

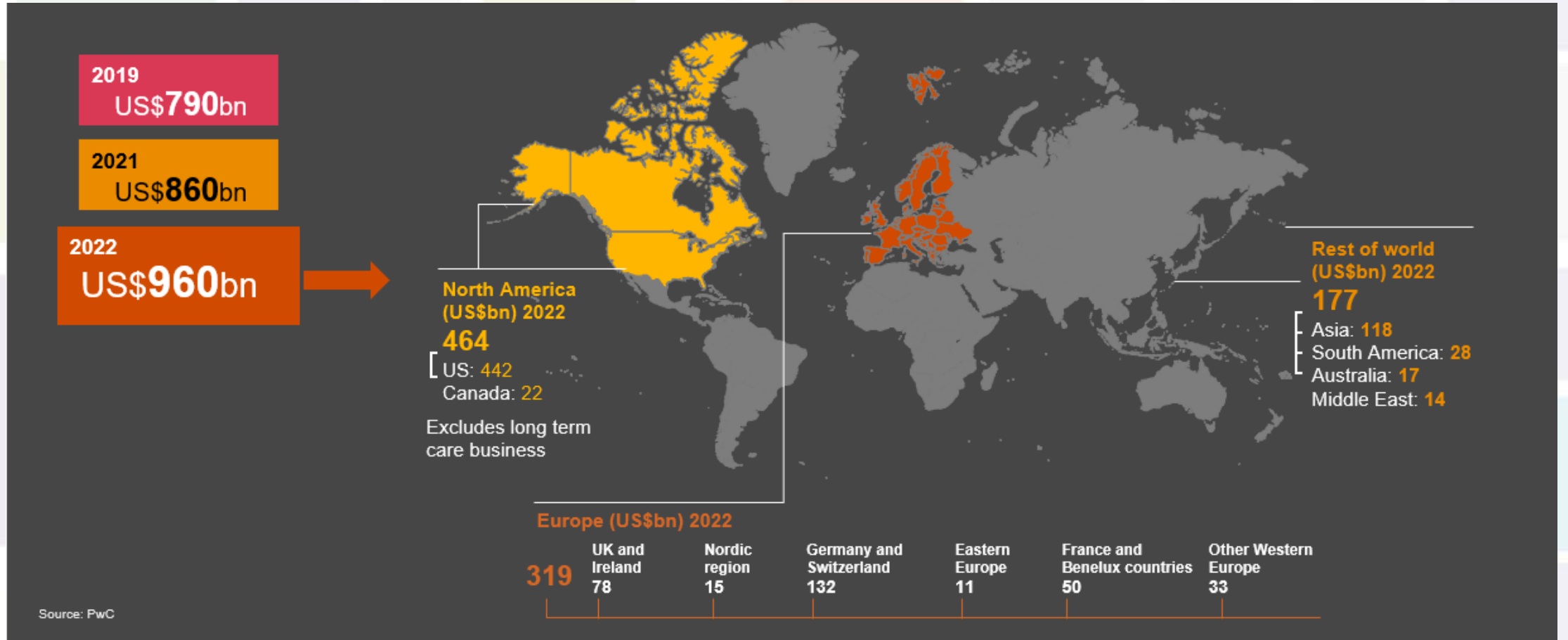
# *Seminar on Reinsurance*

*June 5-6, 2023*

*Westin Philadelphia*

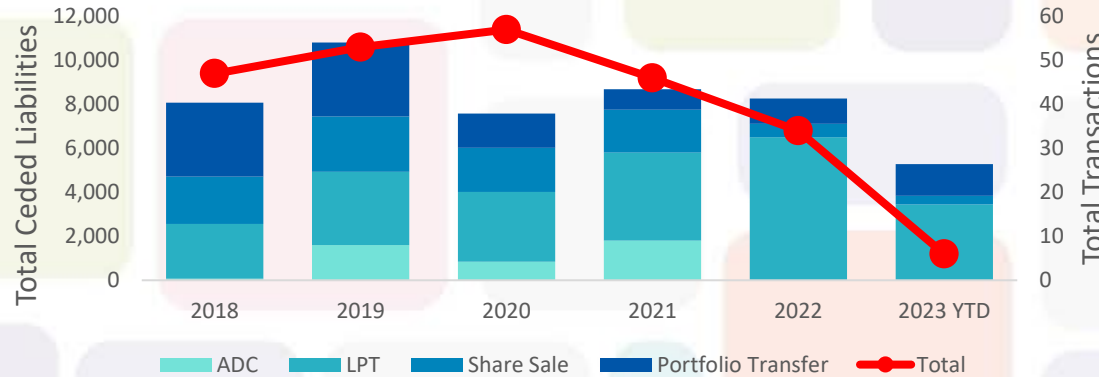
*Philadelphia, PA*

# The Market



# Market Active and Poised for Growth

Non-life Legacy Market Deals  
2018 - 2023 YTD by Deal Structure



Figures sourced using Aon's Non-life LPT/ADC Transactions database which includes publicly disclosed deals and Aon's estimates of deal size where no value is publicly stated.

