



Leading from the Rear

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1. Industry Analogy and Personification

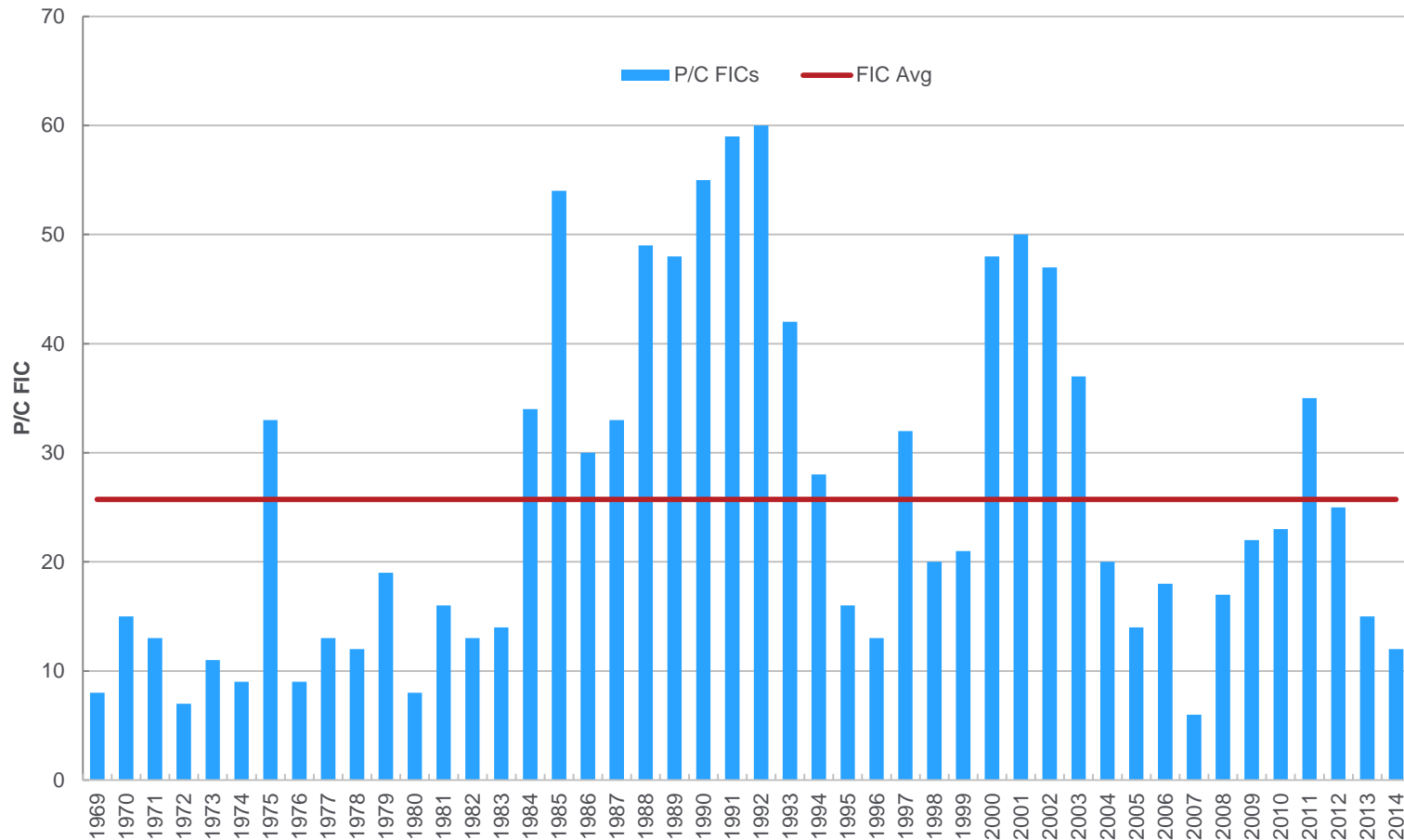
2. Historically and Today

3. Yesterday's Runoff is Today's New Business

A Dog Eat Dog Industry

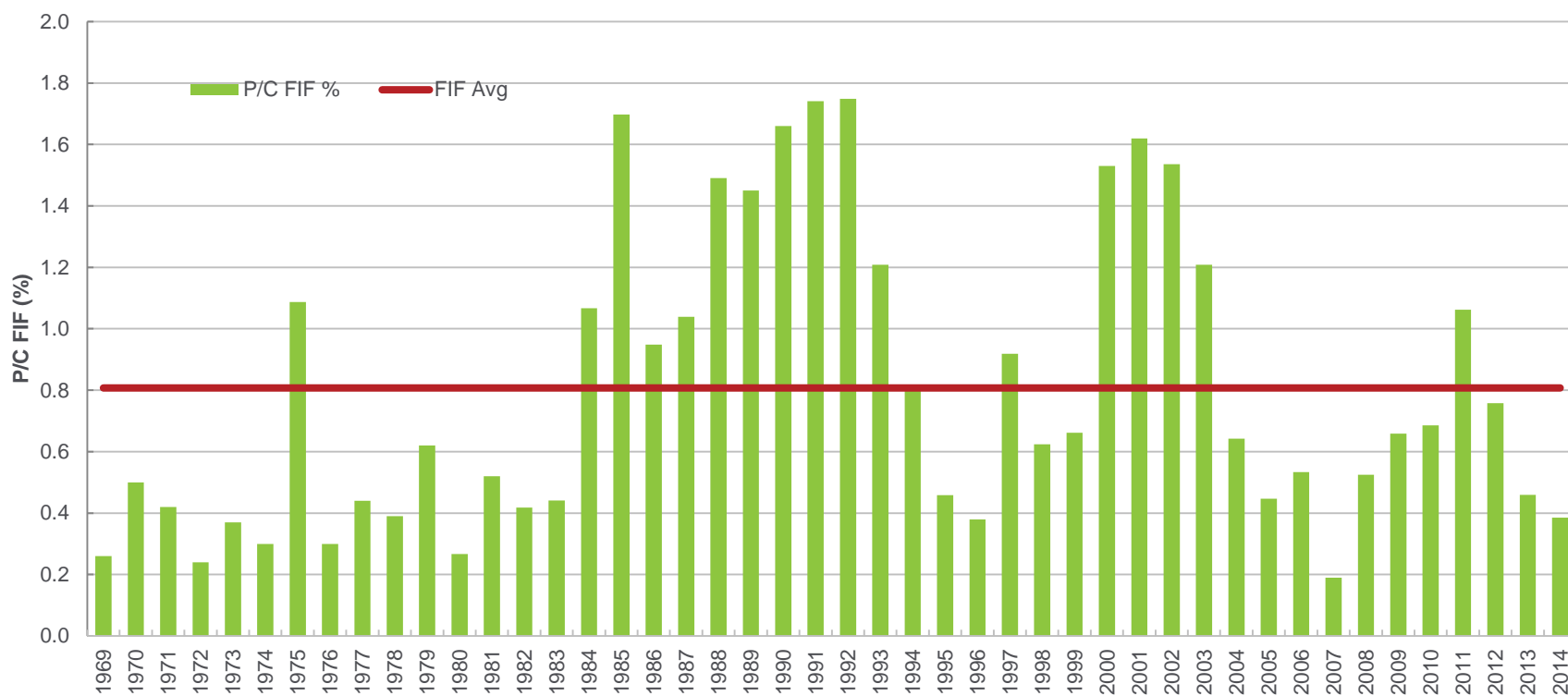


U.S. Property/Casualty – Financially Impaired Companies



U.S. Property/Casualty – F Financial Impairment Frequency

The FIF allows for meaningful comparisons between years by calculating the number of financially impaired insurers against the number of companies in the P/C industry in any given year.





- Active 2015; large deals > \$1B in US
- Specialists diversifying into live P&C and life
- Increased interest in companies divesting their legacy liabilities
- Acquirers: AXA, R&Q, Armour, Catalina, Enstar, Fairfax, Tawa, NICO, EXCEL
- Capital markets, hedge funds and pension fund involvement



- Opportunistic
- Requiring incentives/risk loads
- Credit risk appetite
- ERM or IRM driven
- Ceding companies more comfortable with reassuming certain lines not others
- Turns assets into liabilities on balance sheet – tough sell



Definition of "run-off"

Evolution of run-off

- UK (Schemes and Part VII's)
- Europe (balance sheet transfers)
- USA (LPTs)

Increase in regulatory awareness

