Q3 2024 review

Non-life insurance run-off deals

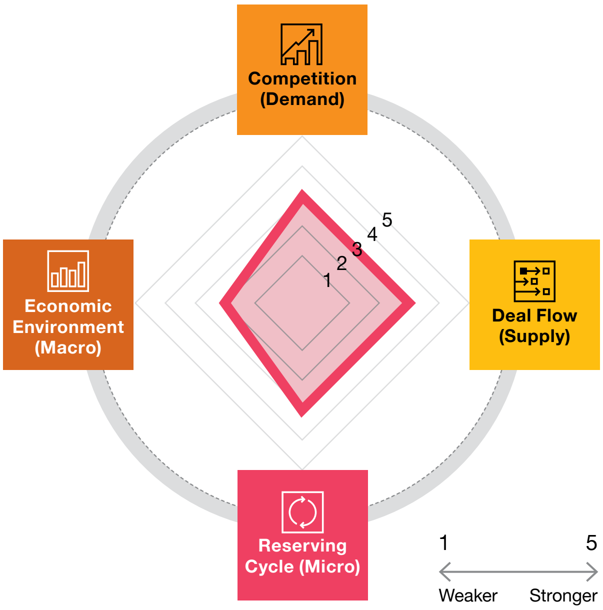
November 2024

Q3 2024 saw 15 deals announced, almost double the number of deals in the first half of the year, bringing the total deal numbers to 23 in the year to date. North America was the most active territory in Q3, with ten deals announced and six of these with disclosed deal values, transferring a combined $2.6bn of gross reserves. The UK and Ireland also saw four deals announced in Q3 representing increased activity in a territory that has been notably quieter earlier in the year.

This resurgence in deal activity in Q3 accompanied the generally optimistic outlook voiced by market participants at Monte Carlo and more recently at the AIRROC event in New Jersey. The sentiment from cedants, acquirers and brokers indicates that the supply of legacy deals remains healthy while pricing discipline amongst acquirers is being maintained. This is likely to translate into a more sustainable publicly disclosed deal volume of circa 30 deals per annum being concluded, versus the 50+ deals the market was seeing two to three years ago. At PwC, we have received a number of new enquiries from interested cedants, curious to find out more about what solutions the legacy market can offer. The key motivations include capital relief, protection from reserve deterioration and finality for non-core legacy portfolios, which continues to occupy valuable management time and resources.

Following a quiet spell for Lloyd's legacy deals, we are also seeing RITC activity beginning to resume going into Q4 2024. The Lloyd's Q3 Market Message also announced that from 1 January 2025 all new legacy deals will require a pre-transactional review and approval by Lloyd's and so it will be interesting to see the impact on deal flow at Lloyd's into 2025.

Legacy Market Barometer



We are pleased to share that we have developed a new Legacy Market Barometer designed to provide a snapshot of sentiment in the legacy transaction market. The Barometer measures of supply and demand are based on survey answers from the participating brokers and consolidators, and the wider economic measures are based on economic and insurance industry insights from across the PwC network.

Our inaugural publication covers insights for Q3 2024. In subsequent periods, we will track market trends and compare movements in the market with expectations from prior periods. The barometer is designed to give an in-the-moment view of the current relative strength of the legacy market compared to recent history and, over time, will indicate how trends in the market are changing – it is not designed to be an absolute measure of the market's strength.

The Barometer considers four aspects of the legacy market: supply, demand, macroeconomic (macro) trends and microeconomic (micro) trends in the insurance sector. For the supply and demand measures, we asked participants to rate a number of quantitative questions relating to supply and demand on a scale of 1 to 5 (with 1 being weaker and 5 being stronger), and have combined these scores with the qualitative discussions held to give an overall snapshot of market strength.

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Supply

Responses indicated there to be a steady supply of transactions of all types coming to market, predominantly driven by capital relief solutions and the desire to mitigate volatility risk. However, there remains an expectation gap on some deals between buyer and seller, resulting in lower execution rates. Multiple participants noted this disconnect continues to be particularly evident in pricing of US casualty business. Acquirers also emphasised the importance of continuing underwriting discipline.

Demand

We see a continuing strong demand from acquirers for the "right" portfolio. One notable feature of responses is that what the right portfolio is varies widely – we see appetite for a wide variety of risks, including recent exposures, property catastrophe and motor liability in addition to more traditional legacy exposures. This hints at greater acquirer specialisation, with acquirers identifying areas of niche expertise where they can realise a competitive advantage.

Macroeconomic Environment

Our macro measure looks primarily at interest rates as a measure of the cost of capital in the economy, and core inflation as an indication of claims inflation in potential deals. We look at their absolute values as well as recent trends and current forecasts. We focus on the US, the UK and the Eurozone.

