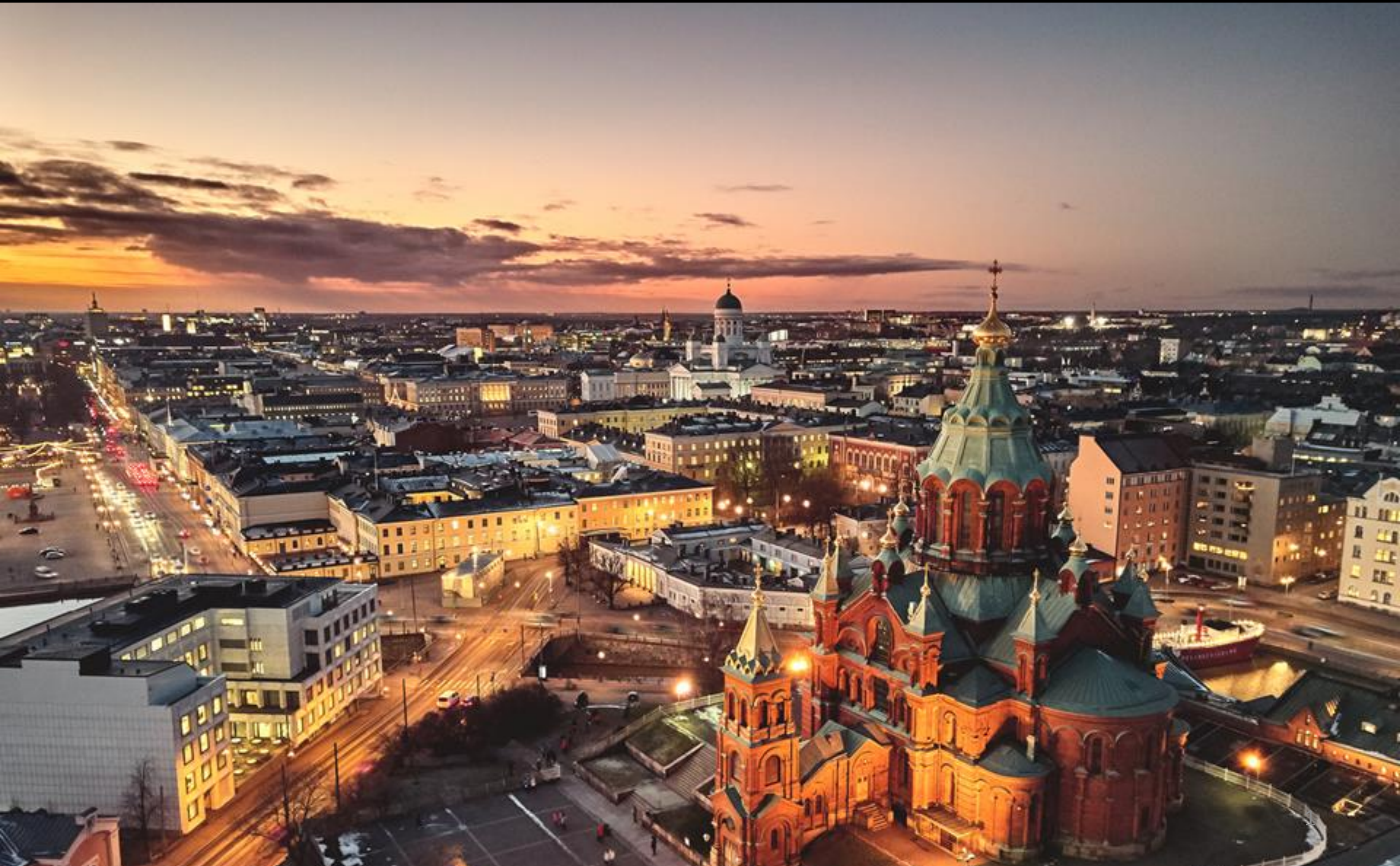
Compre

LMF Reinsurance Leaders Practice Group



Agenda

1. Introduction
2. What is the Lloyd's legacy market?
3. How does it interact with the live market?
4. Market trends
5. Some common misconceptions
6. Future developments

What is the Lloyd's legacy market?

