Non-life run-off grows in appeal as insurers seek capital relief


Mr Martin Kauer

The rapid expansion of the non-life run-off insurance market globally is set to translate to growth in Asia as well.

By Ridwan Abbas

Run-off specialist Catalina Holdings expects to complete a deal in Asia before the end of the year, which would be its first in the region since setting up in Singapore last year following the acquisition of Asia Capital Reinsurance Group (ACR), ACR CEO Martin Kauer told *Asia Insurance Review* recently.

Converting ACR into a regional Catalina hub was strategically significant as it provided an Asian platform for the group, thus signalling that Catalina was open to opportunities in Asia and the Middle East. Since its formation in 2005, Bermuda-domiciled Catalina has only done transactions in its traditional markets of the US, UK, and Europe.

While the run-off market is still nascent in Asia, Mr Kauer believes a more active run-off market could take shape in the region soon.

"Non-life run-off was once hardly known in Europe, but it is now a well-established option for capital optimisation, and I think we will see the same sort of development in Asia.

"The pressure on cost of capital will only continue in the future and what we are offering, which is capital optimisation, makes sense so I think run-offs will become a more common feature in this region in the coming years," he said.

Increasing popularity of run-offs

PwC estimates there are $864bn worth of non-life run-off liabilities globally as of February 2021, up from $791bn in 2019. North America dominates the market with run-off liabilities amounting to $402bn, followed by UK and continental Europe at $302bn.

An insurer may look to put certain parts of its portfolio into run-off when they are no longer looking to write new business for it and need to offload old liabilities. Placing it into run-off allows the insurer to exit from existing and future liabilities, and thus be able to release a substantial amount of capital.

Meanwhile having acquired the portfolio, a run-off provider pays legitimate claims using reserves from that business until all is settled.

"The pandemic has led to a lot of capital being destroyed, so if you can unlock some of your capital and re-allocate it in areas of strategic relevance then you are able to optimise your cost of capital and increase your competitiveness," said Mr Kauer.

For providers, sound management of a run-off portfolio, which includes proactive claims management, is a source of profits. A run-off provider may also negotiate a commutation arrangement, in which the run-off firm agrees to pay a ceding company in exchange for being released from future liabilities.

Addressing misconceptions

Putting a business into run-off still carries a negative connotation in Asia from a reputational perspective, rather than being viewed as a toolkit for portfolio and capital management. Hence, educating the market about the true nature and value of run-offs is a priority for Catalina and ACR – and that also includes creating more awareness among regulators.

"Some regulators view run-offs as being a result of a solvency problem, so it is important to have on-going dialogues with them because the better they understand our business model, the easier it is for them to approve a transaction and the more credible we are in our discussions with counterparties for potential transactions," said Mr Kauer.

He added that it can take several months or up to a year to complete a run-off deal, depending on the market's regulatory and legal framework among other things.

Growth drivers

The non-life run-off, or legacy market, is showing strong momentum with over 100 deals publicly announced in 2020, up from 47 in 2019, according to PwC. It attributes the surge in deals to the need to release capital as well as to dispose of non-core business.

Looking at Asia, Mr Bauer believes that new solvency regimes and market consolidation in the region serve as growth drivers for run-off business.

"Enhanced risk capital frameworks in markets like Korea and Hong Kong, and competitive pressures from de-tariffication in China and Malaysia, could lead to demand for legacy solutions.

"And as some MNCs look to exit Asia or seek to merge, it may result in overlaps in their portfolio and so the ongoing consolidation of the market could lead to opportunities for us as well," he said.