Italian Market – One Year On

Italian Run Off Forum – Milan

April 4, 2019

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Legacy Space – nearly thirty years old and looking better than ever!

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A management tool

01 New investment enters the space.

02 Fiscal and capital efficiency driven through Bermuda, Ireland & Malta. Recent mix of life with non-life for further capital diversification benefit.

03 Newly enhanced asset strategies/absolute return approach.

04 Large insurance groups develop a legacy strategy, disposing portfolios as an ongoing capital management and balance sheet deleveraging tool.

05 The emergence of "green" run off.

06 Lloyd's run-off opportunities increase and the Corporation allows "outside" solutions.

The European Landscape – why it works

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One continent – one set of rules ……nearly

01 **Uniform regulatory and legal system/s – with variations…**

02 **Solvency II – focused the mind, provided transparency, uniformity and clarity**

03 **IFRS 17 – further demands on insurers' reporting and significant change in future profit recognition for legacy and live carriers**

04 **"Older" books were dealt with first by necessity; historical knowledge central to transfer or sale; non transferable skills were key to preserve**

05 **"Younger" legacy emerging; disruption in IT, products and distribution increase the need to focus on the future and on disposing any under-performing lines of business**

06 **Numerous transactions, orderly run off by legacy acquirers and zero failures deliver requisite confidence and trust**

European Legacy in Numbers

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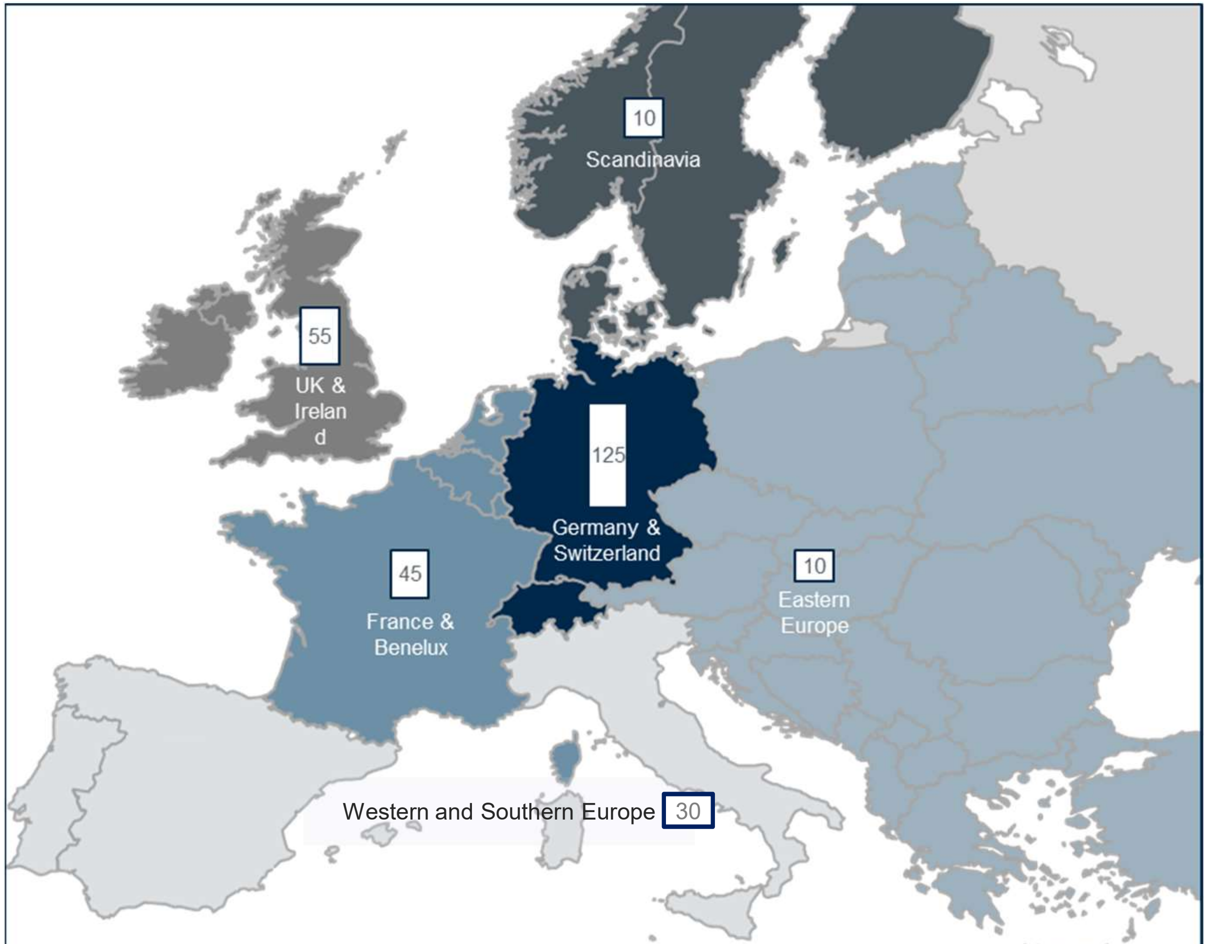
Run Off – business written in the 1950s or yesterday's underwriting?

