H1 2024 review

Non-life insurance run-off deals

July 2024

H1 2024 saw eight legacy deals publicly disclosed in a more active Q2 for the legacy market. However, deal activity in H1 2024 has not reached the levels experienced in H1 2023, which saw 15 publicly disclosed legacy deals and over three times the level of estimated gross liabilities transferred.

This lower level of deal activity could be considered reflective of the wider transaction environment which has seen a lower level of M&A deal activity this year. PwC's recently published Global M&A Industry Trends report highlights a more positive outlook for the sector in H2 2024, owing to possible deal demand being driven by global insurers entering into joint ventures and other arrangements, to expand their operations or enhance their distribution capabilities. You can read the full PwC report here. Time will tell if this wider activity potential spawns opportunities for the legacy sector further down the line.

In terms of specific run-off deal dynamics in H1 2024, the North American market returned to being the most active territory for legacy transactions with five publicly disclosed deals. In particular, RiverStone International's acquisition of Electric Insurance Company (EIC) in Q2, the captive insurer of General Electric and its two subsidiaries, is likely to signal RiverStone International's further expansion into the North American market.

The expectation that discrete challenges experienced by some legacy participants would lead to secondary market opportunities appears to be coming to fruition and is an area that has attracted widespread interest both from observers and acquirers in the legacy sector. R&Q recently entered into provisional liquidation in Bermuda and, to date, this has led to two related publicly announced deals. This includes Enstar's reinsurance of R&Q's former Accredited subsidiaries, which covers various third party risks in the US, UK and European markets. Additionally, Marco Capital, fresh off the back of securing an A- rating for its Guernsey carrier Marco Re, has continued to grow its centre of excellence in dealing with long tail motor claims through its acquisition of Inceptum, the former motor and personal lines carrier, put into run-off in 2009 by HSBC and acquired by R&Q in 2020.

While the R&Q insolvency is an unhelpful storyline for the legacy sector to contend with, there remains a sense that the deal flow coming to market and seller interest remains solid. Despite the fall in publicly announced deals, we have not observed a marked reduction in committed capital in the legacy sector nor a shortfall of supply by cedants. There is consensus amongst market participants that reduced deal figures do not necessarily signify a reduction in opportunities.

The narrative around the reduction in completed deals is more centred around deal opportunities being increasingly and carefully scrutinised, with a number being left on the table. This is a likely result of acquirers taking a more discerning stance in identifying and executing specific deals that deliver required returns but also match their risk appetite criteria.

It is again also worth analysing some of the core trends observed in legacy deals over H1 2024 against the current global reinsurance environment. AM Best recently revised its outlook on the global reinsurance segment from stable to positive following further improvement in reinsurer profit margins. This is predominantly as a result of improved underwriting discipline and ratings. It is however recognised that various headwinds could create pessimism around the sustainment of reinsurers' earnings including climate change, geopolitical risk and social inflation, which could subsequently feed into opportunities for the legacy market.

Social inflation is indeed one factor which could exacerbate casualty reverse deterioration and loss costs experienced by US insurers in the softer market years of 2015-2019. We have already observed legacy transactions incorporate US worker's compensation as a predominant class of liabilities and notably, in Q2 2024, the SiriusPoint and Enstar LPT deal saw the reinsurance of a $400m worker's compensation book covering underwriting years 2018 to 2023. Such deals are emblematic of the opportunity for cedants and acquirers to find a middle ground on workable commercial terms, particularly where cedants may have already factored in some of the downside of adverse development trends. Acquirers will also be aware of the potential for reserve redundancy in recent years of account where live market insurers have prudently reacted to the prior softer market conditions and this may provide some interesting opportunities for the legacy market in the quarters to come.

A further interesting development in the sector has seen some acquirers broaden their business models and build service provider offerings in the pursuit of additional revenues. This indicates a potential return to the service provider / acquirer platform model seen in the early days of the legacy market's development where there was more of a focus on fee-income generation. In Q2 of this year DARAG signed a service contract with Unipol, related to the run-off of Unipol Re and we note PoloWorks, a member of the Marco Capital Group, announced the launch of Polo Partners – a powerful joint venture which combines the complementary expertise, capability and experience of PoloWorks and PwC UK.

We are also beginning to see the legacy sector experiment and embrace AI tools and data analytics which will be critical in maintaining a competitive advantage, managing cost bases and enabling greater agility in the deal market. At PwC, we have developed various technology tools including a GenAI driven contract analysis platform, a GenAI driven due diligence tool and a portfolio analytics & insights dashboard which can help mitigate some of the challenges acquirers face across their buy-side deal and operational activities. If you would like to find out more about these GenAI offerings please do not hesitate to get in touch with one of the team.

