



INSURANCE SOLUTIONS

# The UK Run-Off Survey – Non-Life Insurance

October 2006

ADVISORY



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# Foreword

The 2006 *UK Run-Off Survey – Non-Life Insurance* is the fourth such survey commissioned by the Association of Run-Off Companies Limited<sup>1</sup> (ARC) and prepared by KPMG LLP (UK). It has become a highly regarded source of reference data on the run-off market in the UK and ARC is, as ever, grateful to KPMG LLP (UK) for its meticulous research and analysis.

As always, examination of the details of the survey reveals some telling statistics.

Perhaps the most noticeable is the £0.3 billion increase in business in run-off at Lloyd's, to a total of £7.5 billion. When taken in conjunction with the modest decrease in the liabilities of Equitas since last year, this means that Lloyd's post-1992 liabilities are now approaching twice the size of Equitas. Lloyd's run-off has become the 'elephant in the room' of the UK run-off market, growing by nearly 40 percent between 2002 and 2005. It must surely be seen as a priority for action at Number One Lime Street.

The impact of the decision in relation to the British Aviation Insurance Company Limited has not brought the solvent scheme process to a halt, as some commentators forecast at the time. Far from it, as approximately £500 million of liabilities are expected to be eliminated by solvent schemes in progress at the end of 2005.

Another fascinating statistic is the increase in the number of Part VII transfers, both in the run-off market and generally. The Part VII transfer is showing itself to be an important tool in the management of discontinued business, both for the internal management of group balance sheets and for the disposal of run-off liabilities to third parties and is clearly destined to play a major role in the future of the market.

We hope that you will find this survey as useful and interesting as its predecessors. As ever, if you have any comments or suggestions about the survey, please do let us know, as we are always looking to improve its coverage.

**Philip Grant**

Chairman, Association of Run-Off Companies Limited

October 2006

# 1 Executive Summary

## 1.1 Overview

There are approximately 580 firms and Lloyd's agents currently authorised by the Financial Services Authority (FSA) to carry on general insurance business in the UK, including composite insurers who write both life and non-life insurance. Of this number, there are approximately 500 companies for which publicly held information is available<sup>2</sup>.

This survey analyses the state of the UK non-life insurance market as at the end of 2005, unless specifically described otherwise.

As in previous surveys, UK non-life business of companies from other EU countries has not been included in the survey.

## 1.2 Findings

- The total liabilities of the UK non-life run-off market, including business written at Lloyd's<sup>3</sup>, are estimated at **£38.2 billion**, a decrease of £0.2 billion since the end of 2004.
- The liabilities of the non-life run-off market in the UK represent approximately **19 percent** of the non-life market as a whole, compared to 23 percent in 2004 and 25 percent in 2003.
- The total liabilities of open year syndicates at Lloyd's are approximately **£7.5 billion**, an increase of £0.3 billion since the end of 2004.
- The net assets or shareholders' funds of UK non-life companies in run-off total some **£4.8 billion**, an increase of approximately 20 percent since the end of 2004.
- Some **2,600 people** (over 2,900 including Equitas Limited (Equitas)) are employed in dedicated run-off vehicles.
- The total liabilities of UK companies whose entire non-life insurance business was subject to a solvent scheme of arrangement were approximately **£122 million**, an increase of **22 percent** since 2004. This is in respect of solvent schemes substantially finalised up to the end of 2005. Other solvent schemes notified or otherwise promoted before the end of 2005 had collective total liabilities subject to solvent schemes of approximately £500 million.
- From the first use of the new insurance business transfer process in 2002 to the end of 2005, approximately **one third** of all non-life insurance portfolios transferred under Part VII of the Financial Services and Markets Act 2000 involved predominantly or entirely business in run-off.
- Since 1990 the UK insurance compensation scheme has paid out over **£910 million** in compensation to policyholders of failed UK insurers.



<sup>2</sup>This survey is based on an analysis of publicly available financial information, including regulatory returns submitted to the FSA, utilising A.M. Best's Statement File – Non-Life –UK product, S&P TheSys – SynThesys Non-Life product and from audited statutory accounts filed at Companies House. This information has not, however, been verified or validated in any way by KPMG LLP (UK).

