



Size of non-life run-off market increases by almost a third finds KPMG survey

- **£5.4 billion of trapped capital in non-life run-off companies, an increase of almost £1 billion on previous year**

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Total liabilities of the UK non-life run-off market increased by approximately 30% to an estimated £37.4 billion in 2008, up from £28.3 billion in 2007. This equates to 18 percent of the non-life market as a whole, according to the seventh KPMG Run-Off Survey of non-life companies.

The massive increase in the value of liabilities is primarily a result of two factors:

- The demise of the financial guaranty insurance market; and
- The devaluation of UK sterling against the US dollar and Euro currencies.

Total capital tied-up in solvent UK non-life companies in run-off also increased by almost £1 billion, of which around 75 percent is attributable to new entrants to the run-off market from financial guaranty businesses.

John Wardrop partner in KPMG's Restructuring Insurance Solutions practice said, "Our research tells us that capital efficiency continues to be a priority for the UK run-off market. Depressed investment income due to low interest rates means companies in run-off are under pressure to make their businesses more efficient. The size of the UK run-off market could have been significantly larger had there not been approximately £1.8 billion of claims paid through commutations and other settlements, signifying the continued desire of the industry to maximise the value of and access trapped capital."

The survey highlights the continued use of the Scheme of Arrangement ("scheme") mechanism; 87 were sanctioned in the year, including 82 companies involved in the EW Payne pools schemes, demonstrating strong support for this finality tool.

Despite the recession, interest remains high in mergers and acquisitions in the run-off market. However the availability of capital and finance has been restricted and some buyers have had to be more selective.

Wardrop comments "The sale of Unionamerica Holdings marked a high point in the UK M&A market where the purchase price of some US\$300 million exceeded the net assets acquired. However, shortly after this transaction was concluded the impact of the financial crisis in the UK began to bite. There are still a number of London market legacy portfolios available for sale, providing the price expectations of both buyer and seller can be met in the current financial climate".

The survey also reaffirms the market opinion that Solvency II is high on the agenda for businesses in run-off. Steve Goodlud, Director in KPMG's Restructuring Insurance Solutions practice noted that, "Insurance groups are undertaking a host of projects on or around Solvency II, in particular seeking to create efficient capital structures".

Wardrop concludes that "the landscape for legacy business continues to develop in response to economic and regulatory pressures. This continues to present opportunities as well as challenges for the market."

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For further information please contact:

Leah Dering-Ridley, PR Manager, KPMG

Tel: 020 7311 6271 / 07886 943324

Email: leah.dering-ridley@kpmg.co.uk

KPMG Press Office: 0207 694 8773

Notes to editors

1. The survey considered 450 companies for which publicly held information is available, out of the 525 firms and Lloyds' agents authorised by the FSA for the year ending 31 December 2008.
2. The EW Payne pools scheme consists of 82 separate entities and was sanctioned in July 2008.

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