01 **Based on the most recent PwC survey, the Run-off market potential is estimated to be approx. 25% to 30% of market reserves.**

02 **Run-off potential is estimated at EUR 275bn, of which nearly 50% comes from Germany and Switzerland.**

03 **Key influencers for disposals:**
> **Continuing low interest rates**
> **Solvency II focus on capital efficiency**
> **Increasing focus on operational efficiencies.**

04 **Run-Off potential increased from 2009 to 2017 by approx. EUR 80bn; from 2016 to 2017, it increased by EUR 30bn.**



Source: PwC Survey published in January 2018

The changing European Landscape

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Emerging with steady pace

01 European insurers have adjusted to Solvency II but capital charge on old reserves stays!

02 Shareholder pressure to deliver returns continues in a persistent low interest environment

03 Increased consideration of capital optimization as part of strategic planning

04 Traditional insurers under attack from players outside the industry

05 Continental Europe remaining more conservative than the UK and more reticent in decision making and acceptance of solutions. Many jurisdictions have yet to approve a PTA.

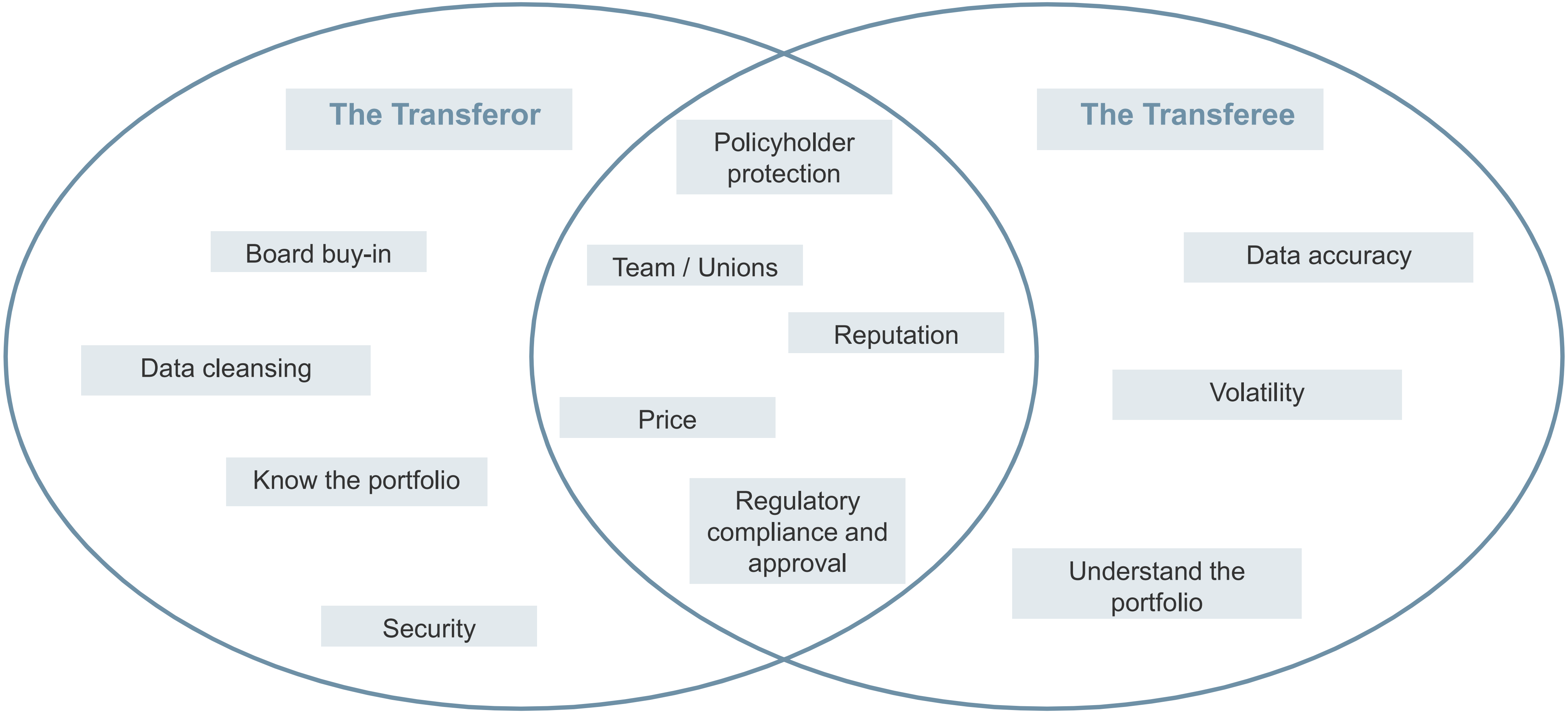
06 Large groups' legacy strategy provides legitimacy and confidence to the market

The opportunity for all stakeholders

Old and new risks

- **01** Legacy becoming even more of an established tool for capital and operational management
- **02** Motor, decennial, construction risk, professional lines, med-mal, workers compensation
- **03** ‘Greener’ portfolios – employee/union relationships – policyholder relationship
- **04** Established and partly segregated/ differently focused legacy players
- **05** Run-off acquirers are increasingly well capitalised, strongly resourced, efficient and flexible
- **06** More focus, skill and resourcing from advisors and brokers which is important for legacy sales being further recognised as a valid and attractive solution