Structure: it is a number of bespoke Syndicates and Managing Agents that focus solely on taking on run-off business from within the Lloyd's market. This is generally by way of a third-party RITC although can also be via other reinsurance structures (e.g. LPT / ADC).

Participants: Currently five main participants (Compre, Enstar, Riverstone, R&Q and Premia) although other specialist legacy acquirers looking to enter the market. Large reinsurers e.g. Berkshire Hathaway and Swiss Re have also been active in the legacy market.

Value generation: generally a risk premium is charged for providing finality to the portfolio / YoA. Value is also then generated by managing book in a more efficient, focussed manner. Investment returns are also made particularly for longer tail books.

Regulation: all of the acquirers will be subject to the oversight of a number of regulators both in Europe and North America. From a Lloyd's perspective, the Run-Off team led by Iain Pearson provides bespoke oversight for the RITC Syndicates.

How does it interact with the live market?

Part of the same core Lloyd's infrastructure of Syndicates and Managing Agents

Makes the market more efficient and necessary given impact of performance management measures

Recycles existing Lloyd's run-off portfolios and provides greater, more specialist focus

Attractive to capital providers given strong, consistent returns that diversify well with other exposures e.g. CAT

Offers solution to release capital to use more profitably in the upcoming hard market post Covid

Increasingly becoming a **core part of the insurance cycle.** Potential run-off starts as soon as a policy is written

Market trends

Covid & hard market

- Covid has helped drive a market hardening due to the losses incurred and expected associated economic impacts.
- This makes the decision much easier to release capital from run-off books for ongoing new business.
- Lengthy potential coverage disputes on gross risk and how it is covered by external reinsurance are a significant distraction and uncertainty.

Performance Management

- The Corporation continues to be heavily focussed on performance management under Patrick Tiernan, the new Head of Markets.
- This has helped drive some Syndicates fully into run-off and a number of others to withdraw from unprofitable lines (‘Decile 10’ review).
- These legacy exposures should ideally be managed in a very different way to ongoing live operations.

Operational Efficiency

- A core part of the Future at Lloyd’s project is to ensure that the market runs more efficiently and reduces its overall expense ratio.
- Legacy acquirers are highly focussed on cost efficiencies as they do not have regular premium income.
- Old systems and people leaving can also lead to potential inefficiencies.
- New ventures (e.g. SIAB) still need exit options.

Regulatory changes

- Continued regulatory changes with respect to Solvency II likely particularly in a post Brexit environment.
- Lloyd’s Brussels has had some recent challenges regarding how to ensure substance in the EU whilst retaining access to London talent and experience.
- Likely that this will result in some dislocation and a number of orphaned portfolios which Syndicates will decide are non-core to their ongoing business.

Some common misconceptions

Legacy management is about not paying claims: this is not the case. If anything, legacy acquirers look to settle claims quicker as they are aiming to recycle capital. Reputation is critical here to ongoing business including regulatory relationships.

It is all about old, well-developed lines of business: although older lines remain relevant, a lot of the 'traditional' legacy lines (e.g. APH) aren't relevant in Lloyd's following Equitas. Most deals relate to naturally closing YoAs and even more recent business.

Legacy acquirers are smaller, less recognised organisations : two of the legacy acquirers are listed, two have had recent major venture capital backing (Cinven and CVC) and the other has Arch as a major shareholder. All are relatively large, sophisticated organisations.

Executing a legacy deal is highly complex: although there will always be a level of complexity inherent in any M&A transaction, the value proposition is straightforward (excess over BE reserves, cost efficiency and investment income). RITCs are completed every year.