<sup>3</sup>Lloyd's is not an insurance company but a Society of members, both corporate and individual, who underwrite in syndicates, on an annual joint venture basis.

## 2 Current size of the UK non-life run-off market

### 2.1 Run-off market

As shown in Table 1, at £38.2 billion, the liabilities of the UK non-life run-off<sup>4</sup> market represent approximately 19 percent of the non-life market as a whole.

Table 1. The UK non-life market

| As at end of 2005 (£ billion) | Total liabilities | %           | Technical provisions | %           |
|-------------------------------|-------------------|-------------|----------------------|-------------|
| Active market                 | 159.9             | 81%         | 123.3                | 80%         |
| Run-off market                | 38.2              | 19%         | 30.5                 | 20%         |
| <b>Total</b>                  | <b>198.1</b>      | <b>100%</b> | <b>153.8</b>         | <b>100%</b> |

Source: A.M. Best's Statement File - Non-Life – UK, S & P Thesys – SynThesys Non-Life, KPMG LLP (UK) 2006, Lloyd's

The UK non-life run-off market can be divided into four distinct components as shown in Table 2.

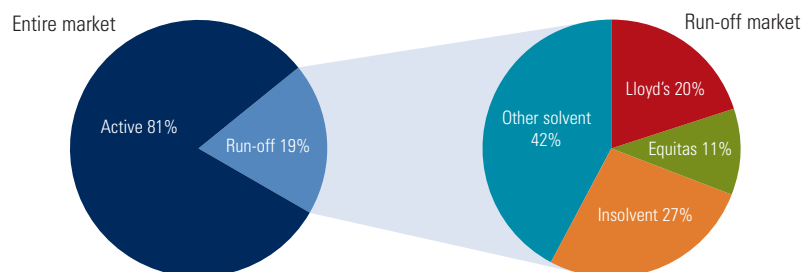
Table 2. Main components of the UK non-life run-off market

| As at end of 2005 (£ billion)    | Total liabilities | %           | Technical provisions | %           |
|----------------------------------|-------------------|-------------|----------------------|-------------|
| Lloyd's (1993 onwards)           | 7.5               | 20%         | 7.0                  | 23%         |
| Equitas (Lloyd's 1992 and prior) | 4.4               | 11%         | 4.2                  | 14%         |
| Other solvent run-off            | 15.9              | 42%         | 11.9                 | 39%         |
| Insolvent run-off                | 10.4              | 27%         | 7.4                  | 24%         |
| <b>Total</b>                     | <b>38.2</b>       | <b>100%</b> | <b>30.5</b>          | <b>100%</b> |

Source: A.M. Best's Statement File - Non-Life – UK, S & P Thesys – SynThesys Non-Life, KPMG LLP (UK) 2006, Lloyd's

*The run-off market represents 19 percent of the entire UK non-life insurance market.*

Total liabilities of the UK non-life market



Source: A.M. Best's Statement File - Non-Life – UK, S & P Thesys – SynThesys File - Non-Life, KPMG LLP (UK) 2006, Lloyd's

4) In this survey insurers classified as "in run-off" comprise those companies that have ceased to actively underwrite new business. Whether a company has ceased underwriting has been determined by reference to public announcements by the applicable companies or in the absence of such information, by application of a premium volume test.

## 2.2 Lloyd's and Equitas

At the end of 2005, the total liabilities of Lloyd's non-life insurance syndicates in run-off in respect of 1993 and subsequent years of account were £7.5 billion across 97 open syndicate years (2004: 100 open years for non-life insurance business). This is an increase of £0.3 billion on 2004, and is approaching double Equitas' total (discounted) liabilities of £4.4 billion (undiscounted £6.4 billion). However, gross technical provisions at Lloyd's have reduced by £0.2 billion to £7.0 billion during the period.

Nearly half of run-off liabilities at Lloyd's still relate to the 2001 year of account, in which there remains a significant level of US casualty and World Trade Centre related losses. This contrasts with Equitas where approximately 77 percent of its discounted technical provisions comprise asbestos, pollution and health hazard liabilities, which it continues to prioritise for early settlement. Equitas has increased both asbestos and pollution reserves during 2005/2006.

