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Reading the runes of the mid-year results

Market trends are more diverse than usual this year

Graham Village
Global markets editor

Brokers have painted a fairly bleak picture of the state of this year's reinsurance market, at least for property-related business, but over the next few weeks reinsurers will be releasing half-year figures and giving their view of where the market stands.

Of particular interest will be underwriters' reports on price movement for the key mid-year renewals for storm-vulnerable US cedants. Certainly, when speaking to analysts on the release of first-quarter results, reinsurance chief executives indicated rates probably peaked at the start of the year.

Analysts will be keen to see how much property catastrophe reinsurers wrote in the second quarter, given the disappointing market conditions, and how much of their cat account companies are retroceding out to alternative capital vehicles. Net retentions for the Bermudian specialists have been falling for some time. After three months, the Bermudian market's gross premium increase was 19%, ahead of the 16.3% upturn in net premiums.

For most Bermudians, diversification away from property catastrophe business has become an imperative and it will be interesting to see how aggressive they have been writing other lines over the six months.

The four main continental reinsurers have much broader business models and can deploy capital in other lines and markets if rating is too weak in US property cat. Casualty has been an area of strong growth for them and will be a line to watch at the half-year mark.

Analysts are expecting underwriting results to be good for primary insurers and re/insurers on the back of generally rising rates and relatively low major loss activity. For the US market, the hailstorms that hit Texas in June are likely to be many insurers' largest individual loss of the second quarter.

Analysts have been watching reserve trends closely, believing the industry has been releasing an unsustainably high level that has given a false impression of core underwriting profitability. But apart from general reserve movement, attention this year will fall on any changes to loss estimates for last year's major catastrophes.

Last week, Everest Re upped its estimate for the hurricanes by $225m on a combination of reopened claims and higher loss adjustment expenses, triggering some aggregate protections. The reinsurer had to add $100m to its reserves for Californian wildfires in the first quarter.

The Property Claim Services division of the Insurance Services Office, providing aggregate US market losses from catastrophes, has revised its figure for Hurricane Irma three times since its initial estimate, initially reducing the expected loss 16% and then increasing it. The estimate is now $19.5bn.

Residual insurer the Texas Windstorm Insurance Association has increased its loss estimate for Hurricane Harvey claims from $1.13bn in October to $1.61bn in April.

Reinsurers may also give an early indication of any damage they may have suffered from the heavy flooding that hit Japan earlier this month.

Over the past month the London market has seen a stream of sector withdrawals, notably in marine business, and platform consolidation involving Fairfax units Brit and Advent, Liberty Mutual and Ironshore, and Scor. Further withdrawals are expected, and not just in London, as groups take a harder look at the profitability prospects of individual lines of business.

As the profitability squeeze tightens on the smaller players, more takeovers in the international market are on the cards. For those in a position to acquire, share repurchase levels may give an indication of strategy. Companies have tended to be keener handing money back to shareholders but in the current climate they may now prefer to preserve capital for organic growth or make an acquisition.

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NEWS

Beazley chief: US premiums could hit $1bn this year

Andrew Horton sees 'fantastic' growth in a division that booked premiums of $778m in 2017

Lorenzo Spoerry
Deputy editor

Beazley is set to reach $1bn in premiums in the US on the back of a boom in its stateside speciality business, the firm's chief executive, Andrew Horton, said.

Beazley's US division saw growth of 23% in the first half, a result Horton described as "fantastic" in conversation with journalists at the presentation of its latest set of results. In 2017, the Lloyd's heavyweight wrote premiums of $778m in the US, up from $695.7m the previous year.

More than three-quarters of its US business is specialty lines. The environmental, healthcare and cyber businesses all showed particularly strong growth in the first half.

But Horton was less than bullish on the rating outlook, pointing out the amount of capital in the re/insurance industry is so great further rate hikes in property insurance and reinsurance cannot be guaranteed. "Our view [of rates] for the next year is holding with small increases," he said, with rises of 2% to 3% expected in Beazley's property and reinsurance books.

This would represent a significant tapering off, as Beazley recorded rate hikes of 10% in the property book at the mid-year point. Reinsurance rates rose 7%.