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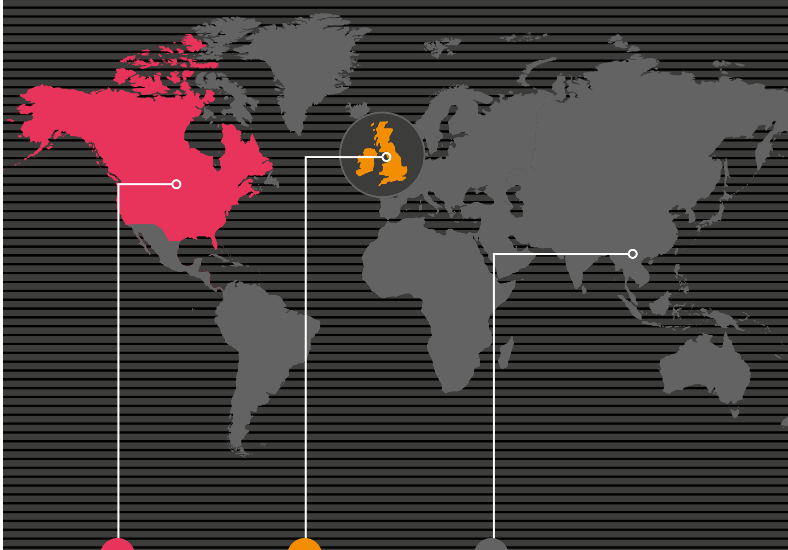
Deal activity by region – H1 2024



GRAND TOTAL

$1.4bn

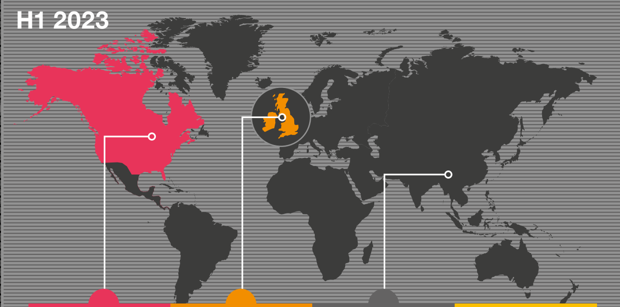
Estimated gross liabilities transacted

8 deals

5 acquirers have completed deals so far this year

North America	UK and Ireland	Rest of the world	Undisclosed
$0.7bn	$0.1bn	$0.4bn	$0.2bn
Estimated gross liabilities transacted	Estimated gross liabilities transacted	Estimated gross liabilities transacted	Estimated gross liabilities transacted
5 deals	1 deal	1 deal	1 deal

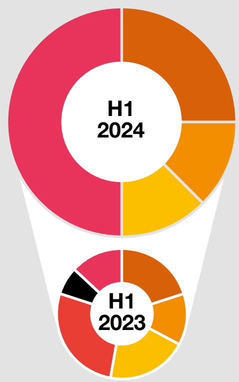
H1 2023



North America	UK and Ireland	Rest of the world	Undisclosed
$2.5bn	$2.7bn	$0.2bn	$1.3bn
Estimated gross liabilities transacted	Estimated gross liabilities transacted	Estimated gross liabilities transacted	Estimated gross liabilities transacted
6 deals	7 deals	1 deal	1 deal

Transactions by volume

Deal Structure



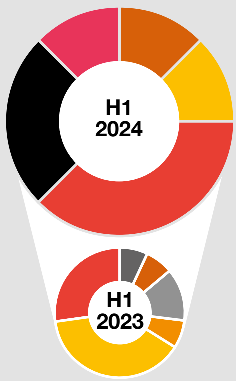
H1 2024

- 25% LPT
- 12.5% Novation
- 12.5% LPT / ADC
- 50% Share sale

H1 2023

- 20% LPT
- 27% RITC
- 13% LPT / ADC
- 7% RITC / LPT
- 20% Novation
- 13% Share sale

Predominant Class of Liabilities



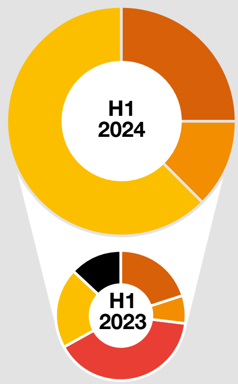
H1 2024

- 12.5% International financial lines and various others
- 25% UK Employers Liability and various others
- 12.5% Undisclosed
- 12.5% Personal lines
- 37.5% Workers' compensation and various other third party liabilities

H1 2023

- 7% APH product liabilities
- 7% P&C, Marine and Professional Liability
- 7% International financial lines and various others
- 39% Undisclosed
- 13% Motor
- 27% Workers' compensation and various other third party liabilities

Sector Type



H1 2024

- 25% Captive
- 62.5% (Re)insurer
- 12.5% Corporate

H1 2023

- 20% Captive
- 20% (Re)insurer
- 7% Corporate
- 13% (Re)insurer / Lloyd's
- 40% Lloyds

There has been no Lloyd's deals during H1 2024 versus H1 2023, where there was more significant RITC activity with six Lloyd's deals completing.

