The results of our annual survey of service providers reflect the changing landscape of insurance run-off, with an increased provision of services to brokers and to live groups with run-off. Consolidation has produced both larger groups and new start-ups, with a continued focus on international expansion

Service providers widen their horizons

In this second annual survey of run-off service providers, conducted in association with AirSP (the Association of insurance and reinsurance Service Providers), we have again sought to take a snapshot of the service provider market, the nature of the companies involved and the services they offer.

Question 1 / Figure 1.

While the greatest number of respondents were again in the smallest size category by numbers employed, (55 per cent this year, 48 per cent last year) reflecting the large and still increasing number of small and highly specialised companies in the market, there was also a rise in the number in the largest size category, those with over 100 employees, from 11 per cent to 14 per cent. These figures would seem to reflect the consolidation that has taken place in this sector over the past year, with M&As producing bigger companies, but also with the fallout of key individuals leaving and setting up as small independents.

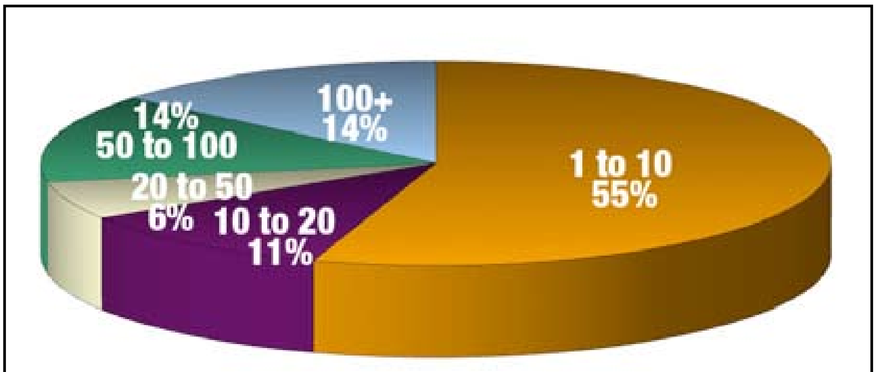

Figure 1 - How many people do you employ to provide run-off services?

Questions / Figures 2, 3, 4, 5.

Two thirds of our respondents were headquartered in the UK, with most of the remainder split almost evenly between Western Europe and the US. The geographical markets with the most activity, and the highest number of branches, subsidiaries or representative offices, are again very much concentrated in the UK, the US and Western Europe, though with a notably high number of branches based in the various 'other' countries (18 per cent this year, 13 per cent last year).

Out of those companies with headquarters in the UK, 20 per cent had US offices, 18 per cent had offices in Western Europe but only 10 per cent had one in both. Almost a quarter had offices in three or more areas whilst 12 per cent had only one other office.

The percentages are slightly higher this year for representative offices in the UK and US: 42 per cent and 30 per cent, respectively, compared to 38 per cent and 24 per cent last year.

The number of companies with branches in the UK actually fell slightly this year (35 per cent to 30 per cent) in comparison to those

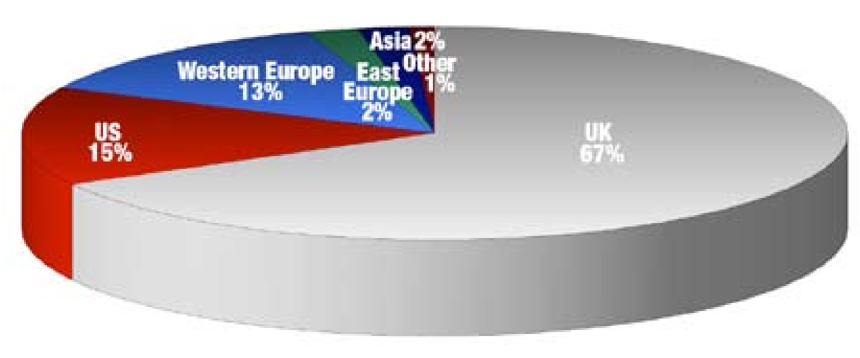

Figure 2 - Where are you headquartered?

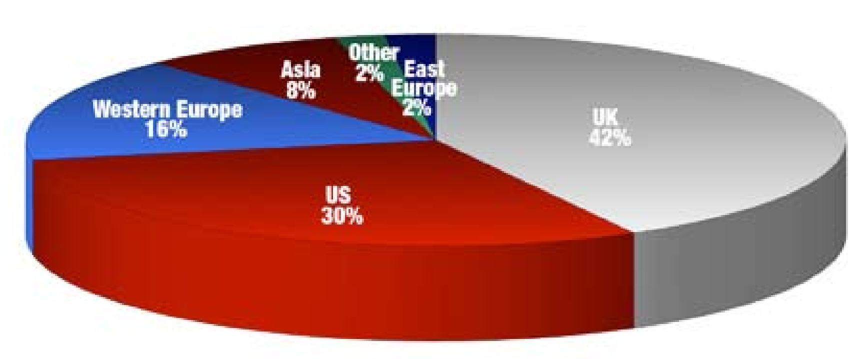

Figure 3 - Where do you have representative offices?