Horton used the improving conditions in the first half to drive significant growth in the business, with premiums increasing 15% to $1.33bn.

The improving rate environment meant Beazley was on track to achieve "double-digit growth" in 2018 led by specialty lines and catastrophe-related business, Horton said.

Philip Kett, an analyst with Jefferies, said the 15% growth seen in the first half was a "clear indicator that the group's growth ambitions remain firmly on course".

Beazley expects a combined ratio in the low- to mid-90s in the second half of 2018.

Reserve deficiencies

The Lloyd's heavyweight reported reserved additions in the property book of $34m, of which two-thirds were attributable to hurricanes Harvey, Irma and Maria.

"If you look at the overall group, we had losses from those hurricanes in our reinsurance division, our marine division, and our property group," Martin Bride, the group's finance director, said. "Overall we're flat, but up in property. That accounts for two-thirds of that prior-year development that you can see in the property division."

Kett said this "minor" incident should not detract from Beazley's "multi-decadal" history of reserving prudence.

Overall, Beazley booked pre-tax profit of $57.5m in the first six months of the year compared to $158.7m in the same period a year ago.

The results suffered from a plunge in investment income to $8m in the period from $83.4m a year ago as rising interest rates forced mark-to-market losses on the group's bond portfolio.

But Beazley's asset portfolio is of relatively short duration and is mostly held to maturity. Horton said in the longer term, rising interest rates will boost the investment income.

In May, Beazley's board approved the launch of new strategic initiatives focusing on the use of technology to make its business more efficient, enhancing the client experience, and in boosting the productivity of the firm's London market business.

Beazley's chief operating officer, Ian Fantozzi, said the company was working to automate transactions from end to end, and to make it easier for brokers to place business electronically.

"There are a lot of technology solutions out there, lots of data services and insurtech opportunities," he said. "We want to focus that at Beazley and make sure we're putting it towards our business model."

Beazley profits slump in first half

Beazley reported profits down 64% in the first half of the year driven by a slump in investment returns and reserve strengthening in its property book, *writes Michael Faulkner*.

The Lloyd's insurer booked pre-tax profit of $57.5m in the first six months of the year compared to $158.7m in the same period the previous year.

Rising US interest rates, which hit the carrier's bond portfolio, saw investment income fall to $8m in the period from $83.4m a year ago.

Beazley also said profits were dampened by reserve strengthening in its property division of $33.7m related to business written in 2016 and 2017.

Overall, prior-year reserve releases fell to $48.1m from $83.4m.

The combined ratio deteriorated five points to 95%.

However, the re/insurer reported strong growth in premium volumes with gross written premiums rising 15% to $1.33bn.

Premium growth was strongest in the property division, which saw growth of 25% to $243.4m, on the back of a sharp increase in rates following last year's hurricanes. Beazley said rates in its property book were up 10%. Reinsurance rates were up 7%.

The specialty lines business book increased 16% to $649.9m.

Beazley chief executive, Andrew Horton, said the improving rate environment meant it was on track to achieve "double-digit growth" in 2018 led by specialty lines and catastrophe-related business.

"Provided the claims environment is reasonably in line with our expectations, a combined ratio in the low- to mid-nineties should be achievable for the full-year," Horton added.

Everest Re shares plunge on HIM loss creep

Everest Re Group's stock fell 5% on July 20 after it warned investors that loss creep from last year's hurricanes will force it to take a $250m net reserve charge in its second-quarter results, *writes Michael Faulkner*.

The Bermuda-based group also said weather-related events in the current year would result in a second-quarter charge of approximately $25m after tax.

The increase in the loss estimates related to hurricanes Harvey, Irma and Maria were driven by reopened claims reported in the second quarter and loss inflation from higher-than-expected loss adjustment expenses, which particularly impacted aggregate covers.

Everest Re president and chief executive, Dom Addesso, said the losses from last year's hurricanes were "difficult to estimate", adding "the number of reopened claims and the extraordinary surge in [loss adjustment expenses] were well above the market expectation".

The group said it still expected to report net income for the second quarter of 2018.