Deals in H1 2024

Acquirer group	Seller/cedant	Country	Predominant territory	Type of deal	(Re) insurer/ Lloyd's/ Captive/ Corporate	Predominant class of liabilities	Quarter
RiverStone International	Undisclosed	Bermuda	North America	Novation	(Re)insurer	Undisclosed	Q1
DARAG	Undisclosed	Cayman Islands	North America	Share Sale	Captive	UK Employer's Liability	Q1
RiverStone International	General Electric	USA	North America	Share Sale	Captive	Personal Lines	Q2
Enstar	Siriuspoint	Bermuda	North America	LPT	(Re)insurer	Workers' Compensation	Q2
Enstar	IAG	Australia	Rest of the World	ADC	(Re)insurer	Workers' Compensation and various other third party risks	Q2
Enstar	Accredited	USA, UK and Europe	Cross-border	LPT	(Re)insurer	Workers' Compensation and various other third party risks	Q2
Marco Capital	Inceptum	UK	UK & Ireland	Share Sale	(Re)insurer	Motor and UK Employer's Liability	Q2
Oaktree	Ambac	USA	North America	Share Sale	Corporate	Financial Lines	Q2

How we can support our clients

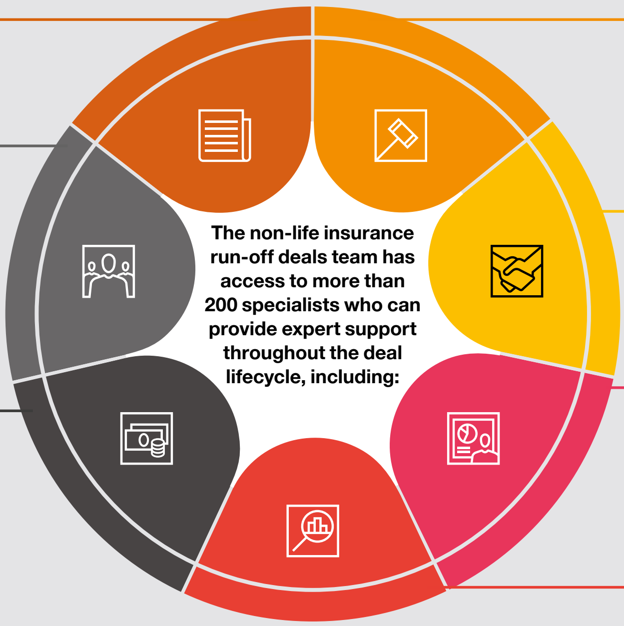
PwC offers a "**One-Stop-Shop**" solution to support clients in every phase and aspect of a transaction. We have a strong track record in all types of transactions, both simple and complex, successfully completing deals to the full satisfaction of our clients.

We deliver our services through a multi-disciplined, dedicated and integrated team of professionals and experts with decades of experience and are able to manage complex projects within tight timeframes and execute transactions in line with all stakeholders' needs.

Strategic options analysis and **deal feasibility studies** – utilising our global network and outreach and transactions service capabilities

Transaction structuring advice – through our specialist market knowledge and wealth of experience, we know what acquirers want to see and how they interpret data, allowing us to pre-empt questions to provide a smooth transaction process

Actuarial support pre-deal and throughout the deal including pre deal analysis and pricing, reserving and capital optimisation and negotiation support throughout the deal



Bidder identification and running of sales processes – we have detailed project management methodology to run tightly controlled and efficient disposal transactions to the satisfaction of all stakeholders

Commercial, financial, regulatory, and **tax due diligence** – we bring unrivalled technical expertise to the transactions process and can leverage this every step of the way to add value to deals

Financial & Tax structuring – we can integrate specialist services into our offering to support both the transaction and how it best fits into your business and operations

Post-transaction support – supporting migration and separation post deal, we also offer managed service and outsourcing options to our clients

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About the data
The data used in this publication has been sourced from company announcements and other publicly available information.

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