Interest rates remain higher than in the 2010s during which the legacy market grew significantly. A higher cost of capital places greater pressure on any decision with a material capital impact, and so may make legacy deals both more and less attractive depending on the specific circumstances. We expect more demand for deals where the released capital can be redeployed by sellers to underwrite, particularly given the favourable rate environment, and a continuing desire to do deals where the driver is volatility or loss protection.

Inflation in the US, the UK and the Eurozone has come down significantly, and is much closer to central bank targets, although pockets of inflation remain in certain sectors. The outlook is more positive than in the recent past, but continuing uncertainty around inflation makes deal pricing more difficult.

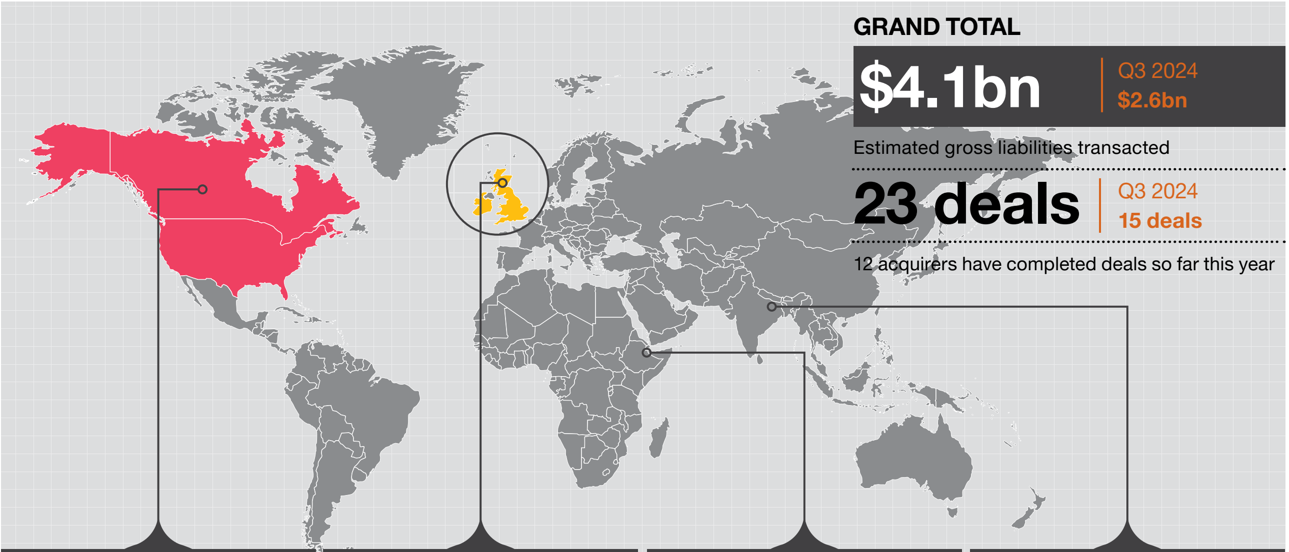
Microeconomic Trends

Our micro measure looks at trends in the insurance sector, including the rate environment, claims inflation and the performance of reserves across different lines and underwriting years.

We have seen significant rate increases across a broad range of lines of business over the past two years, with this significant hardening following the most recent soft market. As direct writers seek to free up capital to take advantage of rate increases, we would expect to see more deals come to market.

We would also expect to see reserve adequacy improve markedly in line with the reserving cycle on the years and lines most impacted by improved rates. Conversely the soft years, particularly on US casualty exposure, have seen reserves continue to deteriorate and it is likely that sellers will continue to struggle to find appetite amongst the legacy acquirers for these liabilities.

2024 YTD deal activity by region



GRAND TOTAL

$4.1bn | Q3 2024 **$2.6bn**

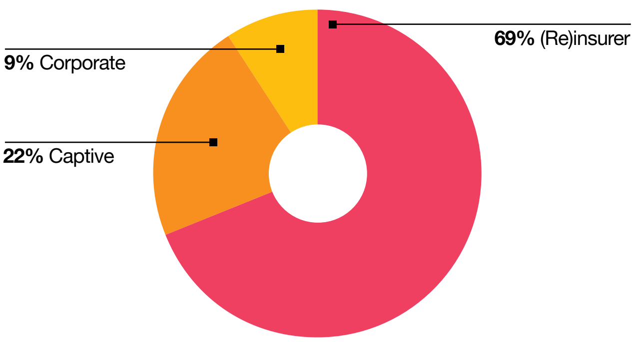
Estimated gross liabilities transacted

23 deals | Q3 2024 **15 deals**

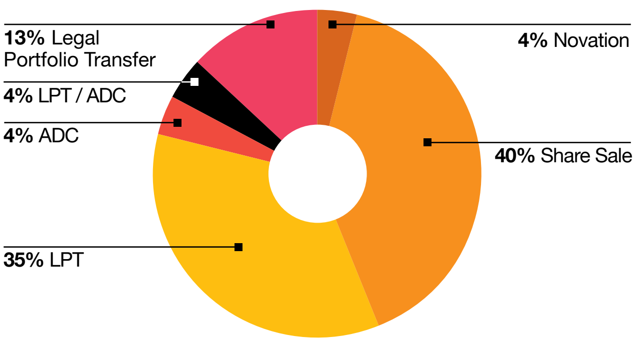
12 acquirers have completed deals so far this year