*Run-off liabilities at Lloyd's now approaching double the liabilities of Equitas*

## 2.3 Insolvent market

A significant proportion of the total liabilities of the insolvent run-off market are represented by the UK asbestos exposures of Chester Street Insurance Holdings Limited (formerly Iron Trades Holdings Limited), which is the largest UK non-life insurance insolvency. Insurers may have believed that their UK asbestos liabilities would be reduced following the House of Lords decision in *Barker v Corus*<sup>5</sup> to remove joint and several liability amongst insurers, which was imposed following the *Fairchild* judgment<sup>6</sup>. However, that reprieve was short-lived after the government imposed its public policy agenda by passing the Compensation Act 2006, which received Royal assent on 25 July 2006 and effectively reinstates joint and several liability retrospectively from 3 May 2006.



## 3 Change in size of the UK non-life run-off market

### 3.1 Run-off market

The change in the size of the UK non-life run-off market over the last four years is shown in Table 3.

Table 3. Change in size of the UK non-life run-off market

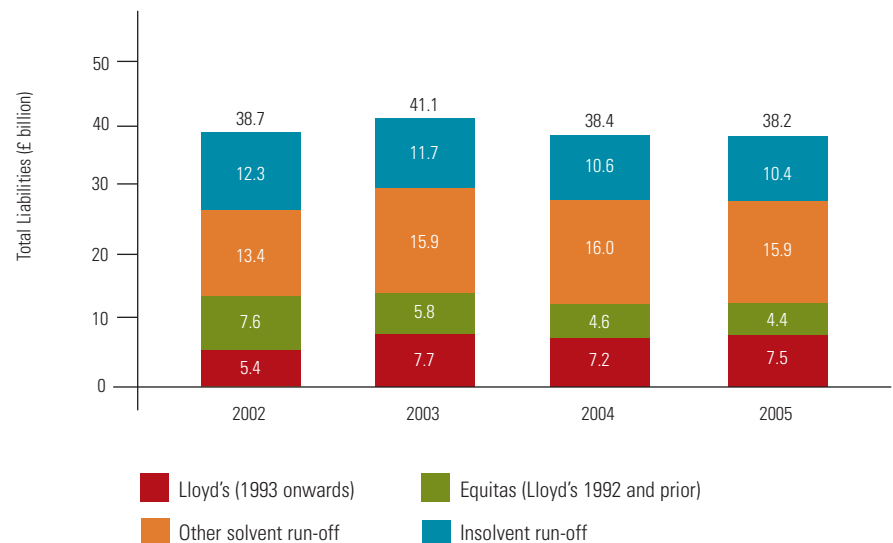
| Total liabilities (£ billion)    | 2002        | 2003        | 2004        | 2005        |
|----------------------------------|-------------|-------------|-------------|-------------|
| Lloyd's (1993 onwards)           | 5.4         | 7.7         | 7.2         | 7.5         |
| Equitas (Lloyd's 1992 and prior) | 7.6         | 5.8         | 4.6         | 4.4         |
| Other solvent run-off            | 13.4        | 15.9        | 16.0        | 15.9        |
| Insolvent run-off                | 12.3        | 11.7        | 10.6        | 10.4        |
| <b>Total</b>                     | <b>38.7</b> | <b>41.1</b> | <b>38.4</b> | <b>38.2</b> |

Source: A.M. Best's Statement File - Non-Life – UK, S & P Thesys – SynThesys Non-Life, KPMG LLP (UK) 2006, Lloyd's

Overall, the UK non-life run-off market remained relatively static over the last twelve months as measured by total liabilities.

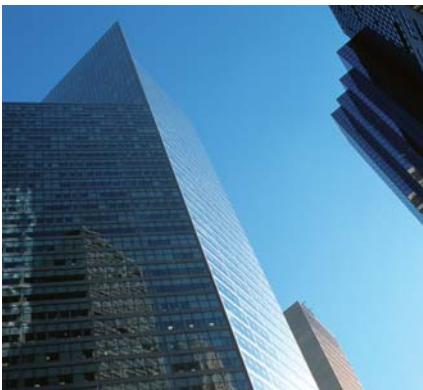
Significant increases in US Dollar denominated reserves occurred during the period due to the US Dollar strengthening against UK Sterling by ten percent between the end of 2004 and the end of 2005. This has the effect of exaggerating US Dollar liabilities when expressed in UK Sterling. But for this fact, the reduction in the size of the UK non-life run-off market would have been more significant.