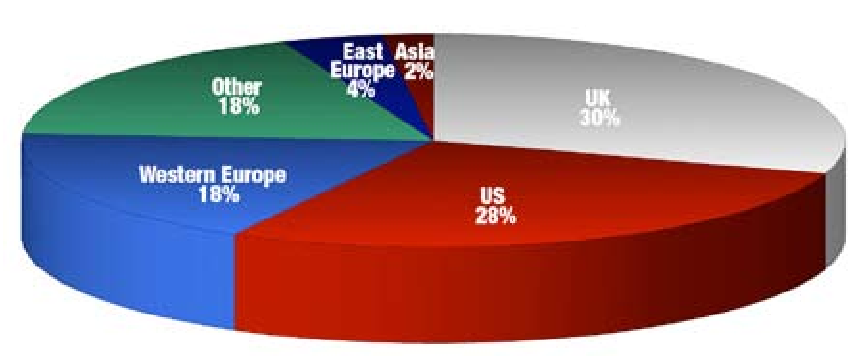

Figure 4 - Where do you have branches?

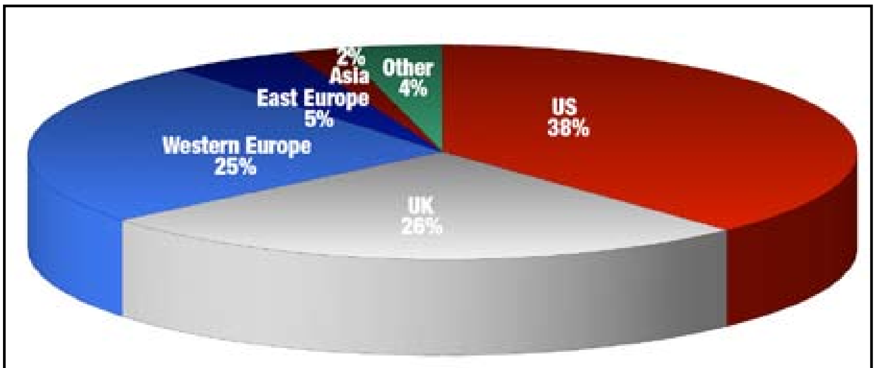

Figure 5 - Where do you have subsidiaries?

with US branches which went from 21 per cent to 28 per cent. A quarter of companies had branches in more than one area with 12 per cent having no branches at all.

The area with the greatest number of subsidiaries is still the US with the number rising this year from 30 per cent to 38 per cent. Virtually the same as last year, 90 per cent of companies had subsidiaries.

Question / Figure 7

When it comes to gaining business in overseas markets, language skills are at a premium. Once again, we found a wide range of different languages (other than English) offered between the respondents as a whole, although the numbers of them having speakers in the main European languages is still perhaps on the low side given the importance attached by many UK service providers to extending their presence in Continental markets.

Questions / Figures 8, 9

In the range of run-off services provided to the market, the most widely offered are again in the fields of collections and commutations.

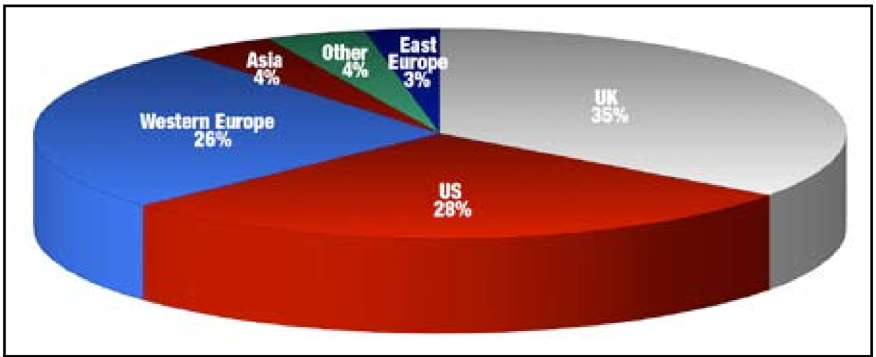

Figure 6 - In which geographical markets are you active?

Somewhat oddly, audits and inspections were felt to be the second most 'in demand' services, after commutations, yet a lower proportion of providers this year said that they offered them.