Non-life LPT/ADC Market Capital Raises  
2018-2022 YTD, by Capital Type



Figures sourced using Aon's Non-life LPT/ADC Capital database which includes publicly disclosed capital raises and Aon's estimate of growth capital committed for capital inflows to LPT/ADC specialists only

## Recent market activity

- Steady deal volumes and growing investor interest in non-life run-off market
- 2022 disclosed deals have exceeded \$8bn, but true number is higher
- \$4bn of transactions announced in the first two months of 2023 – potential to be a banner year
- Significant growth capital has entered the market in recent years:
  - Carlyle (Fortitude Re)
  - Cinven/BCI (Compre)
  - CVC (RiverStone International)
  - Oaktree (Marco)
  - 777 Partners (777 Legacy)
  - Maiden (Genesis Legacy Solutions)
  - Apollo (Catalina)
- Established market players such as Enstar have also continued to tap public markets for additional capital to fund growth



# Market Appetite

At least 18 Dedicated Legacy Markets and Reinsurers

Market	Ownership	Comments on appetite
777 Legacy	777 Capital Partners	\$200m target deal size. New reinsurer.
Allianz	Listed	\$100m target deal size. Typically focussed on workers comp, construction defect business.
Berkshire Hathaway	Listed: NYSE	Capacity for the largest deal sizes. Generally prefers less competitive legacy processes.
Carrick Holdings	Sequentis (at present)	\$200m target deal size. Middle of a recapitalisation.
Catalina Holdings	Apollo	No longer participating in competitive processes
Compre Group	Cinven/BCI	\$500m target deal size but have proven to do larger deals (up to \$1.5b)
Darag Group	Aleph/Crestview/Keyhaven	\$200m target deal size.
Enstar Group	Listed: NASDAQ	Capacity for the largest deals sizes.
Fleming Re	Altamont	\$100m - \$200m target deal size.
Fortitude Re	Carlyle/T&D	Capacity for the largest deal sizes.
Genesis Legacy	Maiden Holdings	\$100m - \$200m target deal size.
Marco Capital	Oaktree	\$500m target deal size. Potential capacity for larger deals.
Munich Re	Listed	Capacity for the largest deal sizes but typically only involved in heavily structured deals. May support another specialist market with retro capacity.
Premia Holdings	Arch/Kelso	\$500m target deal size. Potential capacity for larger deals.
Quest Group	Management	\$100m target deal size. No real capacity for larger deals.
R&Q Legacy	Listed: AIM	\$500m target deal size.
RiverStone International	CVC Capital	Capacity for the largest deal sizes.
Swiss Re	Listed	Capacity for the largest deal sizes. Typically heavily structured deals.



# Motivations

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Release trapped capital

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Return excess capital to investors

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Redeploy capital to more profitable operations

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Regulatory or rating agency capital relief

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Discontinued operations

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Softening market conditions ESG and Inflation concerns

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Economic, administrative and legal finality



# LPT/ADC Options

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Adverse Development Covers

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Loss Portfolio Transfers (LPT)

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Hybrid LPT's

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Commutations

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Novations

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Sales

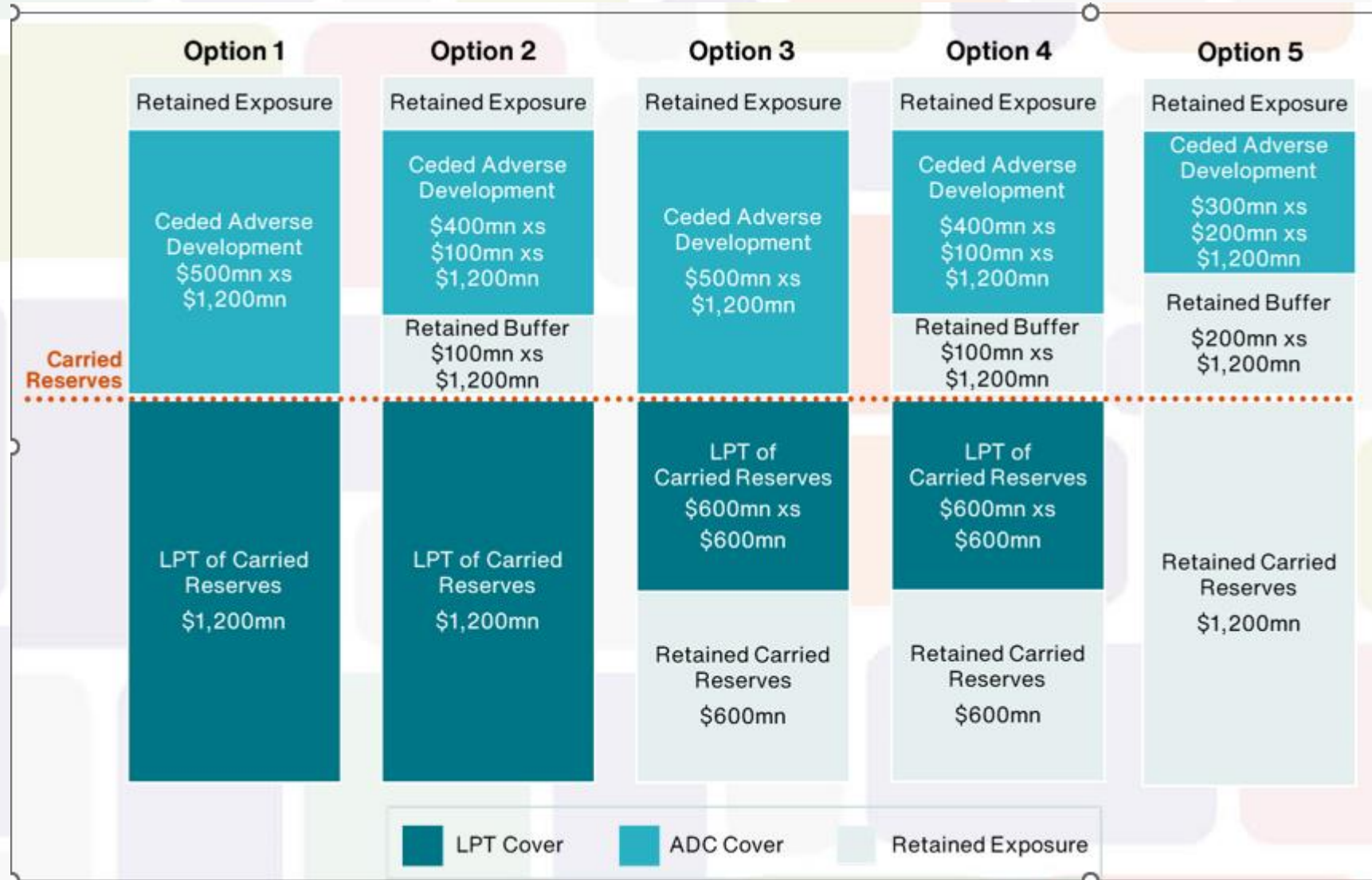
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Insurance Business Transfer (IBT)/ Part VII Transfers