Future developments

Embedding legacy

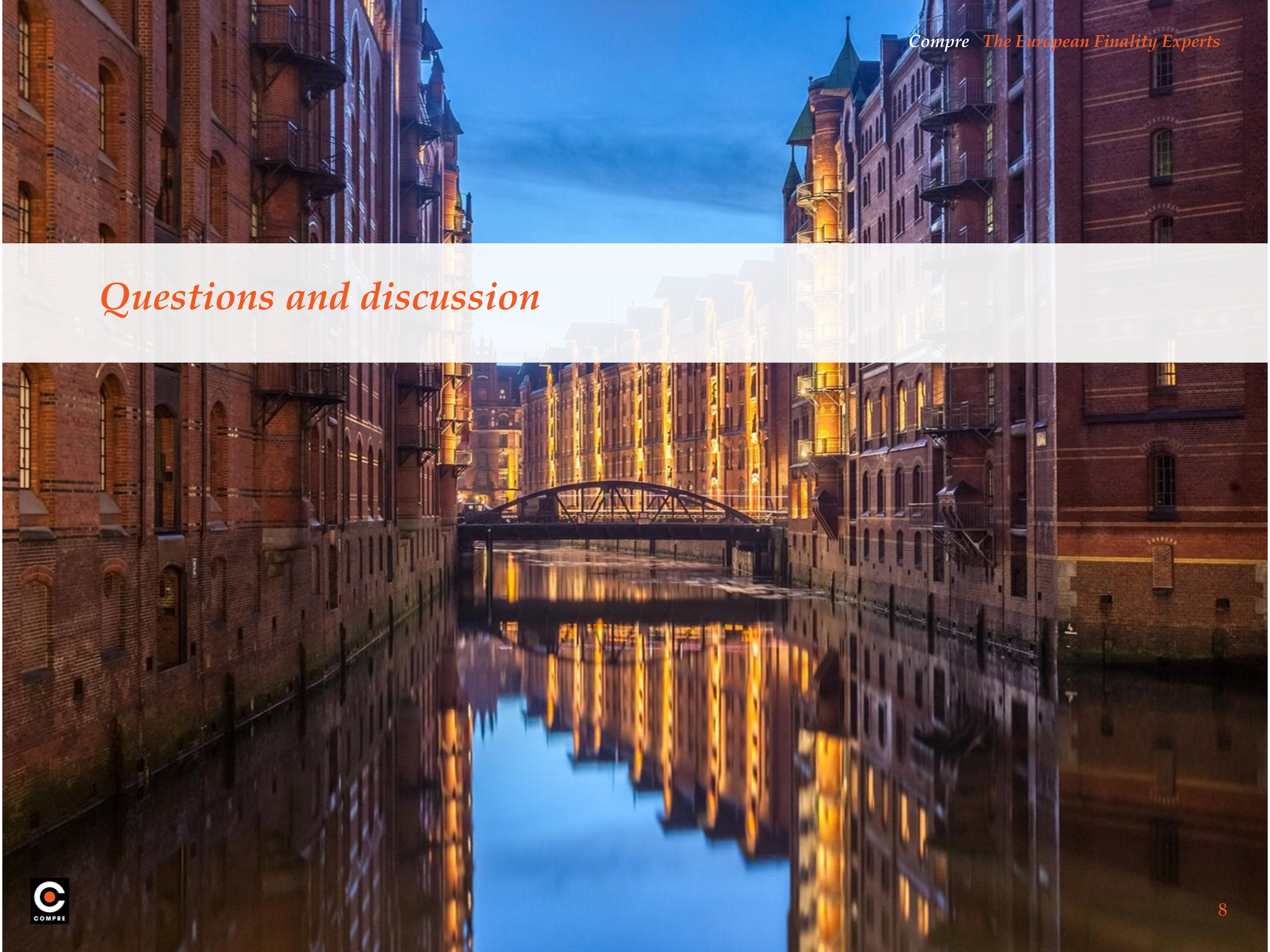
- Increasingly legacy is becoming a core part of the insurance cycle in Lloyd's and the wider insurance market.
- Expect there to be further well capitalised, sophisticated new entrants to provide legacy solutions.
- Ever increasing number of Lloyd's carriers have utilised the process.

New market structures

- Syndicate in a Box (SIAB) is a relatively new, lower cost market entry option. Explicitly designed to be able to 'fail fast' and will therefore need exit solutions for capital backers.
- Other developments such as London Bridge PCC to attract pension fund and ILS capital.

Emerging technology

- Significant impact particularly on retail lines of business e.g. use of black box in the motor industry.
- Increasingly prevalent use of big data in both the live and legacy markets.
- Complexity of providing cover for new industries.
- Potential for industry disruption from one of the tech giants.



Questions and discussion