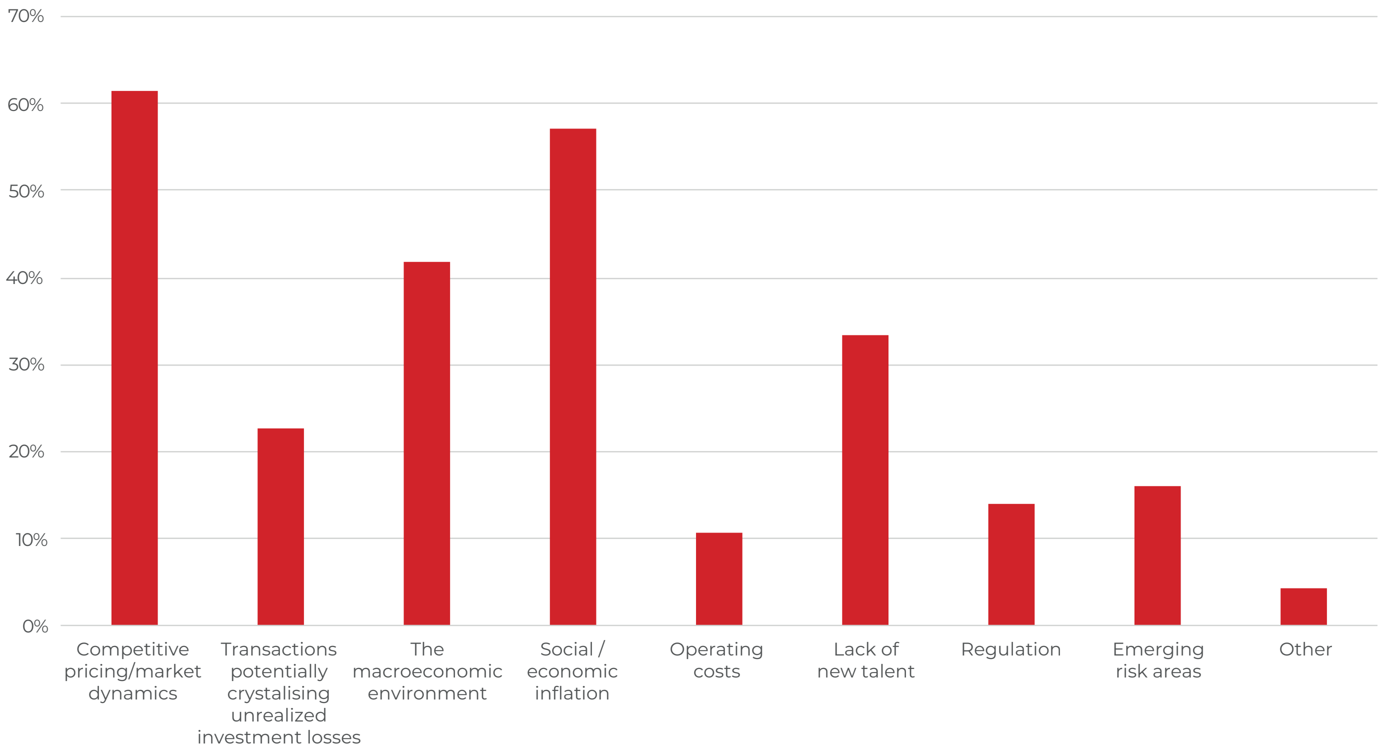
18. **How severely do you expect social and/or economic inflation to continue impacting claims experience over the next 12-24 months?**



Inflation came out as one of the most prominent concerns in our legacy survey this year. Digging into that a little deeper, 93% of the market said they expected a moderate or severe impact on claims experience as a result of inflation over the next 1-2 years.

19. What do you see as the biggest challenge to the legacy industry over the next 12 months? (Select top three challenges)

In our sign-off question, we asked the market to look ahead to name their biggest challenges on the horizon. As has been consistent for the past few years in the survey, competitive pricing and market dynamics has come out as the top challenge, however this year inflation is a very close second. Lack of new talent has also come more strongly to the fore than it has in previous years.



Comments:

"Increased competition making it harder to land profitable deals. Social/economic inflation represents increasingly high risk and emerging risks are always the great unknown."

"Only takes one bad apple…"

"Costs continue to increase for all services, and will do so into 2023 and 2024 as the fiscal policies settle the market. Competitive pricing will continue, with more entities now able to transact at every price point."

"Growing pains - and talent shortage. Too much movement of the same people between companies and not enough new talent entering the market."

"Lack of new ideas and innovation."