Change in size of the UK non-life run-off market



Source: A.M. Best's Statement File - Non-Life – UK, S & P Thesys - SynThesys Non-Life, KPMG LLP (UK) 2006, Lloyd's

The rest of the UK solvent non-life run-off company market has remained at approximately £16 billion, the same level for the last three years. Although progress has been made in the management of discontinued portfolios (through a combination of commutation and solvent schemes of portfolios, as well as ordinary course run-off activity), this has been offset by increases in reserves and new entrants to the run-off market, notably Alea London Limited. The Alea Group companies suffered catastrophic rating downgrades in the wake of the 2005 hurricane season.



### 3.2 Lloyd's and Equitas

The increase in Lloyd's run-off is due predominantly to four open syndicate years for the 2003 year of account and reserve increases for 2000, 2001 and 2002 years of account by the largest open year syndicates. Lloyd's 2005 catastrophe exposures do not feature in the run-off statistics in this survey, as open syndicate years are not determined until two years after the end of the underwriting year. Equitas continues to make steady progress settling its exposures to direct insureds, although asbestos reserve increases has meant that the rate of reduction in gross liabilities has slowed over the last three years.

Pressures remain on the active market and run-off may be a short step away for some. Increased regulatory burdens such as Individual Capital Assessment and the forthcoming Solvency II regime may force insurers to take hard decisions on underperforming portfolios. Rating agencies are also reviewing their risk-based assessment processes, especially in respect of catastrophe modelling.

### 3.3 Insolvent market

During the year, gross liabilities of UK insolvent companies reduced to £10.4 billion. This results from progress in managing down insolvent estates, including specifically a reduction of approximately £750 million in gross liabilities of the KWELM Group companies following the September 2004 claims submission deadline, as well as the impact of the strengthening US Dollar during the period. However, this was offset by another increase in the gross liabilities of Chester Street Insurance Holdings Limited (Chester Street) of approximately £1.0 billion following the latest reserve review of its (predominantly) UK asbestos exposures.

There were no new UK insolvencies reported during the period.

*Chester Street increases UK asbestos reserves by almost £1 billion*

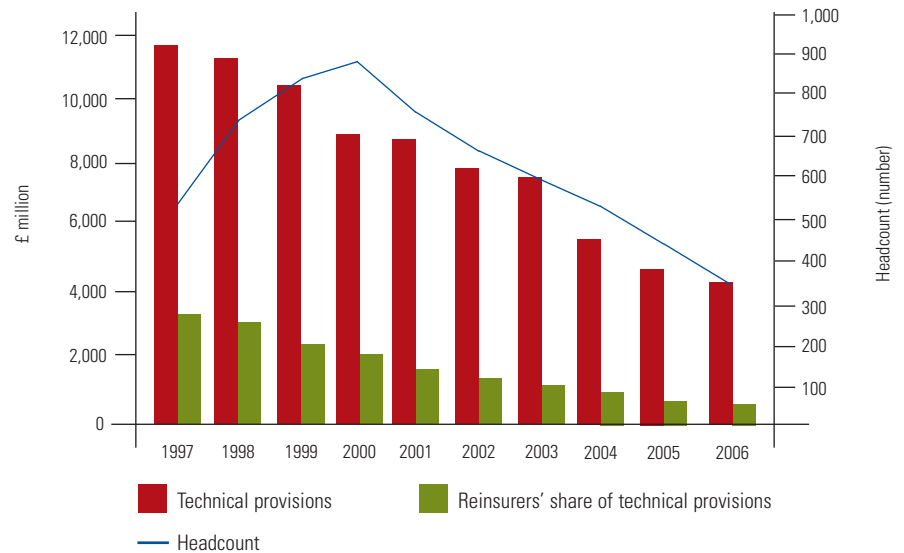
## 4 Other features of the UK non-life run-off market

### 4.1 Costs of run-off

The largest single run-off in the UK market, Equitas, incurred run-off costs of approximately £72 million in the year ended 31 March 2006 (2005: £81 million).