- **07** Repeat sales/transactions creates more of a partnership between cedents and legacy players; more akin to a traditional reinsurer/insurer relationship

Sellers and Buyers - a conflict or alignment of interests?



The Italian Market

A busy twelve months or so – diverse opportunities

01 **Generali – large group disposing old portfolio**

02 **Donau – European insurer consolidating its operations**

03 **Amissima - disposal of line of business**

04 **Faro – liquidator partnering with the legacy market**

Trends?

Reputation, reputation, reputation …….

01 **Legacy consolidators provide the confidence and flexibility the industry needs.**

02 **Bespoke solutions provide more than an economic and/or legal exit.**

03 **Portfolios under consideration become younger and younger – emergence of “green” run off?**

04 **Considerations beyond capital -**

05 **LPTs vs PTAs**

The Italian Non-Life Insurance Sector

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Long-established sector with a pragmatic approach

01 Long-established sector with established market shares

02 High non-life insurance penetration but persistent under-insurance for non-compulsory risks

03 Predominance of MTPL in all companies

04 Champion for the use of telematics (Black Box)

05 Large share of sovereign Italian bonds in industry’s investment portfolios

06 Growing complexity of the business environment

The Italian Non-Life Insurance Sector

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Old long-tail portfolios on active balance sheets

- → Capital allocation to discontinued lines
- → Often on old IT systems – a burden while the carrier is developing new IT systems.
- → Litigation exposure and risk

Run-off Transfer

- → Extract old underwriting years
- → Release capital
- → Reduce IT complexity and costs
- → Release internal resources for future business

The Italian Non-Life Insurance Sector

Underinsurance in non-compulsory risks – a greenfield for new insurance products?