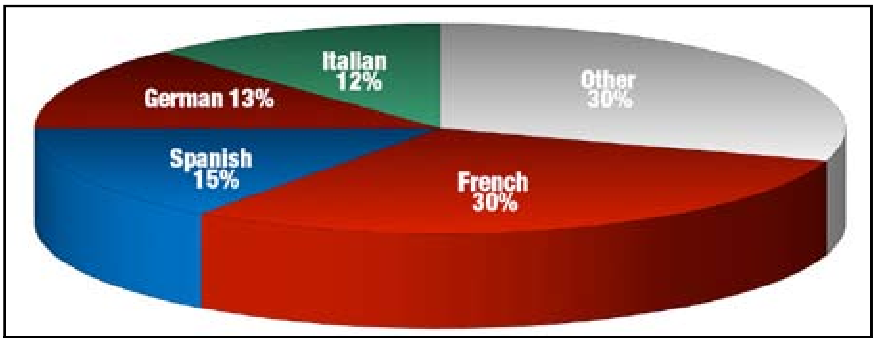

Figure 7 - Which languages do your staff speak between them?

Question / Figure 10

Looking at which types of companies the services are provided to, we see an increase in the number of 'live companies with books in run-off' (up from 28 per cent last year to 32 per cent this year). This would seem to reflect the changing focus of the market, as more of the 'traditional' London market carriers in run-off are being finally wound up and there is more attention being paid to the discontinued business within the live groups, especially in Europe. Services provided to brokers also rose markedly, from 12 per cent up to 18 per cent, again in line with structural changes in the broking sector.

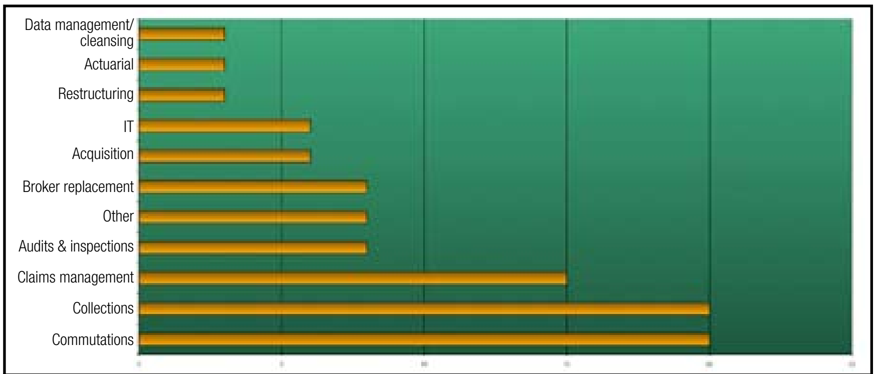

Figure 8 - Which run-off services do you offer?

Question / Figure 11

The question of how services are charged for shows little deviation from last year, with charging on a straight time basis still the most widespread method.

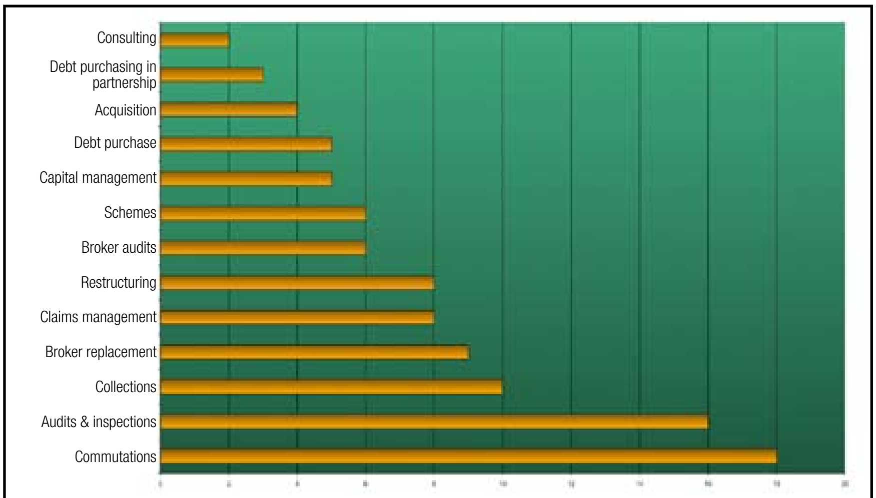

Figure 9 - Which of the services do you provide are most in demand at present??