It added its non-cat reinsurance portfolio and the insurance book "continue their favourable trends and should produce an excellent result in the second half of the year".

In April Everest Re missed analysts' first-quarter earnings forecasts after it added $100m in loss provisions relating to California Wildfires in 2017.

Shares in New York Stock Exchange-listed Everest Re were trading at $222.20, down 5.16% as *Insurance Day* went to press on July 20.

Mapfre restructures global risks unit

Spanish insurance giant Mapfre has restructured its Global Risks business, hiving off much of the business to other parts of the group to focus on large risk business, *writes Michael Faulkner*.

Under the new structure, Mapfre Global Risks' reinsurance business will be transferred to Mapfre Re, the group's reinsurance entity, while the insurance business will be transferred to Mapfre Spain.

The group did not disclose how much business would remain within the €1.3bn Global Risks unit, however a spokesman told *Insurance Day* the "majority" would be transferred to Spanish unit. Global Risks reported premiums of €1.3bn ($1.52bn) in 2017, up 3.7% on a year earlier.

Additionally, Mapfre Global Risks' branches in the UK, France and Italy will be integrated into Mapfre Re, while the German unit will cease operations on October 1.

The global risks business will focus on business related to large and multinational companies and businesses in "global activity sectors".

Mapfre said the unit "will operate in co-ordination with the group's insurers to manage the large risks business, with responsibility for technical aspects, handling claims and provision of services".

FOCUS/ LEGACY

Efficiency push drives legacy market momentum

Legacy transactions are increasing in size and number as a host of pressures on the live market force companies to consider the best way to handle old accounts

Will Bridger
Compre

The increasingly buoyant run-off market has been exceptionally active in recent years, with the estimated global value of non-life run-off liabilities estimated to be around $700bn. Further deals are set to come to fruition by year-end – possibly greater in number and magnitude than in 2017 – as deal flow continues to gather momentum.

With continental Europe continuing to open up, the future is bright for acquirers of legacy portfolios and books of business. Across the region markets remain active, with Italy experiencing something of a "Generali effect" after the insurance group undertook its first legacy transaction last year. Ergo exited the Italian market and further rationalisation within the motor and general liability segments is expected, with portfolios likely to be transferred to the legacy market.

The convergence of various pressures is driving legacy transactions and their increased frequency and size. Major global insurers continue to improve operational and capital efficiency by jettisoning long-tail books of business already in run-off, which have often long sat on their balance sheets. The live underwriting market is increasingly challenging, with anticipated interest rate rises failing to materialise and, more recently, the much hoped-for premium rate increases following the 2017 hurricane season also disappointing.

Solvency II

Solvency II has shone a spotlight on reserve adequacy and capital allocation, highlighting underperforming business lines but it is only now that boards are really taking action. Underperformance is also something the Corporation of Lloyd's is quickly losing tolerance of. The ultimatum to improve or desist is resulting in hurried, evasive action by some, with more Lloyd's legacy transactions likely as a result.

The cost efficiencies and underwriting profits essential to the live market's longer-term health therefore remain under considerable pressure. Fundamentally, the conditions for run-off are and will continue to be conducive, driven by challenging conditions in the live market.

The rapid pace of technological change will also add further to this. As insurtech continues to disrupt the motor market, many small to medium-sized insurers are questioning strategies where market positions are marginal and with the investment required to remain competitive deemed to be uneconomic.

Technology will increasingly be a driving force in run-off, as insurers exit non-core or underperforming lines to free up capital to invest in technology

Europe is beginning to wake up to the benefits of legacy portfolio transfers
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Investment is needed by insurers using traditional models to transact motor business but arguably even those that invest now will still be playing catch-up. Technology will also increasingly be a driving force in run-off, as insurers exit non-core or underperforming lines to free up capital to invest in technology. A number of back-book deals have already come to market to allow vendors to do just that and invest in future business, not the past.

US regulation

In the US, ongoing developments with legal finality mechanisms will continue to facilitate interest in legacy transactions. Rhode Island Regulation 68, a court-sanctioned exit mechanism modelled on UK Part VII transfers, while yet to be tested, paves the way for legacy transactions. While it is still early days for the new legislation it is likely a to see a deal within the next 12 to 18 months. Vermont, Connecticut, Georgia and Oklahoma have followed suit in adopting insurance business transfer law.