- Further capital allocation
- Cost of IT transformation
- Further operational burden
- Telematics
- Management time devoted on “processing” the past

Run-off Transfer →

- Make capital available for new activities by disposing old legacy
- Free-up operational and financial resources.
- Allow management and operational structure to focus on future strategic activity
- Opportunity to realize gains “hidden” in reserves beyond release reserve

The Italian Non-Life Insurance Sector

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Champion in the use of telematics – Black Box

Transformation of contractual, commercial and operational environment

- → Transformation of the product range
- → Impact on pricing
- → IT transformation
- → Former policies becoming obsolete

Run-off Transfer

- → Reduce complexity by transferring portfolios of obsolete policies
- → Make IT evolution simpler.
- → Cost reduction to finance technical evolution
- → And …….

…capital relief

The Italian Non-Life Insurance Sector

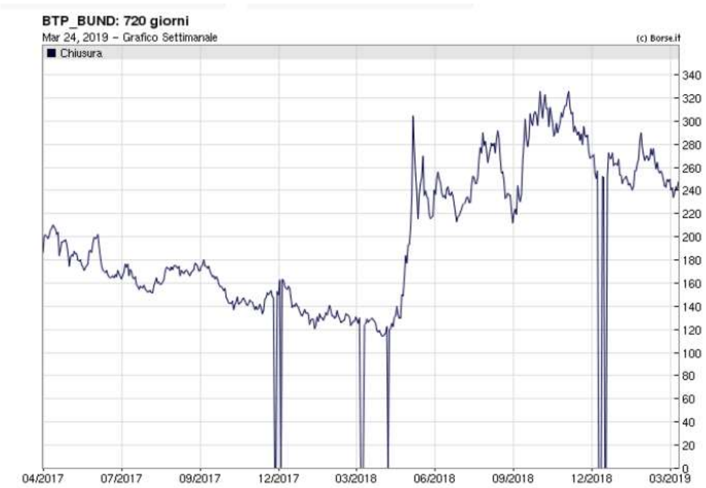
Italian Sovereign bonds in the industry's investment portfolios

Cost of volatility and capital charge

- → Varying Tension on BTP / IT govies
- → High yields
- → Volatility
- → Reduction of M to M value of previously acquired bonds

Run-off Transfer

- → Reduce exposure to Italian govies by transferring assets together with liabilities
- → Avoid uncertainty in valuating capital charge
- → And again……..



…capital relief

The Italian Non-Life Insurance Sector

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Growing complexity of the business environment

IFRS 17 – the new Solvency II?

- → Feared to be a heavier workload than the one relating to SII implementation
- → Necessity of IT adaptation
- → Old and obsolete range of products to be treated in the same way as the new and active ones

Run-off Transfer →

- → Reduce workload (implementation and reporting) by transferring old portfolios
- → Make IT evolution simpler.
- → And once again………

…capital relief

Conclusion

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01 Legacy acquirers' increased cost, capital and tax efficiency together with balance sheet expansion (via capital inflows and new business) is helping drive the market through attractive pricing

02 Significant track record of managing portfolios to cedent satisfaction means that reputation concerns are being mitigated

03 Increased regulation is a huge demand on capital, time and resources, which encourages transactions but can also hamper timely approvals

04 Cedants / transferors seek efficiencies beyond capital, where capital is no concern

05 Flexible approach to new style portfolios with unexpired/ live risk is key

06 Continental Europe, and Italy, will continue to develop; no major trigger, just time!

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DARAG Group Ltd.
Whitehall Mansions
Ta'Xbiex Seafront
Ta'Xbiex, XBX 1026
Valletta, Malta

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