This represents a reduction of some ten percent on the previous year and has been achieved principally through savings in staff costs as the number of employees has reduced to 347 (2005: 439). Over the same period Equitas' gross discounted liabilities reduced by some £147 million (three percent). The chart below analyses the reduction in Equitas' business and headcount over the last ten years.

Equitas' business and headcount since 1997



Source: Equitas Limited and Equitas Management Services Limited accounts

The trend for companies in the market to outsource run-off operations to specialised run-off providers continued in 2005. Excluding Equitas, total fees charged by the largest run-off providers were nearly £230 million in 2005 (2004: £200 million) and the number of staff employed was 2,600 employees in 2005 (2004: 2,700<sup>7</sup>). The outsourced run-off costs in the UK non-life run-off market may yet be subject to a steep increase if and when the UK tax authorities implement the recent ruling of the European Court of Justice<sup>8</sup>, which held that VAT should be charged on certain supplies made to the financial services industry. This would include services provided by run-off agents to insurers.

## 4.2 Solvent schemes

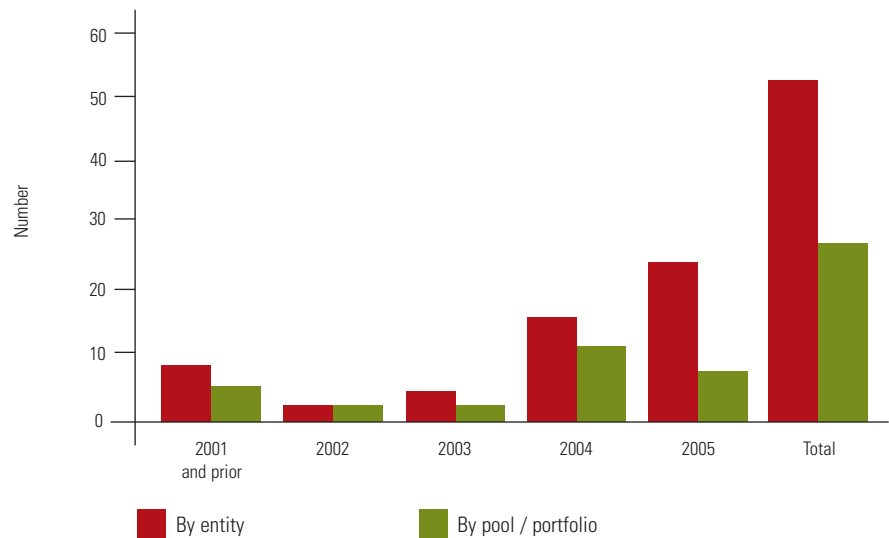
Despite the reverberations caused by the decision in the British Aviation Insurance Company Limited's (BAIC) proposed solvent scheme<sup>9</sup>, 2005 saw a continued increase in the use of solvent schemes to accelerate the run-off process and for companies to achieve finality for the whole or part of their business. Table 4 and the chart below plots the number of solvent schemes of UK businesses over time both by entity and by pool or business portfolio, represented by calendar year. There have been a total of 54 solvent schemes for individual entities until the end of 2005, however, this reduces to a total of 27 when considered on a pool or portfolio basis.

Table 4. Solvent schemes of UK non-life business

| Number of solvent schemes | 2001 and prior | 2002 | 2003 | 2004 | 2005 | Total     |
|---------------------------|----------------|------|------|------|------|-----------|
| By entity                 | 8              | 2    | 4    | 16   | 24   | <b>54</b> |
| Or by pool / portfolio    | 5              | 2    | 2    | 11   | 7    | <b>27</b> |

Source: KPMG LLP (UK) 2006

Solvent schemes of UK non-life business



Source: KPMG LLP (UK) 2006

Table 5 opposite highlights the change in assets and liabilities of UK companies subject to solvent schemes by comparing year end results before and after the respective scheme bar dates<sup>10</sup>.

9) British Aviation Insurance Company Limited [2005] EWHC 1621 (Ch). A full copy of the judgment can be found at [www.kpmg.co.uk/insurancesolutions](http://www.kpmg.co.uk/insurancesolutions).

10) For the purpose of verification, the analysis of solvent schemes is restricted to accounts filed for solvent schemes of UK companies with bar dates falling on or before 31 December 2005 and excludes companies where only certain parts of the business have been schemed. Non-UK companies have been excluded from the analysis. As a result of the limitation in the scope of this analysis, many of the solvent schemes with 2005 bar dates have been excluded. However, the impact of all solvent schemes on the liabilities of UK companies is reflected in the overall size of run-off as at the end of 2005.