North America	UK and Ireland	Cross-border	Rest of the world
$3.4bn Estimated gross liabilities transacted	**$0.1bn** Estimated gross liabilities transacted	**$0.2bn** Estimated gross liabilities transacted	**$0.4bn** Estimated gross liabilities transacted
15 deals	**5 deals**	**1 deal**	**2 deals**
Q3: **$2.6bn**	Q3: **Undisclosed**	Q3: **$0.0bn**	Q3: **Undisclosed**
Q3: **10 deals**	Q3: **4 deals**	Q3: **0 deals**	Q3: **1 deal**

Sector Type



Deal Structure



Deals in Q3 2024

Acquirer group	Seller/cedant	Country	Predominant territory	Type of deal	(Re)insurer/ Lloyd's/ Captive/ Corporate	Predominant class of liabilities
RiverStone International	QBE	Bermuda	North America	LPT	(Re)insurer	Undisclosed
Enstar	QBE	USA	North America	LPT	(Re)insurer	US Commercial Liability and Workers' Compensation
State National	James River	Bermuda	North America	LPT and ADC	(Re)insurer	Excess and surplus lines
Undisclosed	A California Workers' Compensation JPA	USA	North America	LPT	(Re)insurer	Worker's Compensation
Enstar	Undisclosed	Undisclosed	North America	LPT	(Re)insurer	Property Catastrophe
Carrick Holdings	Health Care Casualty Insurance Limited	Cayman Islands	North America	Share Sale	(Re)insurer	General Liability and Medical Malpractice
RiverStone Group	DARAG	USA and Bermuda	North America	Share Sale	(Re)insurer	Undisclosed
Compre	Accelerant	Bermuda	North America	LPT	Corporate	Property & Casualty
Carrick Holdings	Seamair Insurance DAC	Ireland	UK & Ireland	Share Sale	Captive	Pharmaceuticals
Carrick Holdings	BMS International Insurance DAC	Ireland	UK & Ireland	Share Sale	Captive	Pharmaceuticals
Swiss Re	Confidential	UK	UK & Ireland	LPT	(Re)insurer	Undisclosed
Swiss Re	Confidential	Hong Kong	Rest of the World	Legal Portfolio Transfer	(Re)insurer	Workers' Compensation
Swiss Re	County of Los Angeles	USA	North America	Legal Portfolio Transfer	(Re)insurer	Workers' Compensation
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Quest Group	Guernsey Captive	Guernsey	UK & Ireland	Share Sale	Captive	Financial Lines

How we can support our clients

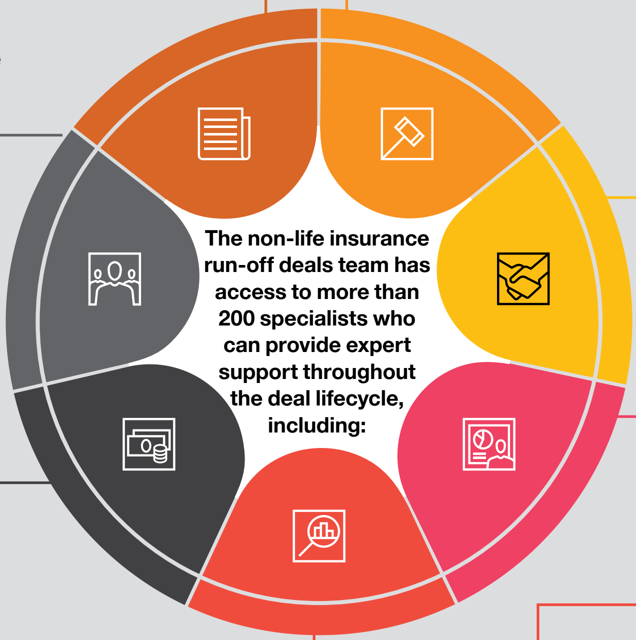
PwC offers a "**One-Stop-Shop**" solution to support clients in every phase and aspect of a transaction. We have a strong track record in all types of transactions, both simple and complex, successfully completing deals to the full satisfaction of our clients.

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

Contact the team

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If you have any feedback about the content of our quarterly deals updates, please provide your comments using this form.

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

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