THE INSURER
Global risk capital intelligence

# Bernd flooding to drive increase in legacy transactions in DACH region: BFRC

19 October 2021

**An increasing willingness among (re)insurance companies in the DACH region to explore legacy solutions will lead to growth for the region's run-off market in 2022 and beyond, according to Jens Ziser, managing director of Black Forest Reinsurance Consulting (BFRC).**


Ziser said several companies in Germany, Austria and Switzerland had been impacted by recent catastrophe losses in the region, with many of those firms still holding non-core legacy business on their balance sheet.

Speaking to ***The Insurer***, Ziser said that legacy solutions are a means of removing operational and governance complexities from the portfolio and sustainably reducing costs.

"Most German insurance companies are well-capitalised and have very high solvency ratios so their key motivation is not capital when looking at legacy solutions," he explained.

BFRC was launched in May last year and provides consultancy, business development and transaction support to European (re)insurers, working exclusively with Randall & Quilter (R&Q) where such activity relates to the disposal of legacy liabilities.

Ziser joined R&Q in 2019, having previously been business development leader and lead underwriter for Europe at Bermudian reinsurer Maiden Re.

He set up BFRC to provide (re)insurance consulting services out of Germany the following year, with the company subsequently advising on R&Q loss portfolio transfers with the likes of Allianz SE and Lufthansa Group's German captive Delvag. In both cases, Ziser said a desire to reduce complexity was the key driver.

**Transaction motivations**

Ziser also highlighted that captives, insurance companies and reinsurance companies often have different motivations and seek different run-off solutions.

For captives, Ziser said that the motivation is normally capital-related.

He explained: "Sufficient capital is put into the captive. However, they can benefit from seeking a reinsurance solution such as a loss portfolio transfer, which gives them certainty for a period of time.

"Here legacy companies are also targeting to buy out old reserves or a whole carrier, as there are a lot of dormant captives which are causing capital inefficiencies.

"Most insurance companies in the past were reluctant to cede insurance liabilities due to reputational reasons. However, this has changed, as the financial environment drives them towards finding adequate legacy solutions which support the reduction of complexity and operational cost," he added.

Ziser sees reinsurers as "the most attractive" client segment, as they continuously work on diversification, meaning they often produce numerous run-off portfolios over time.

**Western and Southern Europe**

Beda Wettenschwiler, consultant for legacy acquisitions at R&Q covering Switzerland and Western and Southern Europe (WSE), said Southern Europe can expect to see a continuation of heightened M&A activity due to lower solvency margins and less easy access to capital in the region.

"These acquisitions have not yet resulted in many run-off transactions, maybe because daily lives of people in these countries have been more affected by the pandemic, causing delays to important strategic but not urgent decisions in light of good underwriting results for 2020," he said.

Wettenschwiler also expects further adjustments in the captive sector due in part to the possible impact of OECD tax changes. Earlier this year, 130 countries and jurisdictions, representing more than 90 percent of global GDP, joined a new two-pillar plan to reform international taxation rules and ensure that large multinational enterprises pay a minimum tax of 15 percent wherever they operate. This could fundamentally change where global players domicile their captives.

“The desire to align company headquarters and risk management functions has already started,” explained Wettenschwiler, adding that R&Q has supported several captive exits in the last 12 months.

“This trend will likely be reinforced post Covid-19 as governments seek ways to fund Covid-related deficits,” he added.

It seems to be the case that the DACH and WSE regions will both show growing interest in non-life legacy solutions in the coming years. While the DACH area will more often look into complexity and operational cost reductions, WSE is seen to be more driven by capital optimisation solutions.