Question 12

A straight yes/no question, 'Do you think the run-off service provision sector will continue to contract?' This received an unsurprising majority of 78 per cent 'yes' votes (71 per cent last year). However anecdotal evidence suggests this response is based

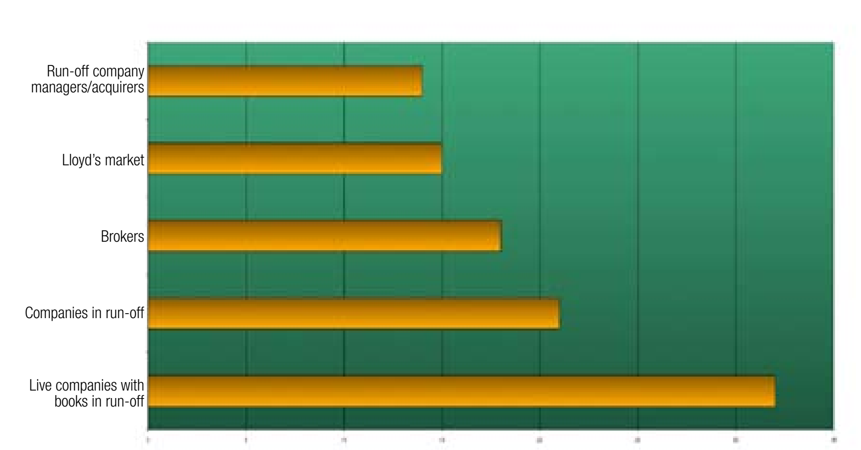

Figure 10 - To which types of company do you provide services?

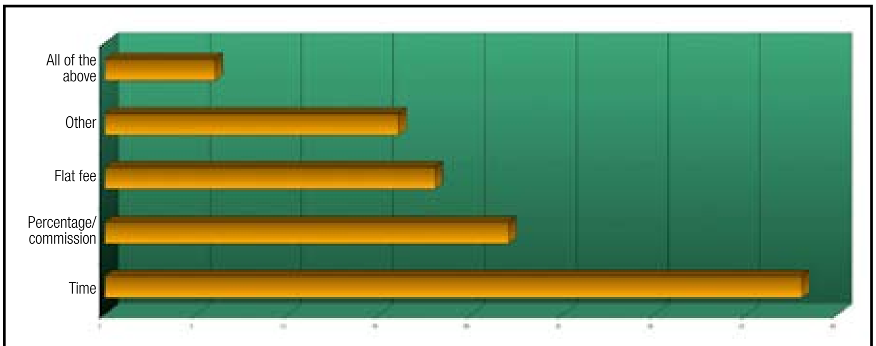

Figure 11 - On what basis do you charge for each service?

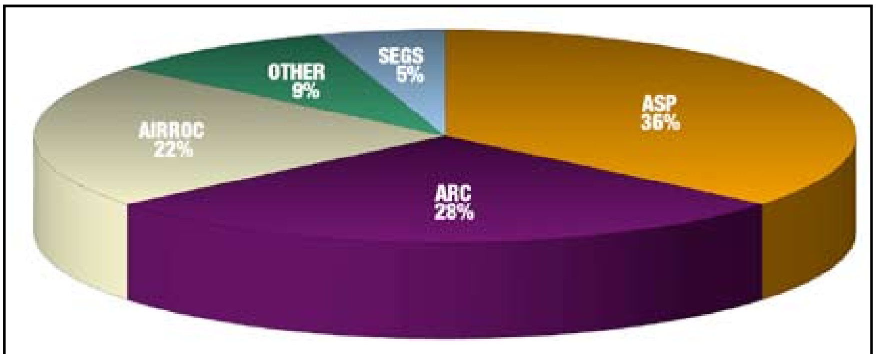

Figure 13 - Which run-off associations do you belong to?

more on the expectation that there will be more consolidation in the service provider space, rather than any dramatic falling off in demand for services.

Question / Figure 13

The importance attached to the role of industry associations in this sector is seen in the high numbers belonging to the three major bodies, AirSp, ARC and AIRROC. AirSP's success in attracting new members during the past year saw a rise in its affiliations to 36 per cent of respondents (32 per cent last year). There was little change in the numbers belonging to ARC, AIRROC or SEGS, though it should be remembered that companies can and often do belong to more than one of these associations.

Comment from AirSP

This year's survey shows a shift in the organisations to which services are being provided, as the focus of the run-off market turns towards live companies with books of discontinued business and also to brokers. Despite this change (and a belief that the run-off market will shrink) demand for run-off services is still buoyant.

The increase in the number of small independent companies in the market (and in AirSP) formed by experienced personnel who have broken away from larger organisations would suggest a confidence that niche services continue to be valued.

Competition among service providers in these times of economic constraint is, however, tough and as the survey points out, support gained from industry association membership is deemed important. Market knowledge, networking opportunities and good working relationships with colleagues are all fostered by AirSP and provide invaluable business sustenance – as the growth in AirSP numbers to nearing 70 bears out.