# Summary of LPT/ADC Options



# Why transfer loss reserve liabilities?

Rationale: The benefits of a reinsurance cover on loss reserve liabilities have existed for many years, but the timing to transfer loss reserves has never been better due to the current high interest rate environment, record capital in the loss portfolio transfer / adverse development cover (LPT/ADC) reinsurance market and long-lasting capital benefit

<b>Higher Risk-Free Rates</b>	<ul style="list-style-type: none"><li>• The fair value of loss reserve liabilities is driven by the<ol style="list-style-type: none"><li>1. LPT/ADC specialists' assessment of reserve adequacy and expected volatility;</li><li>2. Risk-free interest rate used to discount the liabilities over the expected payout period; and</li><li>3. Value that can be gleaned from claims if claim handling is transferred</li></ol></li><li>• Current U.S. Treasury yields range from 3.6% to 4.9% (depending on duration), which has resulted in attractive proposals to transfer liabilities</li></ul>
<b>Record Capital</b>	<ul style="list-style-type: none"><li>• The total number of dedicated LPT/ADC specialists is 14, who join traditional reinsurer / LPT/ADC specialist Allianz and Berkshire Hathaway, with renewed interest from Munich Re, and Swiss Re</li><li>• Aon estimates capital supporting dedicated LPT/ADC specialists exceeded \$20 billion in 2022, up from \$6 billion in 2016</li></ul>
<b>Benefits of LPT/ADC Reserve Transfer</b>	<ul style="list-style-type: none"><li>• Significant capital benefit that lasts the duration of the payout pattern</li><li>• Calendar year earnings protection from prior-year development</li></ul>
<b>Hardening Rate Market</b>	<ul style="list-style-type: none"><li>▪ Pricing conditions for reinsurance and commercial lines have seen up to double digit increases allowing carriers to improve underwriting performance</li><li>▪ Large potential for higher return on capital for transferring UY 2017 – 2020 business and replacing with today's current opportunities</li></ul>



# Transaction Lifecycle

Submission

Due Diligence

Intent Letter

Agreements

Regulatory Approvals



# Pricing the Transaction

## Actuarial

Expected ultimate losses, required reserves and payment pattern

Project range of possible outcomes

Calculate the fair value of the reserves

## Claims and Financial

Ground up claim review

Runoff administration analysis

Cash flow modeling

## Reinsurance Assets

Quality of counterparties

Collectability of Reinsurance Asset

Disputes, Arbitrations



# Accounting & Legal Considerations

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## Statutory Accounting Considerations

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- \* GAAP Accounting Considerations
  - \* Statutory Accounting Considerations
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## Legal & Regulatory Considerations

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- \* Ability to secure regulatory approval
  - \* Ability to structure the transaction to secure desired legal outcome
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# Post Deal Operational Concerns

## Portfolio Transition

Data migration needs for historical claim files

Staffing decisions

TPA contract decisions

Onboarding employees

## Deal Implementation

Claims service level agreements/Delegated authority

Claim Payment Mechanisms

Loss Fund

Timed Bordereau Based Funding Requests

## Value Creation

Staffing claims with subject matter experts

Reevaluating exposures and creating custom resolution plans

Reserve salvage