- Financial
- Consumer

The domino effect

- Reinsurance and fronting
- Co-insurance and pooling arrangements

Global disparity and cross border complexity

Commutations

Full and final

- Traditional product
- Entire contract no exceptions

Partial or limited

- By date, liability type
- Less than entire contract
- Carve outs or claw backs

Combination products

- Together with ADCs
- Underwritten by VT, RI or CT
- Support from capital markets

Sales, Novations, LPTs

Sell

Entities

Books

Novate

Programs

Contracts

Transfer

Dates

LOBs

UK and Europe

- Solvency II , Schemes of Arrangement, Part VII Transfers

USA

- Regulatory Portfolio Separation & Commutation Plan (Rhode Island)
 - Portfolio separation and transfer - LIMA (Vermont)
 - Connecticut Sponsored Captive Insurance (Connecticut)
1. Sophisticated Run-Off Managers – (US) Berkshire Hathaway, Enstar, Catalina, Armor Re, Aylesbury
 2. Fewer companies fall into liquidation compared to the 1980s and 1990s
 3. Strong Interest from capital markets – Private equity, hedge funds and pension funds
 4. Relatively benign period of catastrophic losses – since 2005
 5. Soft premium rates

LEADERSHIP

Leadership is action,
not position

-Donald H. McGannon



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