Added to this, the need for insurance companies to restructure their balance sheets is growing apace, which will undoubtedly result in books and portfolios of business being spun off into the legacy market.

Managing legacy risk and capital is increasingly part of the core business of a live insurer. Optimising capital and cost, ensuring that scarce human and financial resources are allocated across the business consistent with its growth objectives, is key to success.

The legacy market has proved its position in the global insurance and reinsurance markets. Legacy acquirers are professional, reputable, resilient and trustworthy. There have been no collapses of legacy players, which tend to be well run, managed, and capitalised, and this has helped to build a huge amount of confidence among live insurers in passing business to the legacy market.

This marks not only an important perception shift but a coming of age for legacy acquirers as strategically important allies, able to assist the live market in letting go of the past to deliver the strategy of the future. ■

Will Bridger is co-chief executive of Compre

Proactive disposal is an integral part of the insurance lifecycle

Regulatory, rating agency and trading pressures are encouraging firms to consider legacy deals but all parties should be aware of potential risks to what so far has been a successful market

James Dickerson
Willis Towers Watson

There is little doubt the perception of the legacy insurance sector is changing, with reports suggesting a global market value exceeding $700bn.

While legacy management still conjures sentiments of insolvency or distress in some regions, many insurance entities in western Europe and the US consider the proactive disposal and reinsurance of legacy risks to be an integral part of their role in the management of capital across the insurance lifecycle.

At a macro level, in an ever-competitive market underwriting and investment results have been squeezed by "new normal" rate pressures (driven by an abundance of capital) and persistently low interest rates.

In addition, risk-based regulatory frameworks, such as Solvency II and AM Best's BCAR, have served to increase transparency in terms of the amount of capital required to support certain types of activity. This has led to an increased focus within the insurance executive in respect of capital allocations for reserve risk in particular.

An enhanced understanding of capital efficiency is just one of many internal motivations that have led to an uptick in the number of legacy transactions being considered and undertaken.

With insurance executives measured on their ability to enhance and deliver returns for their shareholders, legacy transactions are now commonly being seen as a viable strategic solution to release and redeploy capital more efficiently.

Advantages of a proactive legacy strategy include crystallisation of value; management of underwriting volatility; improvement in operational efficiency; insulation from regulatory or legal change; reduction in pressure on combined ratios; maintenance of solvency margins and support for wider merger and acquisition (M&A) activity.

With insurance executives measured on their ability to enhance and deliver returns for their shareholders, legacy transactions are now commonly being seen as a viable strategic solution to release and redeploy capital efficiently

Even with these macro market pressures effectively "pushing" insurers to consider transactions, activity would be muted without an efficient acquiring market to offer competitive re/insurance terms. However, this is most certainly not the case, as a well-established, sophisticated and well-capitalised acquiring market continues to develop to facilitate deal activity.

The acquiring re/insurance market provides a range of options for insurers to consider, demonstrating competitive risk-transfer pricing, as well as established operational infrastructures to mitigate the potential reputational risks associated with both business operations and claims management transfer.

Future implications

Over the past 12 to 18 months the acquiring market has been buoyed by interest from new participants, with funding provided by live insurers and increased private equity investment. No doubt these investors are attracted to the double-digit returns being reported and the anticipation that deal volumes in familiar markets have the potential to further increase.

From a regional perspective, Europe has historically been the most dynamic market for full-finality disposal, supported by well-established transfer mechanisms (Part VII or equivalent). However, there has been anticipation in relation to the development of Insurance Business Transfers in the US; with Rhode Island, despite some delays, and Oklahoma deemed to be leading the way.

Despite there being an expectation for interest rates to rise in some markets, investment returns for many insurers are likely to remain historically low. Capital availability in the live market shows no immediate signs of retreat and, even following record-breaking catastrophe losses in 2017, competitive rate pressures in developed markets are expected to continue.