Table 5. Change in total assets and total liabilities following bar dates for UK companies subject to solvent schemes

| As at the end of 2005 (£ million)          | Total assets | Total liabilities | Net assets |
|--|--------------|-------------------|------------|
| Year end immediately preceding bar date    | 650          | 122               | 528        |
| Latest audited balances following bar date | 603          | 31                | 572        |
| Increase / (reduction)                     | (47)         | (91)              | 44         |
| Increase / (reduction)                     | (7%)         | (75%)             | 8%         |

Source: KPMG LLP (UK) 2006

*Over £600 million of total liabilities of UK companies are due to be eliminated by solvent schemes*

Companies subject to solvent schemes with a 2005 or prior bar date collectively increased reported net assets by approximately £44 million after the elimination of 75 percent of their liabilities. On a relative basis, the improvement in the net assets (or net worth) of businesses averages approximately eight percent.

Even taking into account the high profile failure of BAIC to obtain court sanction, solvent schemes continue to grow in number, size and complexity. Other solvent schemes which have been notified to policyholders or otherwise promoted before the end of 2005 had collective total liabilities of approximately £500 million. This brings the total liabilities of UK companies due to be eliminated by solvent schemes to over £600 million. Lloyd's, however, has affirmed its position not to permit solvent schemes in the Lloyd's market and this remains an unpenetrated market in this respect.

Whilst the number of entities obtaining sanction for their schemes has increased, when the business entities comprising a pool are combined and counted as one, there has been a reduction as compared with 2004. This is not altogether surprising. Following the failure of the BAIC scheme promoters and their advisers have taken stock of the lessons contained in that judgment. This has led to delays in putting forward schemes to allow further time for consultation with and notification to policyholders and to reflect market best practice as indicated by the Court in the schemes' provisions.

At the time of going to press, the largest and most complex pool scheme so far devised, that of the Willis Faber Underwriting Management (WFUM) pools, comprising 15 solvent entities and Sovereign Marine & General Insurance Company Limited which is insolvent, has received approval from the Court, following certain amendments, to convene meetings of creditors in October 2006<sup>11</sup>.

It is anticipated that solvent schemes will continue to be promoted and that their frequency may increase once greater clarity has been established in the light of further Court rulings on the fairness of solvent schemes.

### 4.3 Part VII transfers

From December 2001 when the Financial Services and Markets Act 2000 took effect, to the end of 2005, there have been 34 transfers of non-life portfolios, of which almost one third involve predominantly or entirely business in run-off. The popularity of these so-called 'Part VII transfers', like solvent schemes, is increasing each year, as demonstrated in Table 6.

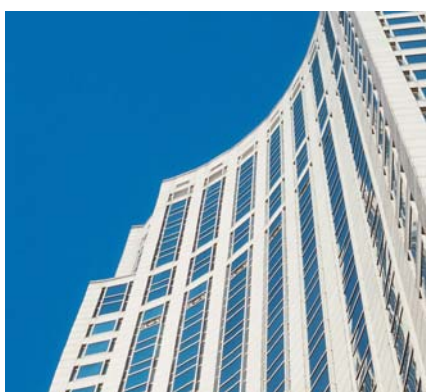
Table 6. Number of Part VII transfers in the non-life insurance market

| Dominant portfolio | 2001 | 2002     | 2003     | 2004     | 2005      |
|--------------------|------|----------|----------|----------|-----------|
| Active             | ---  | 1        | 5        | 5        | 12        |
| Run-off            | ---  | 2        | 2        | 3        | 4         |
| <b>Total</b>       | ---  | <b>3</b> | <b>7</b> | <b>8</b> | <b>16</b> |
| Cumulative         | ---  | 3        | 10       | 18       | 34        |

Source: Kendall Freeman; KPMG LLP (UK) 2006

Many insurance business transfer transactions involve internal reorganisations within large insurance groups as a means of implementing business strategies. However, many also involve acquisitions and disposals between third parties. The attractiveness of the Part VII transfer procedure reflects, in part, the ability to include the transfer of the reinsurance asset of the company in the court order as well as underlying policies, without the need for individual assignments or novations. Notable Part VII transfers involving run-off business include RiverStone Group (transfer of pool business), and more recently in 2006 Swiss Re's acquisition of GE Insurance Solutions and the reorganisation within the Zurich Group.

