VIEWPOINT

The legacy market is restricted yet it is flourishing

Thanks to new investment and a hardening market, the legacy sector can look forward to a great year

Eleni Iacovides and Will Bridger
Compre

The legacy sector is proving itself a trusted partner to the re/insurance industry
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The legacy market remained resolute and continued to expand in 2021, despite ongoing – albeit reduced – Covid-19 restrictions, which hampered the ability of a relationship-driven industry to operate.

While some markets left the space in 2021 and others joined, the overwhelming feeling across this niche and much-needed part of the global insurance industry is it is very much here to stay.

PwC's 2021 global insurance run-off survey estimated global run-off reserves increased from $790bn in 2019 to $860bn in 2021. This represents a near-9% increase and paints a picture of a market continuing to grow, evolve and cement its presence. Survey respondents indicated they expect legacy to be heavily influenced by factors such as increased levels of capital availability and hardening live market conditions.

This is bound to deliver a strong supply pipeline over the next two years and beyond, especially as the live market becomes more comfortable with legacy solutions and confidence in the strength of the sector grows.

There is an increasing focus in the live market on greater efficiency, be that with capital, claims or operationally, and in all respects the legacy market has provided solutions to our clients time and time again.

Further substantial capital has been invested in the space and this has brought new opportunities to the sector as well as more regulatory attention. While the Prudential Regulation Authority's intention to trigger section 166 reviews in certain transactions may seem less than ideal, this actually recognises legacy acquirers' role in the cycle as well as the robustness of the process itself.

Trust in the process, counterparty confidence and execution are all crucial in delivering successful transactions and having a robust market with equally robust regulatory oversight delivers just that.

New entrants

Last year saw further growth through some new entrants while others withdrew. For different reasons Armour and Axa LM exited, while Marco Capital and Carrick Holdings began trading, with Marco being the most active recent entrant, concluding its first transaction in June and gaining in-principle approval in October to launch a reinsurance-to-close syndicate at Lloyd's.

Bermuda-based Fortitude Re, launched in 2018 by AIG and The Carlyle Group, is the world's largest legacy group and demonstrated its considerable strength in September with the acquisition of Prudential Annuities Life Assurance Corporation for $1.5bn.

Other sizeable deals were completed in 2021 with Axa XL entering into a $2.55bn adverse development cover (ADC) agreement with Enstar for long-tail lines reserves. This involved a diversified mix of global casualty and professional lines for 2019 and earlier.

ADCs, which were previously the exclusive preserve of large reinsurers, are increasingly being placed in the legacy market, further demonstrating its increasing balance sheet strength.

Following regulatory developments in the US in recent years, in August Randall & Quilter received approval for the first third-party insurance business transfer in the country, following Enstar, which successfully obtained approval for its intra-group transfer a little earlier.

There is increased interest in the process, which, along the division statutes in a handful of other states, provide insurers with an exit solution in addition to the better known ground-up loss portfolio transfer structures.

The drive for performance improvement in recent years certainly had beneficial implications for the legacy market and, as that work continues, more Lloyd's business is likely to present opportunities for the legacy sector in 2022

Further investment by "patient" capital was evident last year, with Luxembourg-headquartered private equity firm CVC Capital Partners acquiring RiverStone Europe from Fairfax Financial Holdings and Omers for close to $700m.

This is likely to continue in 2022 and beyond, with investors increasingly attracted by the markets' growth trajectory and its strong position in playing an increasingly important strategic role in the lifecycle of the insurance market.

Building on strong progress made in recent years under the leadership of John Neal, Lloyd's is determined to be a top-quartile performer globally in 2022. With a focus on growth, Lloyd's is taking a more incremental approach to further improving performance standards under Patrick Tiernan, who was appointed as the corporation's chief of markets early in 2021.

Growth opportunities

The drive for performance improvement in recent years certainly had beneficial implications for the legacy market and, as that work continues, more Lloyd's business is likely to present opportunities for the legacy sector in 2022.

The trend of younger legacy books coming to market, including Covid-19 exposures is also likely to continue, as is the growth of managing general agent and programme business. Both of these, as well as the continuing need to provide other new solutions, gives the legacy market the opportunity to showcase its ability to deliver innovative structures, which enable clients to address these business objectives in an increasingly demanding policyholder and regulatory environment.

Diversity and inclusion (D&I) and environmental, social and corporate governance are ever more pressing agenda items that are set to shape the market as organisations are asked to state their position on both.

Statistics consistently show companies with a diverse workforce deliver better customer satisfaction, are more productive and more profitable. Those with well thought-out and executed D&I policies will reap the rewards and find they are better able to attract and retain high-calibre employees.

This also helps with the age-old issue of attracting fresh talent, as younger candidates are more likely to be attracted to employers who are not only conscious of such C-suite agenda items, but also have policies in place to deliver that agenda.

Having increased in strength, attracted significant additional investment and further cemented its important strategic position in 2021, the legacy sector is poised to continue to serve the market through its much-deserved position as a trusted partner to the insurance industry. ■

Eleni Iacovides is chief development officer and Will Bridger is chief executive of Compre