Risk-based capital models are now well embedded into insurers' reporting practices across a multitude of regions, highlighting capital use and deemed capital inefficiency to a wide range of stakeholders. Many regions that are yet to fully introduce a risk-based capital supervisory regime appear to be striving to do so, with the expectation for adoption in both Asia and the Middle East.

From a restructuring perspective, market analysts report insurance M&A activity is expected to continue, bolstered by momentum from a busy second half of 2017 (including some well known mega-deals already under way). In addition, while the impact of Brexit on the European market participants' business models is yet to be fully quantified, companies will almost certainly consider restructuring activities, should financial services passporting be eradicated.

Potential market risks

Although by no means definitive, it is worth considering a series of hypothetical developments that could dampen the legacy market's standing as a long-term strategic tool for insurers.

Regulatory intervention: we have recently seen an increased level of interest from the UK regulator in relation to the proportion of capital being held offshore. Although the final outcome of this is still to be determined, setting a new regulatory precedent in respect of capital holdings could significantly affect the acquiring market's pricing models and the attractiveness of commercial terms available to disposing insurers.

Stuttering market growth: what if a working model to facilitate transfers in the US is not achieved or interest rates rise more quickly than anticipated, leading insurers to retain a higher proportion of their legacy business? What if company restructuring requirements borne out of Brexit are less onerous than expected or they remove the ability to conduct cross-border transactions into or out of the UK? Although the scale of the global opportunity is still large and existing retrospective reinsurance solutions exist to support US transactions, will there be enough business to fuel the expanding acquisition market?

Reputational damage: the acquisition market has spent many years building a reputation for protecting live markets through professional claims and post-transaction operational management. What if this dynamic changed and a disposing entity faced significant reputational damage based on the actions of a legacy partner? How severe would this damage need to be to have a knock-on effect that rippled through the sector as a whole?

Non-traditional capital leaves the market: private equity is well known to extract value from its investments within relatively short-term time horizons. How will insurers and capital align their interests to suit an environment where some long-tail risks can develop over a 20- to 30-year period? Could this create the risk of a capital vacuum, should private equity investors decide to move on to opportunities outside the sector?

Concentration risk: it is possible legacy acquirers may deem themselves "full" of certain of types of risk. This, in turn, could affect the competitive market dynamic and the ability of insurers to dispose of particular books of business for equitable terms. Equally, should a significant concentration of certain types of risk end up in the hands of only one or two organisations, could this create a systemic market risk?

When considering the scale of the potential market, it becomes clear why attention has shifted towards the opportunities legacy disposal affords both acquiring and disposing parties.

Given the insurance market dynamic today, it looks like exciting times ahead for the legacy sector. This will be further invigorated should an insurance business transfer model be successfully introduced to the US and the global implementation of risk-based capital assessment continue.

Only time will tell how some of the potential political, regulatory and operational risks will play out. However, with the sector the recipient of increased market interest, it can surely be expected to continue to gain wider acceptance from live participants and play an increasingly important role in the wider insurance market lifecycle. ■

James Dickerson is a legacy insurance, structured reinsurance and M&A specialist at Willis Towers Watson

FOCUS/ LEGACY

Updated laws mean US will follow UK and unlock run-off capital

New and improved legislation in Rhode Island will spark a buoyant, multibillion-dollar run-off market in the US to mirror the UK's success

Mory Katz
Pro Global

Rhode Island's new laws set to start revolution in US legacy market

Change is on its way in the US, with an estimated $350bn of US non-life legacy market opportunity in the process of being unlocked. The revolution is being pioneered by the world's largest insurance market's smallest state: Rhode Island.

It has been a long time coming, but new amendments to Rhode Island laws have improved the legislation passed last March and the door is now open for run-off transactions. This is a major change for the legacy sector that will transform the capital efficiency of US insurance and reinsurance companies and make achieving finality standard US industry practice.

The new and improved Rhode Island laws mean for the first time in the US, insurers will be able to cede run-off commercial books with court-sanctioned finality.

The market in the US needed reform and Pro Global has championed these changes all the way, not only by working with the legislature, but also by becoming the first licensed company in the state to receive transferred books. ProTucket, a subsidiary of Pro Global, became the first company to receive a licence in March 2017 to provide legacy transfer services under this new law.