The ultimate success of Part VII transfers is yet to be seen but the early signs are positive. The number of Part VII transfers may be boosted still further if and when the EU Reinsurance Directive<sup>12</sup> is implemented by the FSA. Final implementing provisions of the Reinsurance Directive are still subject to consultation, including specifically Part VII transfers and Insurance Special Purpose Vehicles (ISPV's). However, the enforceability of Part VII transfers outside Europe cannot be assumed, and we still await the first order of the US Court under Chapter 15 of the Bankruptcy Code that would provide such recognition.



## 5 Compensation paid to protected policyholders

The Financial Services Compensation Scheme (FSCS) is the statutory fund of last resort for customers of financial services firms and deals with claims against defaulting insurers.

The FSCS insurance compensation sub-scheme and its predecessor under the Policyholders' Protection Board (PPB) is funded (on a cash flow basis) by levies raised against active UK insurers. Levies raised and compensation payments made since 1990 in respect of non-life insurance are summarised in Table 7.

Table 7. Payments and levies by the FSCS and PPB

| Payments and levies (£ million) | Industry levy (non-life) | Compensation payments (non-life) |
|---------------------------------|--------------------------|----------------------------------|
| PPB 1990-2001                   | 341.5                    | 418.7                            |
| FSCS 2001-2006                  | 295.9                    | 494.7                            |
| <b>Total</b>                    | <b>637.4</b>             | <b>913.4</b>                     |

Source: FSCS, PPB Annual Reports

The total amount of compensation paid to protected policyholders of failed UK insurers in the year to 31 March 2006 was £93.2 million (2005: £112.9 million), mainly in respect of protected policyholders of Independent Insurance Company Plc and Chester Street.

*Recoveries from insolvent estates in 2005 / 2006 led to an unprecedented level of refund of FSCS levies*

The total levy received in the year to 31 March 2006 was £10.3 million (2005: £140.1 million), charged to the UK non-life industry in anticipation of future compensation payments. The levy is based on insurers' premium income, and is supplemented through income earned on FSCS deposits and dividend recoveries from failed insurers. The levy for the year ended 31 March 2006 was less than forecast due to substantial recoveries from insolvent estates, in particular from the KWELM companies and Anglo American Insurance Company Limited. This resulted in an unprecedented level of refund of levies of some £42 million to non-life insurers.

## 6 Capital tied-up in run-off

At the end of 2005, total shareholders' funds or net assets of solvent UK companies entirely in run-off were approximately £4.8 billion (2004: £4.0 billion), excluding companies with run-off portfolios that are mixed with other live business.

The net asset figure as calculated for regulatory solvency purposes is restricted to £3.2 billion (2004: £2.3 billion) on a FSA returns basis, primarily due to the application of asset valuation regulations.

*Total shareholders' funds or net assets of solvent UK companies entirely in run-off were approximately £4.8 billion, an increase of 20 percent*

Tied-up capital may increase in future as the FSA introduces changes to capital requirements for insurers.

## 7 Selected highlights from other run-off markets

### 7.1 Run-off in Bermuda

There are approximately 1,300 registered insurance companies in Bermuda ranging from single owner captives to the better known Class 4 property catastrophe reinsurers. Bermuda's run-off market has expanded markedly over the past few years. Losses emanating from the 2005 hurricane season had a profound impact on Bermuda's run-off industry when, in the space of only a few months, a number of major Bermudian based reinsurers such as Rosemont Reinsurance and Alea Group were forced into run-off. Over the past 12 months alone Bermudian insurance groups, either announcing that entire group or parts of their group were going into run-off, had estimated gross liabilities of approximately US \$5 billion.

Bermuda is also home to a significant number of smaller captives that are no longer writing business although it is not possible from publicly available information to estimate their overall level of liabilities or capital tied up in run-off.