270+
Discontinued portfolios that have been successfully transferred in the UK since Part VII came into force

Unlocking this treasure trove of run-off will create a vibrant market in the US – in the same way Part VII of the Financial Services & Markets Act 2000 bought full legal and financial finality to the transferring insurer in the UK.

UK insurers and reinsurers have led the charge when managing legacy, and the architects of Rhode Island's legislation have taken strong inspiration from the UK's example. In fact, the state legislators have made no secret of their intention to create a US version of the UK act.

In 2000, the UK government enacted the Financial Services & Markets Act to better regulate and liberalise the financial sector.

Part VII of the act enabled insurance business transfers, offering the insurance industry new freedoms to restructure and, in particular, to transfer discontinued books to other companies.

The legislation saw the creation of specialist run-off organisations that could efficiently manage the series of discontinued portfolios, allowing insurers to better use their capital and deploy staff elsewhere. Since then, more than 270 portfolios have been transferred. All have taken place without incident, with the rights of policyholders guaranteed and prospects for both sellers and buyers of run-off books improved.

Yet in the US, insurers have been forced to struggle with discontinued books, and run-off specialists left to hope for change in the legislation.

Rhode Island's Voluntary Restructuring of Solvent Insurers Law will be transformational for the legacy sector and is expected to fuel demand for a new market by unlocking billions of dollars of legacy liabilities in the US.

US safeguards

The people behind the insurance legislation had to find a solution that would be recognised in all 50 states. In the US, both federal and state laws need to be satisfied, and furthermore, each state has its own set of regulations.

UK insurers and reinsurers have led the charge when managing legacy, and the architects of Rhode Island's legislation have taken strong inspiration from the UK's example

In Rhode Island, the act that delivers finality needs the signature of a judge. This signature is what makes the transfer legally recognised across all states under the "Full Faith and Credit" clause of the US Constitution.

Under state rules, the entity taking on the legacy book must initiate the transaction and it must receive court approval. Rhode Island has made it clear that none of these transfers will happen unless all the policyholders are as well-off or better-off than they were before the transfer. The regulation also states that the portfolio's assets must equal the liabilities. Rhode Island was clear that it did not want to become a dumping ground for bad business or insolvent operations.

Rhode Island is the only state to have enacted insurance business transfer legislation, but others, including Vermont and Oklahoma, are expected to follow suit.

The US is set to become a very buoyant market over the next five years, the business transfer process is thought to become standard industry practice and the net result should be an insurance market that functions better. Capital tied up in run-off can now be put to better use, one that can benefit the entire industry.■

Mory Katz is US managing director at Pro Global

The challenge for brokers of legacy client relationships

Dealing with legacy business is not just a matter for underwriters; legacy clients present issues for brokers that need careful consideration

Steve Goate
Davies Insurance Services

The recent increase in merger and acquisition activity in the re/insurance sector has seen a renewed focus on how to effectively manage legacy business. What to do with the legacy is now a pertinent question for both seller and acquirer.

The approach to legacy has always been one that has seen management look at the issue as having few, if any, upsides.

Legacy, if not properly managed, can become a continual drain on management and resources, will almost certainly take longer to finalise than anticipated, and will cost more to address.

For brokers, legacy business is viewed as those clients who have liabilities but have had no interaction with the broker for several years. They have not provided any new brokerage income but the business still needs to be managed.

The issue for brokers is that while legacy clients may not be currently engaged with the business, some remain potential clients of the future and therefore need to be managed correctly.

Reputation is vital for the broking community and one of the biggest obstacles for a broker to engage a service company to handle the run-off of their legacy business is the fear that service standards will not be maintained once the broker relinquishes control.

But what should the intermediary be aiming for when they look at how to best handle their legacy business and place it in the hands of a third party?

Primarily, the aim has to be to free up significant management time and resource to concentrate on "live business". Companies also need to be able to release staff into the live environment or remove them from the ongoing cost base, while removing the need to retain office space and system capability.

The process also needs to enable them to cease the production of all management and regulatory reporting alongside the handling or processing of any open or future claims and the credit control function associated with it.