Notwithstanding the lack of financial data, it is possible to make some general observations regarding Bermuda's run-off market:

- Bermuda is not exposed to the same level of latent environmental and asbestos liabilities as the UK insurance market.
- Bermuda is a reinsurance centre, therefore its run-offs have comparatively little involvement with the general public or other non-related primary insureds.
- A significant proportion of Bermuda's run-off liabilities relate to short tail property catastrophe business and therefore will tend to have a shorter mean term.
- The Bermuda market is less developed in terms of specialist run-off service providers. Most run-offs are conducted by captive managers or, in the case of the larger Class 4 reinsurers in run-off, managed directly by the company's own management. However, this landscape could change rapidly given the interest being shown in Bermuda by established runoff firms, particularly from the UK.
- As well as the higher profile 'public' run-offs, Bermuda is also the home to a large number of smaller run-offs, many of which are single parent or multi-parent captives and these run-offs may also be susceptible to accelerated closure strategies.



## 7.2 Run-off in German speaking countries: Germany, Austria and Switzerland

For a long time the insurance sector in German speaking countries regarded run-off as an unhelpful management distraction and cost to the business. However, the need to deal with inactive portfolios pro-actively has finally been recognised. The active management of discontinued business is increasingly seen as an opportunity to realise efficiency gains and administrative savings by a growing number of market players. The momentum is driven by the biggest and most active international companies, which are already experienced front-runners in the run-off market, which is estimated at approximately €75 billion across Germany, Austria and Switzerland. At this value, the non-life run-off market in these countries exceeds the size of the non-life run-off market in the UK.

Currently, the most commonly used method in this area is commutation. The English experience of schemes of arrangement has recently sparked interest amongst the German insurance sector. Due to the fact that a parallel legal framework is not available in German speaking countries, companies are currently investigating the possibility of the transfer of run-off portfolios to the UK with a view to a solvent scheme under English Law. Market participants expect increasingly pro-active management of run-off business and the core drivers are expected to be Solvency II coupled with pressure from rating agencies.

A separate survey of the run-off market in Germany, Austria and Switzerland is currently being conducted by KPMG in Germany, the results of which will be published later in 2006.

*Non-life run-off in  
Germany, Austria and  
Switzerland together  
exceed the UK non-life  
run-off market*

## 8 Conclusion

The absolute size of the UK non-life run-off market has remained relatively stable at some £38 billion. Shareholder's funds tied up in run-off have, however, increased from £4.0 billion to £4.8 billion. These numbers are substantial and the drive to more actively manage these books of business is evidenced by the growth of the use of Part VII procedures to transfer and rationalise portfolios and the continuing use of solvent schemes to achieve finality.



Part VII transfers may receive a further boost with the implementation of the EU Reinsurance Directive. Solvent schemes suffered a setback following the successful challenge to BAIC. Lessons have been learned and a number of schemes have been sanctioned since the BAIC decision. The proposed scheme for the WFUM pools has already provided helpful guidance by the Court on certain aspects of best practice for solvent schemes. The sanction hearing, anticipated to be held early next year, should provide further important clarification.

Whereas older run-offs comprise persistent and problematic US (and increasingly) UK asbestos and environmental liabilities, business written over the last ten years has been much shorter tail in nature. More recent run-offs contain their own set of challenges and nowhere is this more relevant than the liabilities now in run-off at Lloyd's. Those liabilities now significantly exceed those at Equitas, into which about 300 years of Lloyd's insurance market history was transferred. Since 2002, Equitas has reduced its liabilities by £3.2 billion to £4.4 billion. In the same period run-off at Lloyd's has increased by £2.1 billion to £7.5 billion. Unless Part VII transfers and schemes become part of Lloyd's armoury for managing these burgeoning liabilities there is a strong probability that this will become the largest single constituent of the UK run-off market.

For the first time in this survey we have included commentary on the run-off markets in Bermuda and the German speaking countries. Each of these markets has substantial liabilities in run-off but with markedly different characteristics. Both, however, are relatively unsophisticated in the active management of run-off and there is substantial scope for the transfer of the proven skills and expertise that have been learned in the London Market.

Both in the UK and overseas the run-off market has become increasingly dynamic. With plentiful capital available, especially from the US, and low rates of return offered from traditional investments there are many investors looking to make acquisitions in the global run-off market. It is anticipated that the next survey will show many changes in the pattern of run-off ownership.

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