There is also a need to remove all outstanding items from existing ledgers and cancel any outstanding file reviews or cash investigations.

Legacy by its nature creates uncertainty both for the management and staff but the options for the market are in many ways limited to the ability to transfer the legacy business to a third party via sale or to engage in an arrangement that will allow the services company to manage the run-off.

In the quest for certainty, intermediaries need to ensure they have a clear understanding of the costs of any option.

The issue for brokers is that while legacy clients may not be currently engaged with the business, some remain potential clients of the future and therefore need to be managed correctly

As such, they need to work with their service partner to identify and agree the exact scope of the legacy operation, which includes the number of policies, open claims, and accounting issues. It requires the services company to gain an understanding of the business in question to create an effective management strategy.

It involves the ability to understand the duration of any management scheme and to provide a clear indicative cost benefit to the intermediary.

If handled correctly, the management of the legacy business can become part of the intermediaries' reputational management, and if agreed service levels are implemented can provide legacy clients with a positive experience that can add to the brokers' ability to win future business.

In terms of those who offer legacy services, the market has changed in recent years. When legacy and run-off began as a sector it was seen as a negative step. Now it is viewed as a challenging and rewarding career. We saw an influx of companies enter the sector in the 1990s when mergers and acquisitions as well as insolvencies saw a realignment in many areas of the re/insurance industry, but in recent years the service company sector has become more sophisticated and those that remain within it are delivering a greater degree of professionalism.

With regulatory pressures such as Solvency II and Brexit firms will be looking at how they manage legacy business going forwards.

Service firms are developing new products specifically for the broker and intermediary legacy sector to address the concerns of the intermediary C-suite and deliver efficiencies alongside enhanced client management.

The current position of the global re/insurance sector points to a continued need for firms, both underwriters and intermediaries, to address the question of legacy management.

What has become clear is a considered and systematic approach to legacy management is becoming increasingly important.■

Steve Goate is director of intermediary services at Davies Insurance Services

Unmanaged legacy business can become a significant drain on management and resources

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Japan BI losses limited by rapid return to manufacturing

Scott Vincent
Editor, news services

Commercial losses from the recent severe flooding that hit Japan look likely to be manageable for the insurance sector, with the majority of major manufacturing facilities affected by the flooding now thought to be back up and running.

The recent floods were the deadliest in Japan for 35 years, with more than 200 lives lost and more than 25,000 homes damaged.

From an insurance perspective, the most significant loss driver was expected to be business interruption and contingent business interruption claims resulting from disruption to manufacturing facilities in the impacted regions.

The manufacturing sectors in Hiroshima and Okayama in particular suffered disruption, with major brands from Japan's automotive and electronics industry's affected.

But operations in the impacted regions are thought to be largely back up and running, minimising the business interruption impact from the event.

Scott Reichelt, head of global technical services in Asia for Crawford & Company, told *Insurance Day*: "The water has for the most part receded in the impacted areas. While there is still some major rail damage near the coast, and some issues with caked mud, most properties are accessible.

> **'There will be some commercial claims, but damage on the whole is not very severe'**
>
> **Scott Reichelt**
> **Crawford & Company**

"There will be some commercial claims, but damage on the whole is not very severe. I don't foresee those claims being very large.

"Most of the big producers in the motor and electronics sectors are back up and running, and manufacturing as usual."

Reichelt said this means "business interruption will be nowhere near as severe as it could have been".

Damage to residential properties is still expected to generate insurance claims, with flood generally included within home policies in Japan.

Early market estimates of the event suggested the total industry cost will be in the low billions of dollars.

Allstate pegs June cat losses at $417m

Catastrophes cost Allstate approximately $417m before tax last month, taking its second-quarter catastrophe tally to nearly $1bn, the US property/casualty and life group said, *writes Michael Faulkner*.

The losses came from 16 catastrophic events. Around 75% of the losses were tied to three hail events that primarily struck Texas and Colorado.

Given the $489m in cat losses Allstate tallied in April and May, the Illinois-based group's second-quarter results will reflect $906m in cat losses, or $716m after tax.

Allstate is scheduled to announce second-quarter earnings on August 1.